

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

WILKIN COUNTY
BRECKENRIDGE, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

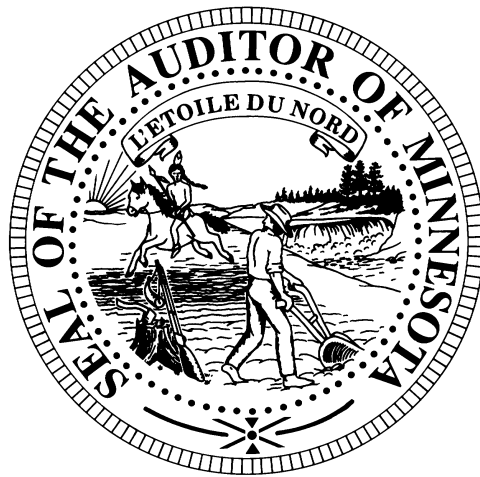
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Year Ended December 31, 2004



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Introductory Section		
Organization Schedule		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	11
Statement of Activities	Exhibit 2	12
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	13
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	Exhibit 4	17
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 5	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	Exhibit 6	20
Fiduciary Funds		
Statement of Fiduciary Net Assets - Agency Funds	Exhibit 7	21
Notes to the Financial Statements		22
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	Schedule 1	45
Road and Bridge Fund	Schedule 2	47
Human Services Fund	Schedule 3	48
Notes to the Required Supplementary Information		49

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Financial Section (Continued)		
Supplementary Information		
Nonmajor Governmental Funds		
Combining Balance Sheet	Statement A-1	50
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	Statement A-2	51
Combining Balance Sheet - Nonmajor Special Revenue Funds	Statement B-1	52
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Special Revenue Funds	Statement B-2	53
Budgetary Comparison Schedules		
Environmental Fund	Schedule 4	54
Public Health Nurse Fund	Schedule 5	55
Fiduciary Funds		
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	Statement C-1	56
Other Schedules		
Schedule of Deposits and Investments	Schedule 6	57
Balance Sheet - By Ditch - County Ditch Special Revenue Fund	Schedule 7	59
Schedule of Intergovernmental Revenue	Schedule 8	60
Management and Compliance Section		
Schedule of Findings and Recommendations	Schedule 9	62
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		67

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2004**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1st District	John Blaufuss	January 2005
2nd District	Stephanie Miranowski	January 2007
3rd District	Lyle Hovland*	January 2005
4th District	Neal Folstad	January 2007
5th District	Robert Perry	January 2005
Officials		
Elected		
Attorney	Timothy Fox	January 2007
Auditor	Wayne Bezenek	January 2007
County Recorder	Rena Niemi	January 2007
Registrar of Titles	Rena Niemi	January 2007
Sheriff	Thomas Matejka	January 2007
Treasurer	Rose Ann Hulne	January 2007
Appointed		
Assessor	Cheryl Wall	May 2007
Highway Engineer	Thomas Richels	May 2007
Medical Examiner	Dr. Vartan Malkasian	Indefinite
Veterans Service Officer	Ron Verhaagen	November 2007
Family Services Director	Dave Sayler	Indefinite

*Chair

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STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Wilkin County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wilkin County, Minnesota, as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Wilkin County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Wilkin County as of and for the year ended December 31, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, Wilkin County adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended; and

Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2004. These statements result in a change in format and content of the basic financial statements.

The Management's Discussion and Analysis and required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Wilkin County's basic financial statements. The supplementary information and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2005, on our consideration of Wilkin County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: December 6, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004
(Unaudited)**

Wilkin County's Management's Discussion and Analysis (MD&A) provides an overview of County financial activities for the fiscal year ended December 31, 2004. Because fiscal year 2004 represents the first year in which Wilkin County implemented the provisions of Governmental Accounting Standards Board (GASB) Statement 34, this discussion and analysis provides only limited comparisons with the previous year. The MD&A is new and will now be presented at the front of each year's audited financial statements. Future reports will include significantly more comparable information. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with Wilkin County's financial statements and the notes to the financial statements. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

The assets of Wilkin County exceeded its liabilities on December 31, 2004, by \$39,004,261. Of this amount, \$5,033,944 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

As of the close of 2004, Wilkin County's governmental funds reported combined ending fund balances of \$5,055,804, a decrease of \$153,137 in comparison with 2003. Of this balance amount, \$4,649,770 was unreserved by Wilkin County, and thus available for spending at the County's discretion.

At the end of 2004, unreserved fund balance of the General Fund was \$3,881,806, or 132 percent of the total General Fund expenditures for that year.

The County had no debt at the end of 2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to Wilkin County's basic financial statements. The County's financial statements comprise three components: (1) government-wide financial statements, (2) fund level financial statements, and (3) notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and is included as required supplementary information. This report also contains other supplementary information.

Government-Wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of the County's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of Wilkin County's assets and liabilities, with the difference being reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (such as uncollected taxes and earned but unused vacation leave).

Wilkin County's government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues. The governmental activities of Wilkin County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, economic development, and interest.

The government-wide statements can be found as Exhibits 1 and 2 of this report.

Fund Level Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Wilkin County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements. All of the funds of Wilkin County can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements.

By doing so, readers may better understand the long-term impact of the government’s near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Wilkin County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Environmental Special Revenue Fund, and Public Health Nurse Special Revenue Fund. A budgetary comparison statement has been provided for these funds to demonstrate compliance with this budget.

Fiduciary funds are used to account for resources held for the benefit of parties outside of Wilkin County. Fiduciary funds are not reflected in the government-wide statements because the resources of those funds are not available to support Wilkin County’s own programs or activities. The accounting for fiduciary funds is much like that used for business-type funds.

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

Other information is provided as supplementary information regarding Wilkin County’s budgeted funds, deposits and investments, ditch balances, and intergovernmental revenues.

Government-Wide Financial Analysis

Over time, net assets serve as a useful indicator of the County’s financial position. Wilkin County’s assets exceeded liabilities by \$39,004,261 at the close of 2004. The largest portion of the County’s net assets (86 percent) reflects the County’s investment in capital assets (land, buildings, equipment, and infrastructure, such as roads and bridges), less any related debt used to acquire those assets. However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

Wilkin County Net Assets	
Current and other assets	\$ 6,853,993
Capital assets	<u>33,617,252</u>
Total Assets	<u>\$ 40,471,245</u>
Long-term liabilities	\$ 238,886
Other liabilities	<u>1,228,098</u>
Total Liabilities	<u>\$ 1,466,984</u>

Net Assets		
Invested in capital assets	\$	33,617,252
Restricted		353,065
Unrestricted		<u>5,033,944</u>
Total Net Assets	\$	<u><u>39,004,261</u></u>

The unrestricted net assets amount of \$5,033,944 as of December 31, 2004, may be used to meet the County's ongoing obligations to citizens and creditors.

Governmental Activities

Wilkin County's activities increased Wilkin County's net assets during 2004 by \$588,985, due to the County's investment in capital assets in 2004.

Wilkin County Changes in Net Assets

Revenues		
Program revenues		
Charges for services	\$	1,355,470
Operating grants and contributions		4,697,582
Capital grants and contributions		707
General revenues		
Property taxes		3,071,730
Other taxes		7,858
Grants and contributions not restricted		1,173,018
Other general revenues		<u>142,542</u>
Total Revenues	\$	<u>10,448,907</u>
Expenses		
General government	\$	1,397,436
Public safety		1,087,567
Highways and streets		3,753,711
Sanitation		324,942
Human services		2,323,247
Health		612,478
Culture and recreation		50,821
Conservation of natural resources		303,950
Economic development		3,755
Interest		<u>2,015</u>
Total Expenses	\$	<u>9,859,922</u>
Increase in Net Assets	\$	588,985
Net Assets - January 1		<u>38,415,276</u>
Net Assets - December 31	\$	<u><u>39,004,261</u></u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, Wilkin County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, Wilkin County's governmental funds reported combined ending fund balances of \$5,055,804, a decrease of \$153,137 in comparison with the prior year. Of the ending fund balance, \$4,649,770 represents unreserved fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons.

The General Fund is a chief operating fund for the County. At the end of the current fiscal year, it had an unreserved fund balance of \$3,881,806. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. General Fund unreserved fund balance represents 132 percent of total General Fund expenditures. In 2004, ending fund balance in the General Fund decreased by \$620,682. The primary reason for this decrease was the initial costs of the Jail/LEC project.

The Road and Bridge Special Revenue Fund unreserved fund balance was a deficit of \$123,055 at year-end.

The Human Services Special Revenue Fund unreserved fund balance of \$447,932 at year-end represents 19 percent of the fund's annual expenditures. Unreserved fund balance increased \$246,442 during 2004, primarily due to a transfer from the General Fund.

General Fund Budgetary Highlights

The Wilkin County Board of Commissioners did not make any budgetary amendments/revisions in 2004.

Actual revenues exceeded budgeted revenues by \$215,948, primarily due to conservative budgeting by departments within revenue.

Actual expenditures exceeded budgeted expenditures by \$595,108, which can be explained by the initial costs for the Jail/LEC project and a transfer to the Human Services Special Revenue Fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Wilkin County's capital assets for its governmental activities at December 31, 2004, totaled \$33,617,252 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure.

	Wilkin County Governmental Capital Assets (Net of Depreciation)	
	<u>2004</u>	<u>2003</u>
Land	\$ 1,068,995	\$ 1,133,142
Infrastructure	29,861,791	28,991,646
Buildings and improvements	1,338,364	1,328,015
Machinery and equipment	1,156,440	1,332,624
Construction in progress	<u>191,662</u>	<u>15,285</u>
Total	<u>\$ 33,617,252</u>	<u>\$ 32,800,712</u>

Additional information on the County's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the County had no outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The unemployment rate for Wilkin County at the end of 2004 was 3.8 percent. This compares favorably with the state unemployment rate of 4.3 percent and shows a decrease from the 3.9 percent rate of one year ago.

Mortgage rates have been extremely low, causing many to refinance their mortgages and/or finance new construction.

By the end of 2004, Wilkin County approved its balanced 2005 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Wilkin County's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to: Wilkin County Auditor, 300 South 5th Street, Breckenridge, Minnesota 56520.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Assets

Cash and pooled investments	\$	5,667,050
Taxes receivable		
Current - net		35,426
Prior - net		12,414
Special assessments receivable		
Current - net		344
Prior - net		239
Noncurrent - net		211,118
Accounts receivable - net		115,963
Accrued interest receivable		22,763
Due from other governments		581,677
Inventories		206,999
Capital assets		
Non-depreciable		1,260,657
Depreciable - net of accumulated depreciation		32,356,595
		32,356,595
Total Assets	\$	40,471,245

Liabilities

Accounts payable	\$	241,944
Salaries payable		20,084
Due to other governments		209,958
Unearned revenue		756,112
Long-term liabilities		
Due within one year		167,456
Due in more than one year		71,430
		71,430
Total Liabilities	\$	1,466,984

Net Assets

Invested in capital assets - net of related debt	\$	33,617,252
Restricted for		
General government		36,538
Public safety		1,412
Highways and streets		211,511
Economic development		100,000
Held in trust for other purposes		3,604
Unrestricted		5,033,944
		5,033,944
Total Net Assets	\$	39,004,261

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	
Functions/Programs					
Governmental activities					
General government	\$ 1,397,436	\$ 183,088	\$ 34,714	\$ -	\$ (1,179,634)
Public safety	1,087,567	43,010	97,475	-	(947,082)
Highways and streets	3,753,711	336,507	3,186,626	707	(229,871)
Sanitation	324,942	234,430	49,804	-	(40,708)
Human services	2,323,247	246,868	1,000,259	-	(1,076,120)
Health	612,478	311,449	125,179	-	(175,850)
Culture and recreation	50,821	-	-	-	(50,821)
Conservation of natural resources	303,950	118	203,525	-	(100,307)
Economic development	3,755	-	-	-	(3,755)
Interest	2,015	-	-	-	(2,015)
Total governmental activities	\$ 9,859,922	\$ 1,355,470	\$ 4,697,582	\$ 707	\$ (3,806,163)
General Revenues					
Property taxes					\$ 3,071,730
Gravel taxes					7,858
Payments in lieu of tax					23,124
Grants and contributions not restricted to specific programs					1,173,018
Investment income					119,418
Total general revenues					\$ 4,395,148
Change in net assets					\$ 588,985
Net Assets - Beginning					38,415,276
Net Assets - Ending					\$ 39,004,261

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 4,078,687	\$ 521,429
Petty cash and change funds	2,750	100
Undistributed cash in agency funds	36,495	14,284
Taxes receivable		
Current	16,990	7,605
Prior	5,596	3,197
Special assessments receivable		
Current	-	-
Prior	-	-
Noncurrent	-	-
Accounts receivable	9,899	27,020
Accrued interest receivable	22,763	-
Due from other funds	6,939	24,867
Due from other governments	31,072	393,743
Inventories	-	206,999
	\$ 4,211,191	\$ 1,199,244
Total Assets	\$ 4,211,191	\$ 1,199,244

EXHIBIT 3

Human Services	Ditch	Other Governmental Funds	Total Governmental Funds
\$ 487,482	\$ 81,199	\$ 416,405	\$ 5,585,202
-	-	5,000	7,850
16,603	202	6,414	73,998
8,865	-	1,966	35,426
2,887	-	734	12,414
-	344	-	344
-	239	-	239
-	211,118	-	211,118
14,672	-	64,372	115,963
-	-	-	22,763
19	-	9,715	41,540
89,298	-	67,564	581,677
-	-	-	206,999
\$ 619,826	\$ 293,102	\$ 572,170	\$ 6,895,533

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 25,477	\$ 56,052
Salaries payable	694	3,475
Due to other funds	-	92
Due to other governments	146,799	20,397
Deferred revenue - unavailable	14,861	237,817
Deferred revenue - unearned	-	756,112
	\$ 187,831	\$ 1,073,945
Fund Balances		
Reserved for		
Inventories	\$ -	\$ 206,999
Sheriff's contingency	1,412	-
Real estate tax shortfall	21,330	-
State-aid highway projects	-	41,355
Gravel pit restoration	-	-
Missing heirs	3,604	-
Economic development	100,000	-
Law library	12,477	-
Recorder's equipment purchases	2,731	-
Unreserved		
Designated for future expenditures	436,657	-
Designated for cash flows	1,321,429	-
Undesignated	2,123,720	(123,055)
Unreserved, reported in nonmajor		
Special revenue funds	-	-
Capital project fund	-	-
	\$ 4,023,360	\$ 125,299
Total Fund Balances	\$ 4,023,360	\$ 125,299
Total Liabilities and Fund Balances	\$ 4,211,191	\$ 1,199,244

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 97,350	\$ -	\$ 63,065	\$ 241,944
11,128	-	4,787	20,084
15,675	24,867	906	41,540
35,019	-	7,743	209,958
12,722	211,495	93,196	570,091
-	-	-	756,112
\$ 171,894	\$ 236,362	\$ 169,697	\$ 1,839,729
\$ -	\$ -	\$ -	\$ 206,999
-	-	-	1,412
-	-	-	21,330
-	-	-	41,355
-	-	16,126	16,126
-	-	-	3,604
-	-	-	100,000
-	-	-	12,477
-	-	-	2,731
-	-	-	436,657
-	-	-	1,321,429
447,932	56,740	-	2,505,337
-	-	410,936	410,936
-	-	(24,589)	(24,589)
\$ 447,932	\$ 56,740	\$ 402,473	\$ 5,055,804
\$ 619,826	\$ 293,102	\$ 572,170	\$ 6,895,533

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Fund balances - total governmental funds (Exhibit 3)	\$ 5,055,804
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	33,617,252
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.	570,091
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	<u>(238,886)</u>
Net assets of governmental activities (Exhibit 1)	<u>\$ 39,004,261</u>

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General	Road and Bridge
Revenues		
Taxes	\$ 1,489,145	\$ 658,008
Special assessments	-	-
Licenses and permits	7,960	-
Intergovernmental	710,520	3,627,177
Charges for services	177,083	238,951
Fines and forfeits	12,102	-
Gifts and contributions	-	-
Interest on investments	119,418	-
Miscellaneous	28,953	60,285
	\$ 2,545,181	\$ 4,584,421
Expenditures		
Current		
General government	\$ 1,387,422	\$ -
Public safety	1,030,113	-
Highways and streets	127,887	4,079,069
Sanitation	-	-
Human services	-	-
Health	3,864	-
Culture and recreation	50,821	-
Conservation of natural resources	148,307	-
Economic development	3,755	-
Intergovernmental		
Highways and streets	-	261,586
Conservation of natural resources	-	-
Capital outlay	92,847	-
Debt service		
Principal retirement	105,000	-
Interest	1,525	-
	\$ 2,951,541	\$ 4,340,655
Excess of Revenues Over (Under) Expenditures	\$ (406,360)	\$ 243,766
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ -
Transfers out	(244,322)	-
Proceeds from capital notes	30,000	75,000
	\$ (214,322)	\$ 75,000
Net Change in Fund Balance	\$ (620,682)	\$ 318,766
Fund Balance - January 1	4,644,042	(163,437)
Increase (decrease) in reserved for inventories	-	(30,030)
Fund Balance - December 31	\$ 4,023,360	\$ 125,299

EXHIBIT 5

Human Services	Ditch	Other Governmental Funds	Total Governmental Funds
\$ 761,541	\$ -	\$ 169,318	\$ 3,078,012
-	129,656	5	129,661
-	-	1,250	9,210
1,294,996	-	232,987	5,865,680
92,323	-	338,922	847,279
4,960	-	-	17,062
3,356	-	-	3,356
-	-	-	119,418
149,585	118	186,747	425,688
\$ 2,306,761	\$ 129,774	\$ 929,229	\$ 10,495,366
\$ -	\$ 949	\$ -	\$ 1,388,371
-	-	-	1,030,113
-	-	-	4,206,956
-	-	288,083	288,083
2,304,641	-	-	2,304,641
-	-	584,110	587,974
-	-	-	50,821
-	58,001	665	206,973
-	-	-	3,755
-	-	-	261,586
-	119,614	-	119,614
-	-	54,724	147,571
-	-	20,000	125,000
-	-	490	2,015
\$ 2,304,641	\$ 178,564	\$ 948,072	\$ 10,723,473
\$ 2,120	\$ (48,790)	\$ (18,843)	\$ (228,107)
\$ 244,322	\$ -	\$ 30,135	\$ 274,457
-	-	(30,135)	(274,457)
-	-	-	105,000
\$ 244,322	\$ -	\$ -	\$ 105,000
\$ 246,442	\$ (48,790)	\$ (18,843)	\$ (123,107)
201,490	105,530	421,316	5,208,941
-	-	-	(30,030)
\$ 447,932	\$ 56,740	\$ 402,473	\$ 5,055,804

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Net change in fund balances - total governmental funds (Exhibit 5)	\$	(123,107)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for general capital assets, infrastructure, and other related capital assets adjustment	\$ 2,196,875	
Current year depreciation	<u>(1,380,335)</u>	816,540
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(46,459)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.		
Capital notes issued	\$ (105,000)	
Principal repayments	<u>125,000</u>	20,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in compensated absences	\$ (47,959)	
Change in inventories	<u>(30,030)</u>	<u>(77,989)</u>
Change in net assets of governmental activities (Exhibit 2)	\$	<u>588,985</u>

FIDUCIARY FUNDS

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2004**

Assets

Cash and cash equivalents	\$ 206,196
Due from other governments	<u>1,909</u>
Total Assets	<u>\$ 208,105</u>

Liabilities

Due to other governments	\$ 200,821
Funds held in trust	<u>7,284</u>
Total Liabilities	<u>\$ 208,105</u>

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The significant changes in the statement include the following:

- a Management's Discussion and Analysis section providing an analysis of the County's overall financial position and results of operations;
- financial statements prepared using full accrual accounting for all of the County's activities, including infrastructure (roads, bridges, etc.); and
- a change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The County has elected to implement all provisions of the statement in the current year.

A. Financial Reporting Entity

Wilkin County was established March 6, 1868, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in joint ventures, jointly-governed organizations, and related organizations, which are described in Notes 5.D., 5.E., and 5.F., respectively.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the County. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

In the government-wide statement of governmental net assets, the governmental activities: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Human Services Special Revenue Fund is used to account for economic assistance and community social services programs.

The Ditch Special Revenue Fund is used to account for the cost of constructing and maintaining an agricultural drainage ditch system. Financing is provided by special assessments levied against benefited property.

Additionally, the County reports the following fund type:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets that the County holds for others in an agent capacity.

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

revenues in the year for which they are levied. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Wilkin County considers all revenues to be available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2004, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Deposits and Investments (Continued)

received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2004 were \$119,418.

Wilkin County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the County:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Deposits and Investments (Continued)

- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

3. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of interfund loans).

All receivables are shown net of an allowance for uncollectibles.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due October 15.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

4. Inventories

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses when consumed.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Capital Assets (Continued)

are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. During the current period, the County did not have any capitalized interest.

Property, plant, and equipment of the County are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25 - 40
Building improvements	20 - 35
Public domain infrastructure	15 - 75
Furniture, equipment, and vehicles	3 - 15

6. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

7. Deferred Revenue

All County funds and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

8. Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets.

In the fund financial statements the face amount of the debt issued is reported as an other financing source.

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

11. Reclassifications

Some account balances in the notes were reclassified as of and for the year ended December 31, 2003, as previously reported. Those reclassifications, which did not require a restatement of the net assets, were required for comparability to the financial statements as of and for the year ended December 31, 2004, and must be considered when comparing the financial statements of this report with those of prior reports.

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

Ditch Fund Deficits

Of 38 drainage systems, 2 have incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund balances of the Ditch Special Revenue Fund as of December 31, 2004.

Account balances	\$ 82,821
Account deficits	<u>(26,081)</u>
Fund Balance	<u>\$ 56,740</u>

For internal purposes, the County accounts for its ditches on the accrual basis. Under the full accrual basis where revenues are recognized when earned, the Ditch Fund reports a positive fund balance of \$268,235 with no ditches reporting deficits.

Law Enforcement Capital Project

The Law Enforcement Capital Project Fund has a deficit fund balance of \$24,589 at December 31, 2004. This deficit will be eliminated with future tax collections.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

2. Stewardship, Compliance, and Accountability (Continued)

B. Excess of Expenditures Over Budget - Nonmajor Funds

	Expenditures	Budget	Excess
Environmental Special Revenue Fund	\$ 288,748	\$ 243,750	\$ 44,998

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments are reported as follows:

Primary government	
Cash and pooled investments	\$ 5,585,202
Petty cash and change funds	7,850
Undistributed cash in agency funds	73,998
Fiduciary funds	
Cash and pooled investments	
Agency funds	206,196
Total Cash and Investments	\$ 5,873,246

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$2,101,876. The bank balance deposit amount was \$2,221,163. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 288,246
Collateralized with securities held by the pledging financial institution's agent in the County's name	<u>1,932,917</u>
Total covered deposits	\$ 2,221,163
Uncollateralized	<u>-</u>
Total	<u>\$ 2,221,163</u>

Three levels of custodial credit risk for securities are defined by generally accepted accounting principles:

- (1) securities that are insured or registered, or for which the securities are held by the County or its agent in the County's name;
- (2) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the County's name; and
- (3) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the County's name.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Following is a summary of the fair values of the County's investments, categorized into the aforementioned levels of risk, at December 31, 2004:

	Category			Fair Value
	1	2	3	
U.S. government securities	\$ 387,072	\$ -	\$ 1,415,585	\$ 1,802,657
Negotiable certificates of deposit	212,928	-	1,049,971	1,262,899
Total Investments	\$ 600,000	\$ -	\$ 2,465,556	\$ 3,065,556
Add				
Cash on hand				7,850
Interest bearing checking				72,624
Money market savings				901,422
Certificates of deposit				1,127,830
MAGIC Fund				697,964
Total Cash and Investments				\$ 5,873,246

2. Receivables

Receivables as of December 31, 2004, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 47,840	\$ -
Special assessments	211,701	211,118
Accounts	115,963	-
Interest	22,763	-
Due from other governments	581,677	-
Total Governmental Activities	\$ 979,944	\$ 211,118

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,133,142	\$ -	\$ 64,147	\$ 1,068,995
Construction in progress	15,285	176,377	-	191,662
Total capital assets not depreciated	\$ 1,148,427	\$ 176,377	\$ 64,147	\$ 1,260,657
Capital assets depreciated				
Improvements other than buildings	\$ -	\$ 61,043	\$ -	\$ 61,043
Buildings	2,137,425	-	1,215	2,136,210
Machinery, furniture, and equipment	4,322,321	175,091	583,741	3,913,671
Infrastructure	40,085,281	1,849,726	-	41,935,007
Total capital assets depreciated	\$ 46,545,027	\$ 2,085,860	\$ 584,956	\$ 48,045,931
Less: accumulated depreciation for				
Improvements other than buildings	\$ 5,087	\$ 4,070	\$ -	\$ 9,157
Buildings	804,323	45,409	-	849,732
Machinery, furniture, and equipment	2,989,697	351,275	583,741	2,757,231
Infrastructure	11,093,635	979,581	-	12,073,216
Total accumulated depreciation	\$ 14,892,742	\$ 1,380,335	\$ 583,741	\$ 15,689,336
Total capital assets depreciated, net	\$ 31,652,285	\$ 705,525	\$ 1,215	\$ 32,356,595
Governmental Activities Capital Assets, Net	\$ 32,800,712	\$ 881,902	\$ 65,362	\$ 33,617,252

The beginning capital assets from the prior audit of \$6,886,329 were increased by adding infrastructure of \$40,085,281, construction in progress of \$15,285, and right-of-ways of \$706,559.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

General government	\$ 48,247
Public safety	74,010
Highways and streets, including depreciation of infrastructure assets	1,194,470
Human services	14,725
Health	10,767
Sanitation	33,696
Conservation of natural resources	4,420
Total Depreciation Expense	\$ 1,380,335

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2004, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Special Revenue Fund	\$ 92
	Human Services Special Revenue Fund	5,960
	Other governmental funds	887
Total Due to General Fund		\$ 6,939
Road and Bridge Special Revenue Fund	Ditch Special Revenue Fund	24,867
Human Services Special Revenue Fund	Other governmental funds	19
Other governmental funds	Human Services Special Revenue Fund	9,715
Total Due To/From Other Funds		\$ 41,540

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

The outstanding balances between the funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2004, consisted of the following:

Transfers to Human Services Special Revenue Fund from General Fund	\$ 244,322	Provide funding
Transfers to nonmajor governmental funds from other nonmajor governmental funds	<u>30,135</u>	Provide funding
Total Interfund Transfers	<u>\$ 274,457</u>	

C. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

	<u>Governmental Activities</u>
Accounts	\$ 241,944
Salaries	20,084
Due to other governments	<u>209,958</u>
Total Payables	<u>\$ 471,986</u>

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Deferred Revenue

Deferred revenue as of December 31, 2004, for the County is as follows:

	Deferred Unavailable	Deferred Unearned
Taxes and special assessments	\$ 248,456	\$ -
State-aid highway allotments	163,271	756,112
Charges for services	148,327	-
Grants	10,037	-
Total Deferred Revenue	\$ 570,091	\$ 756,112

3. Short-Term Debt

The County issued and repaid \$105,000 of capital equipment notes during the year ended December 31, 2004. The purpose of this short-term debt is to provide funding for the purchase of various capital assets.

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-Term Liabilities					
Bonds payable					
General obligation bonds	\$ 20,000	\$ -	\$ 20,000	\$ -	\$ -
Capital notes	-	105,000	105,000	-	-
Compensated absences	210,637	321,940	293,691	238,886	167,456
Long-Term Liabilities	\$ 230,637	\$ 426,940	\$ 418,691	\$ 238,886	\$ 167,456

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description

All full-time and certain part-time employees of Wilkin County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, and the Public Employees Police and Fire Fund, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund.

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent of average salary for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service.

For all PERA members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund. That report may be obtained on the web at mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
Public Employees Police and Fire Fund	9.30

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

The County's contributions for the years ending December 31, 2004, 2003, and 2002, for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund
2004	\$ 153,480	\$ 25,528
2003	152,638	22,437
2002	148,640	23,970

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risks, the County carries commercial insurance. The County retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of the MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and \$760,000 in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The Property and Casualty Division of the MCIT is self-sustaining, and the County pays an annual premium to cover current and future losses. The MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

B. Claims and Litigation

The County, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The County Attorney estimates that the potential claims against the County not covered by insurance resulting from such litigation would not materially affect the financial statements.

C. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

D. Joint Ventures

Area Agency on Aging

The Area Agency on Aging was established June 2, 1982, by a joint powers agreement among Becker, Clay, Douglas, Grant, Otter Tail, Pope, Stevens, Traverse, and Wilkin Counties. The agreement was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the elderly in the nine-county area. Each county may be assessed a proportional share of 25 percent of the administrative costs incurred in carrying out this agreement. Each county's proportional share of this 25 percent of the administrative costs will be based upon the number of persons age 60 or older living within that county.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Area Agency on Aging (Continued)

Any county may withdraw by providing notice to the chair of the Board 90 days prior to the beginning of the fiscal year. The chair shall forward a copy to each of the counties. Withdrawal shall not act to discharge any liability incurred or chargeable to any county before the effective date of withdrawal.

Control is vested in the West Central Board on Aging. The Board consists of one County Commissioner from each of the counties. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

Complete financial statements for the Area Agency on Aging can be obtained from its administrative office, P. O. Box 726, Fergus Falls, Minnesota 56537.

Wilkin County Children's Collaborative

The Wilkin County Children's Collaborative was established in 1997, under the authority of the Joint Powers Act, pursuant to Minn. Stat. §§ 471.59 and 124D.23. The Collaborative includes Wilkin County; Wilkin County Family Service Agency; Wilkin County Public Health Nursing Service; Wilkin County Courts Services; Independent School District Nos. 846, 850, and 852; St. Mary School; St. Francis Medical Center/Hope Unit; and Clay-Wilkin Opportunity Council/Head Start. The purpose of the Collaborative is to provide coordinated family services and to commit resources to an integrated fund.

Control of the Wilkin County Children's Collaborative is vested in a Board of Directors, which is composed of one member appointed by each member party.

In the event of a withdrawal from the Wilkin County Children's Collaborative, the withdrawing party shall give a 90-day notice. The withdrawing party shall not be entitled to a refund of monies contributed to the Collaborative prior to the effective date of withdrawal. The Board shall continue to exist if the Collaborative is terminated for the limited purpose of discharging the Board's debts and liabilities, settling its affairs, and disposing of its remaining property.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Wilkin County Children's Collaborative (Continued)

Financing is provided by state grants and appropriations and contributions from its member parties. Wilkin County, in an agent capacity, reports the cash transactions of the Wilkin County Children's Collaborative as an agency fund on its financial statements. During 2004, the County did not contribute any funds to the Collaborative.

E. Jointly-Governed Organizations

Wilkin County, in conjunction with other governmental entities and various private organizations, formed the jointly-governed organizations listed below:

Buffalo-Red River Watershed District

The Buffalo-Red River Watershed District was formed pursuant to Minn. Stat. §§ 103D.201-.231, effective June 17, 1963, and includes land within Becker, Clay, and Wilkin Counties. The purpose of the District is to conserve the natural resources of the state by land-use planning, flood control, and other conservation projects by using sound scientific principles for the protection of the public health and welfare and the provident use of natural resources. Control of the District is vested in the Buffalo-Red River Watershed District Board of Managers, which is composed of five members having staggered terms of three years each, with three appointed by the Clay County Board, one appointed by the Becker County Board, and one appointed by the Wilkin County Board.

Western Area City/County Co-Op

Wilkin County and 24 other cities and counties entered into a joint powers agreement to establish the Western Area City/County Co-Op (WACCO) Joint Powers Board, effective September 5, 1995, and empowered under Minn. Stat. § 471.59. The purpose of the Board is to establish a resource network that identifies common needs of the individual governmental units and reduces the financial burden on each of its members through the cooperative sharing of existing resources. The management and control of WACCO shall be vested in a Board of Directors composed of a representative appointed by each member city and county.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

District IV Transportation Planning

Wilkin County and 13 other cities and counties entered into a joint powers agreement to establish the District IV Transportation Planning Joint Powers Board, effective December 11, 1996, and empowered under Minn. Stat. § 471.59. The purpose of the Board is to develop a multi-modal transportation plan for the geographical jurisdiction of the member cities and counties. The Board is composed of 14 members, with one member appointed by each member city and county.

Agassiz Regional Library

The Agassiz Regional Library was formed pursuant to Minn. Stat. §§ 134.20 and 471.59, effective January 1, 1981, and includes Becker, Clay, Clearwater, Mahnomon, Norman, Polk, and Wilkin Counties. Control of the Library is vested in the Agassiz Regional Library with 23 members with staggered terms made up of the following: one member appointed by each Board of County Commissioners who may be a member of the Board of Commissioners, one member appointed by each participating city, and one additional member appointed by each county and city for each 6,000 of population or major percentage (85 percent) thereof. In 2004, Wilkin County provided \$40,421 in the form of an appropriation.

F. Related Organization

Bois De Sioux Watershed District

Wilkin County and the Bois De Sioux Watershed District entered into a joint powers agreement for the purpose of providing for the repair and maintenance of Wilkin County Ditch No. 8, which lies outside the present boundaries of the Bois De Sioux Watershed District, effective November 19, 1991, and authorized under Minn. Stat. § 103D.335, subds. 2 and 21.

G. Subsequent Event

On April 12, 2005, the County Board approved issuance of \$3,750,000 General Obligation Jail Bonds, Series 2005.

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REQUIRED SUPPLEMENTARY INFORMATION

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,575,976	\$ 1,575,976	\$ 1,489,145	\$ (86,831)
Licenses and permits	4,980	4,980	7,960	2,980
Intergovernmental	455,147	455,147	710,520	255,373
Charges for services	101,250	101,250	177,083	75,833
Fines and forfeits	-	-	12,102	12,102
Investment earnings	150,000	150,000	119,418	(30,582)
Miscellaneous	41,880	41,880	28,953	(12,927)
Total Revenues	\$ 2,329,233	\$ 2,329,233	\$ 2,545,181	\$ 215,948
Expenditures				
Current				
General government				
Commissioners	\$ 109,195	\$ 109,195	\$ 115,870	\$ (6,675)
Law library	-	-	26,980	(26,980)
County auditor	221,335	221,335	234,394	(13,059)
County treasurer	161,528	161,528	159,023	2,505
County assessor	178,533	178,533	189,324	(10,791)
Elections	25,659	25,659	27,376	(1,717)
Accounting and auditing	35,000	35,000	33,726	1,274
Data processing	67,050	67,050	48,654	18,396
Attorney	147,732	147,732	148,199	(467)
Recorder	144,894	144,894	178,364	(33,470)
Planning and zoning	4,250	4,250	2,777	1,473
Buildings and plant	101,048	101,048	101,036	12
Veterans service officer	55,175	55,175	48,802	6,373
Unallocated	108,949	108,949	72,897	36,052
Total general government	\$ 1,360,348	\$ 1,360,348	\$ 1,387,422	\$ (27,074)
Public safety				
Sheriff	\$ 709,680	\$ 709,680	\$ 897,846	\$ (188,166)
Coroner	5,700	5,700	3,600	2,100
Sheriff's contingency	-	-	25	(25)
E-911 system	-	-	39,742	(39,742)
Probation and parole	44,250	44,250	59,841	(15,591)
Civil defense	3,000	3,000	29,059	(26,059)
Total public safety	\$ 762,630	\$ 762,630	\$ 1,030,113	\$ (267,483)
Highways and streets				
Construction	\$ -	\$ -	\$ 127,887	\$ (127,887)
Health				
Aging grant	\$ 864	\$ 864	\$ 864	\$ -
Rural life outreach	3,000	3,000	3,000	-
Total health	\$ 3,864	\$ 3,864	\$ 3,864	\$ -

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

*Schedule 1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Culture and recreation				
Historical society	\$ 9,000	\$ 9,000	\$ 9,000	\$ -
Regional library	41,657	41,657	40,421	1,236
Celebrations	1,300	1,300	1,300	-
Other	100	100	100	-
Total culture and recreation	\$ 52,057	\$ 52,057	\$ 50,821	\$ 1,236
Conservation of natural resources				
Cooperative extension	\$ 100,171	\$ 100,171	\$ 74,024	\$ 26,147
Soil and water conservation	49,280	49,280	49,280	-
Agricultural society/County fair	10,000	10,000	9,968	32
Weed control	15,328	15,328	15,035	293
Total conservation of natural resources	\$ 174,779	\$ 174,779	\$ 148,307	\$ 26,472
Economic development				
Community development	\$ 2,755	\$ 2,755	\$ 2,755	\$ -
Other	-	-	1,000	(1,000)
Total economic development	\$ 2,755	\$ 2,755	\$ 3,755	\$ (1,000)
Capital outlay				
General government	\$ -	\$ -	\$ 92,847	\$ (92,847)
Debt service				
Principal retirement	\$ -	\$ -	\$ 105,000	\$ (105,000)
Interest	-	-	1,525	(1,525)
Total Expenditures	\$ 2,356,433	\$ 2,356,433	\$ 2,951,541	\$ (595,108)
Excess of Revenues Over (Under) Expenditures	\$ (27,200)	\$ (27,200)	\$ (406,360)	\$ (379,160)
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (244,322)	\$ (244,322)
Proceeds from capital notes	-	-	30,000	30,000
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (214,322)	\$ (214,322)
Net Change in Fund Balance	\$ (27,200)	\$ (27,200)	\$ (620,682)	\$ (593,482)
Fund Balance - January 1	4,644,042	4,644,042	4,644,042	-
Fund Balance - December 31	\$ 4,616,842	\$ 4,616,842	\$ 4,023,360	\$ (593,482)

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 631,726	\$ 631,726	\$ 658,008	\$ 26,282
Intergovernmental	2,978,274	2,978,274	3,627,177	648,903
Charges for services	220,000	220,000	238,951	18,951
Miscellaneous	52,500	52,500	60,285	7,785
Total Revenues	\$ 3,882,500	\$ 3,882,500	\$ 4,584,421	\$ 701,921
Expenditures				
Current				
Highways and streets				
Administration	\$ 293,613	\$ 293,613	\$ 274,678	\$ 18,935
Maintenance	836,862	836,862	888,613	(51,751)
Construction	1,996,139	1,996,139	2,124,631	(128,492)
Equipment and maintenance shops	612,855	612,855	628,387	(15,532)
Material and services for resale	5,000	5,000	18,799	(13,799)
Unallocated	138,031	138,031	143,961	(5,930)
Total highways and streets	\$ 3,882,500	\$ 3,882,500	\$ 4,079,069	\$ (196,569)
Intergovernmental				
Highways and streets	-	-	261,586	(261,586)
Total Expenditures	\$ 3,882,500	\$ 3,882,500	\$ 4,340,655	\$ (458,155)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 243,766	\$ 243,766
Other Financing Sources (Uses)				
Proceeds from capital notes	-	-	75,000	75,000
Net Change in Fund Balance	\$ -	\$ -	\$ 318,766	\$ 318,766
Fund Balance - January 1	(163,437)	(163,437)	(163,437)	-
Increase (decrease) in reserved for inventories	-	-	(30,030)	(30,030)
Fund Balance - December 31	\$ (163,437)	\$ (163,437)	\$ 125,299	\$ 288,736

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,047,943	\$ 1,047,943	\$ 761,541	\$ (286,402)
Intergovernmental	1,343,544	1,343,544	1,294,996	(48,548)
Charges for services	99,476	99,476	92,323	(7,153)
Fines and forfeits	-	-	4,960	4,960
Gifts and contributions	-	-	3,356	3,356
Miscellaneous	141,625	141,625	149,585	7,960
Total Revenues	\$ 2,632,588	\$ 2,632,588	\$ 2,306,761	\$ (325,827)
Expenditures				
Current				
Human services				
Income maintenance	\$ 649,813	\$ 649,813	\$ 567,791	\$ 82,022
Social services	1,982,775	1,982,775	1,736,850	245,925
Total Expenditures	\$ 2,632,588	\$ 2,632,588	\$ 2,304,641	\$ 327,947
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 2,120	\$ 2,120
Other Financing Sources (Uses)				
Transfers in	-	-	244,322	244,322
Net Change in Fund Balance	\$ -	\$ -	\$ 246,442	\$ 246,442
Fund Balance - January 1	201,490	201,490	201,490	-
Fund Balance - December 31	\$ 201,490	\$ 201,490	\$ 447,932	\$ 246,442

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Ditch and Gravel Tax Reserve Special Revenue Funds, the Ditch Debt Service Fund, and the Law Enforcement Capital Project Fund. All annual appropriations lapse at fiscal year-end.

On or before mid-June of each year, all departments and agencies submit requests for appropriations to the Wilkin County Auditor so that a budget can be prepared. Before October 31, the proposed budget is presented to the County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. The County's department head may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, the Board made no budgetary amendments. Encumbrance accounting is employed in governmental funds.

Encumbrances (such as purchase orders or contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reapportioned and honored during the subsequent year.

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2004, expenditures exceeded appropriations in the General Fund by \$595,108 and in the Road and Bridge Special Revenue Fund by \$458,155. These expenditures in excess of budget were funded by greater than anticipated revenues in the General Fund and greater revenues of highway user tax in the Road and Bridge Special Revenue Fund.

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SUPPLEMENTARY INFORMATION

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Environmental Fund - to account for the financial transactions of providing environmental services. Financing is provided by special assessments, charges for services, and intergovernmental revenues designated for environmental purposes.

Gravel Tax Reserve Fund - to account for the proceeds of a special gravel removal or occupation tax restricted to expenditures for the restoration of abandoned gravel pits.

Public Health Nurse Fund - to account for providing nursing service care to the elderly and other residents of the County. Financing is provided by health care service grants, County contributions, and user service charges.

DEBT SERVICE FUND

County Ditch Fund - to account for the accumulation of resources for, and the payment of, principal and interest on the general obligation drainage bonds.

CAPITAL PROJECT FUND

Law Enforcement Capital Project Fund - to account for financial resources to be used for the construction of the Law Enforcement Center.

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Statement A-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	Special Revenue (Statement B-1)	Law Enforcement Capital Project	Total Nonmajor Governmental Funds (Exhibit 3)
<u>Assets</u>			
Cash and pooled investments	\$ 386,270	\$ 30,135	\$ 416,405
Petty cash and change funds	5,000	-	5,000
Undistributed cash in agency funds	6,414	-	6,414
Taxes receivable			
Current	1,966	-	1,966
Prior	734	-	734
Accounts receivable	64,372	-	64,372
Due from other funds	9,715	-	9,715
Due from other governments	67,564	-	67,564
Total Assets	<u>\$ 542,035</u>	<u>\$ 30,135</u>	<u>\$ 572,170</u>
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 8,341	\$ 54,724	\$ 63,065
Salaries payable	4,787	-	4,787
Due to other funds	906	-	906
Due to other governments	7,743	-	7,743
Deferred revenue - unavailable	93,196	-	93,196
Total Liabilities	<u>\$ 114,973</u>	<u>\$ 54,724</u>	<u>\$ 169,697</u>
Fund Balances			
Reserved for gravel pit restoration	\$ 16,126	\$ -	\$ 16,126
Unreserved			
Undesignated	410,936	(24,589)	386,347
Total Fund Balances	<u>\$ 427,062</u>	<u>\$ (24,589)</u>	<u>\$ 402,473</u>
Total Liabilities and Fund Balances	<u>\$ 542,035</u>	<u>\$ 30,135</u>	<u>\$ 572,170</u>

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Statement A-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Special Revenue (Statement B-2)	County Ditch Debt Service	Law Enforcement Capital Project	Total Nonmajor Governmental Funds (Exhibit 5)
Revenues				
Taxes	\$ 169,318	\$ -	\$ -	\$ 169,318
Special assessments	-	5	-	5
Licenses and permits	1,250	-	-	1,250
Intergovernmental	232,987	-	-	232,987
Charges for services	338,922	-	-	338,922
Miscellaneous	186,747	-	-	186,747
Total Revenues	\$ 929,224	\$ 5	\$ -	\$ 929,229
Expenditures				
Current				
Sanitation	\$ 288,083	\$ -	\$ -	\$ 288,083
Health	584,110	-	-	584,110
Conservation of natural resources	665	-	-	665
Capital outlay	-	-	54,724	54,724
Debt service				
Principal retirement	-	20,000	-	20,000
Interest	-	490	-	490
Total Expenditures	\$ 872,858	\$ 20,490	\$ 54,724	\$ 948,072
Excess of Revenues Over (Under) Expenditures	\$ 56,366	\$ (20,485)	\$ (54,724)	\$ (18,843)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 30,135	\$ 30,135
Transfers out	-	(30,135)	-	(30,135)
Total Other Financing Sources (Uses)	\$ -	\$ (30,135)	\$ 30,135	\$ -
Net Change in Fund Balance	\$ 56,366	\$ (50,620)	\$ (24,589)	\$ (18,843)
Fund Balance - January 1	370,696	50,620	-	421,316
Fund Balance - December 31	\$ 427,062	\$ -	\$ (24,589)	\$ 402,473

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Statement B-1

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2004**

	<u>Environmental</u>	<u>Gravel Tax Reserve</u>	<u>Public Health Nurse</u>	<u>Total (Statement A-1)</u>
<u>Assets</u>				
Cash and pooled investments	\$ 71,273	\$ 15,993	\$ 299,004	\$ 386,270
Petty cash and change funds	5,000	-	-	5,000
Undistributed cash in agency funds	2,812	-	3,602	6,414
Taxes receivable				
Current	45	-	1,921	1,966
Prior	16	-	718	734
Accounts receivable	14,328	133	49,911	64,372
Due from other funds	-	-	9,715	9,715
Due from other governments	325	-	67,239	67,564
Total Assets	\$ 93,799	\$ 16,126	\$ 432,110	\$ 542,035
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 6,812	\$ -	\$ 1,529	\$ 8,341
Salaries payable	45	-	4,742	4,787
Due to other funds	-	-	906	906
Due to other governments	7,743	-	-	7,743
Deferred revenue - unavailable	5,322	-	87,874	93,196
Total Liabilities	\$ 19,922	\$ -	\$ 95,051	\$ 114,973
Fund Balances				
Reserved for gravel pit restoration	\$ -	\$ 16,126	\$ -	\$ 16,126
Unreserved				
Undesignated	73,877	-	337,059	410,936
Total Fund Balances	\$ 73,877	\$ 16,126	\$ 337,059	\$ 427,062
Total Liabilities and Fund Balances	\$ 93,799	\$ 16,126	\$ 432,110	\$ 542,035

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Statement B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Environmental</u>	<u>Gravel Tax Reserve</u>	<u>Public Health Nurse</u>	<u>Total (Statement A-2)</u>
Revenues				
Taxes	\$ 3,840	\$ 503	\$ 164,975	\$ 169,318
Licenses and permits	1,250	-	-	1,250
Intergovernmental	51,736	-	181,251	232,987
Charges for services	103,878	-	235,044	338,922
Miscellaneous	129,302	-	57,445	186,747
Total Revenues	\$ 290,006	\$ 503	\$ 638,715	\$ 929,224
Expenditures				
Current				
Sanitation	\$ 288,083	\$ -	\$ -	\$ 288,083
Health	-	-	584,110	584,110
Conservation of natural resources	665	-	-	665
Total Expenditures	\$ 288,748	\$ -	\$ 584,110	\$ 872,858
Net Change in Fund Balance	\$ 1,258	\$ 503	\$ 54,605	\$ 56,366
Fund Balance - January 1	72,619	15,623	282,454	370,696
Fund Balance - December 31	\$ 73,877	\$ 16,126	\$ 337,059	\$ 427,062

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
ENVIRONMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 4,260	\$ 4,260	\$ 3,840	\$ (420)
Licenses and permits	700	700	1,250	550
Intergovernmental	84,054	84,054	51,736	(32,318)
Charges for services	105,500	105,500	103,878	(1,622)
Miscellaneous	48,000	48,000	129,302	81,302
Total Revenues	\$ 242,514	\$ 242,514	\$ 290,006	\$ 47,492
Expenditures				
Current				
Sanitation				
Solid waste	\$ 167,500	\$ 167,500	\$ 171,933	\$ (4,433)
Recycling	71,250	71,250	116,150	(44,900)
Total sanitation	\$ 238,750	\$ 238,750	\$ 288,083	\$ (49,333)
Conservation of natural resources				
Water planning	5,000	5,000	665	4,335
Total Expenditures	\$ 243,750	\$ 243,750	\$ 288,748	\$ (44,998)
Net Change in Fund Balance	\$ (1,236)	\$ (1,236)	\$ 1,258	\$ 2,494
Fund Balance - January 1	72,619	72,619	72,619	-
Fund Balance - December 31	\$ 71,383	\$ 71,383	\$ 73,877	\$ 2,494

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
PUBLIC HEALTH NURSE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 184,513	\$ 184,513	\$ 164,975	\$ (19,538)
Intergovernmental	186,548	186,548	181,251	(5,297)
Charges for services	233,958	233,958	235,044	1,086
Miscellaneous	35,689	35,689	57,445	21,756
Total Revenues	\$ 640,708	\$ 640,708	\$ 638,715	\$ (1,993)
Expenditures				
Current				
Health				
Nursing service	640,708	640,708	584,110	56,598
Net Change in Fund Balance	\$ -	\$ -	\$ 54,605	\$ 54,605
Fund Balance - January 1	282,454	282,454	282,454	-
Fund Balance - December 31	\$ 282,454	\$ 282,454	\$ 337,059	\$ 54,605

FIDUCIARY FUNDS

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Statement C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CHILDREN'S COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 275,542	\$ 87,965	\$ 224,970	\$ 138,537
Due from other governments	2,486	1,909	2,486	1,909
Total Assets	\$ 278,028	\$ 89,874	\$ 227,456	\$ 140,446
<u>Liabilities</u>				
Due to other governments	\$ 278,028	\$ 89,874	\$ 227,456	\$ 140,446
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 11,922	\$ 153,682	\$ 155,686	\$ 9,918
Accounts receivable	20	-	20	-
Total Assets	\$ 11,942	\$ 153,682	\$ 155,706	\$ 9,918
<u>Liabilities</u>				
Due to other funds	\$ 358	\$ -	\$ 358	\$ -
Due to other governments	11,584	153,682	155,348	9,918
Total Liabilities	\$ 11,942	\$ 153,682	\$ 155,706	\$ 9,918
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 71,866	\$ 2,719,964	\$ 2,734,089	\$ 57,741
<u>Liabilities</u>				
Due to other governments	\$ 50,677	\$ 2,682,960	\$ 2,683,180	\$ 50,457
Funds held in trust	21,189	37,004	50,909	7,284
Total Liabilities	\$ 71,866	\$ 2,719,964	\$ 2,734,089	\$ 57,741

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

*Statement C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 359,330	\$ 2,961,611	\$ 3,114,745	\$ 206,196
Accounts receivable	20	-	20	-
Due from other governments	2,486	1,909	2,486	1,909
Total Assets	<u>\$ 361,836</u>	<u>\$ 2,963,520</u>	<u>\$ 3,117,251</u>	<u>\$ 208,105</u>
<u>Liabilities</u>				
Accounts payable	\$ 358	\$ -	\$ 358	\$ -
Due to other governments	340,289	2,926,516	3,065,984	200,821
Funds held in trust	21,189	37,004	50,909	7,284
Total Liabilities	<u>\$ 361,836</u>	<u>\$ 2,963,520</u>	<u>\$ 3,117,251</u>	<u>\$ 208,105</u>

OTHER SCHEDULES

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Schedule 6

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2004**

	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Fair Value</u>
Pooled Deposits and Investments			
Interest-bearing checking accounts (2)	Variable	Continuous	\$ 72,624
Money market savings accounts (2)	Variable	Continuous	901,422
Certificates of deposit (9)	1.15 to 4.50	January 7, 2005 to December 31, 2005	1,127,830
Brokerage certificates of deposit (13)	1.65 to 5.20	January 13, 2005 to December 20, 2012	1,262,899
Minnesota Association of Governments Investing for Counties Fund	Variable	Continuous	697,964
Federal National Mortgage Association	5.50	November 1, 2008	37,613
Federal Home Loan Mortgage Corporation (2)	4.00 to 8.00	September 15, 2013 to June 15, 2020	108,997
Federal Home Loan Bank (10)	2.00 to 4.38	February 9, 2007 to July 16, 2013	1,656,047
Total Pooled Deposits and Investments			<u>\$ 5,865,396</u>

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE AND DEBT SERVICE FUNDS
DECEMBER 31, 2004**

	Assets					
	Cash	Undistributed Cash	Special Assessments Receivable			Total
			Current	Delinquent	Deferred	
County Ditches						
1A	\$ 2,941	\$ -	\$ -	\$ -	\$ -	\$ 2,941
1B	1,152	-	-	-	5,001	6,153
1C	3,405	-	-	-	-	3,405
2	4,229	-	-	-	5,000	9,229
3	2,291	-	-	-	20,001	22,292
4	8,857	-	-	186	-	9,043
6	(2,393)	-	-	-	20,002	17,609
7	8,257	202	-	-	-	8,459
12	3,461	-	-	-	-	3,461
15	1,093	-	-	-	5,000	6,093
23	6,323	-	-	-	-	6,323
27	1,787	-	-	-	5,000	6,787
28	2,054	-	-	-	-	2,054
29	2,886	-	-	-	-	2,886
31	(1,382)	-	-	-	40,002	38,620
34	5,730	-	-	-	-	5,730
37	3,844	-	-	-	-	3,844
Bois-De-Sioux Watershed						
8	-	-	-	-	4,401	4,401
9	-	-	-	-	11,201	11,201
10	-	-	1	2	3,300	3,303
39	-	-	34	-	1,700	1,734
Buffalo-Red River Watershed						
5	-	-	-	-	5,001	5,001
13 lateral	-	-	43	-	3,000	3,043
22	-	-	8	-	10,002	10,010
26	-	-	99	-	3,500	3,599
40	-	-	-	-	4,595	4,595
41	-	-	91	-	10,002	10,093
42 1 yr	-	-	-	-	12,320	12,320
42 10 yr	-	-	-	-	9,435	9,435
43	-	-	-	6	-	6
44	-	-	52	41	7,860	7,953
Joint Ditches						
County						
J-2	26,664	-	-	-	-	26,664
Bois-De-Sioux Watershed						
J-4	-	-	-	2	-	2
J-6	-	-	-	-	2,212	2,212
J-7	-	-	2	1	1,267	1,270
J-11	-	-	12	-	10,907	10,919
J-12	-	-	-	1	5,159	5,160
Buffalo-Red River Watershed						
J-1	-	-	2	-	5,250	5,252
Total	\$ 81,199	\$ 202	\$ 344	\$ 239	\$ 211,118	\$ 293,102

Schedule 7

Liabilities and Fund Balances				
Due to Other Funds	Liabilities Deferred Revenue	Total	Fund Balances Unreserved Undesignated	Total Liabilities and Fund Balances
\$ -	\$ -	\$ -	\$ 2,941	\$ 2,941
36	5,001	5,037	1,116	6,153
-	-	-	3,405	3,405
-	5,000	5,000	4,229	9,229
116	20,001	20,117	2,175	22,292
-	186	186	8,857	9,043
5,577	20,002	25,579	(7,970)	17,609
-	-	-	8,459	8,459
-	-	-	3,461	3,461
-	5,000	5,000	1,093	6,093
-	-	-	6,323	6,323
-	5,000	5,000	1,787	6,787
186	-	186	1,868	2,054
1,973	-	1,973	913	2,886
16,729	40,002	56,731	(18,111)	38,620
-	-	-	5,730	5,730
250	-	250	3,594	3,844
-	4,401	4,401	-	4,401
-	11,201	11,201	-	11,201
-	3,303	3,303	-	3,303
-	1,734	1,734	-	1,734
-	5,001	5,001	-	5,001
-	3,000	3,000	43	3,043
-	10,002	10,002	8	10,010
-	3,500	3,500	99	3,599
-	4,595	4,595	-	4,595
-	10,063	10,063	30	10,093
-	12,320	12,320	-	12,320
-	9,435	9,435	-	9,435
-	6	6	-	6
-	7,928	7,928	25	7,953
-	-	-	26,664	26,664
-	2	2	-	2
-	2,212	2,212	-	2,212
-	1,270	1,270	-	1,270
-	10,919	10,919	-	10,919
-	5,159	5,159	1	5,160
-	5,252	5,252	-	5,252
\$ 24,867	\$ 211,495	\$ 236,362	\$ 56,740	\$ 293,102

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Schedule 8

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Shared Revenue

State

Highway users tax	\$	3,369,278
County program aid		787,113
PERA rate reimbursement		14,876
Disparity reduction aid		10,415
Police aid		22,437
Market value credit		349,953
Market value credit - mobile home		3,363
Disparity reduction credit		7,298
		7,298

Total Shared Revenue **\$ 4,564,733**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	487,360
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Payments

Local

Payments in lieu of taxes	\$	23,124
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Grants

State

Minnesota Department/Board of		
Corrections	\$	11,890
Public Safety		49,519
Health		48,330
Natural Resources		3,800
Human Services		334,503
Veterans Services		1,400
Office of Environmental Assistance		49,804
Peace Officers Board		1,791
		1,791

Total State **\$ 501,037**

Federal

Department of		
Agriculture	\$	24,047
Justice		5,538
Transportation		707
Health and Human Services		252,834
Homeland Security		6,300
		6,300

Total Federal **\$ 289,426**

Total State and Federal Grants **\$ 790,463**

Total Intergovernmental Revenue **\$ 5,865,680**

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Schedule 9

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004

**I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-4 Segregation of Duties

Due to the limited number of personnel within several Wilkin County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Wilkin County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

We recommend that Wilkin County's management be aware of the lack of segregation of duties within the accounting functions and, if possible, implement oversight procedures to ensure that internal control policies and procedures are being implemented by staff.

Client's Response:

The Wilkin County Board of Commissioners is aware of this continuing finding and assumes the risk as total resolve is cost prohibitive to Wilkin County.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

01-2 Credit Card Policy

The County does not have a credit card policy. Minn. Stat. § 375.171 authorizes and restricts the use of credit cards by counties. Pursuant to the language of the statute, county credit cards should be used only by those officers and employees of the county otherwise authorized to make county purchases. Use of the credit card is restricted to purchases for the county; therefore, no personal use is permitted. The statute further provides that if officers and employees make purchases for the county that are not authorized by the county board, they become personally liable for the amount of the purchase.

Minn. Stat. § 375.171 further requires that the use of a credit card must be consistent with other state law. For example, Minn. Stat. § 375.17, subd. 2, requires the publishing of an itemized account of amounts paid out, to whom, and for what purpose, to the extent that the published proceedings of the county board do not contain the information. If the publishing of disbursements is required, the actual vendors (not the credit card company) providing the goods and services to the county must be identified. The bills received from a credit card company may lack sufficient detail to comply with that statutory section. Therefore, the county must also have the invoices and receipts needed to support the items charged in the bill from the credit card company.

Further, the use of credit cards would require the county board to act in compliance with Minn. Stat. ch. 475. This statutory chapter governs the issuance of debt by public entities and details a number of restrictions attached to the issuance of an obligation. Minn. Stat. § 375.171 was not intended to be another method of creating debt for the county but was intended to authorize another type of payment method. Therefore, it is incumbent on counties to adopt a policy of paying off credit card charges on a monthly basis. This statute does not authorize the creation of a new form of debt for the county.

In addition to the statutory restrictions on the use of credit cards, we recommend that the County Board develop a comprehensive credit card policy providing other safeguards for the County. A comprehensive policy should:

- identify the officers and employees who are authorized to make purchases on behalf of the County and are eligible to use the card,
- identify the particular purchases that are to be made with the credit card,
- set up a review process for all purchases made with the credit card,
- prohibit the use of a County credit card for personal purposes, and
- require supporting documentation.

The County Board may also want to restrict the total amount of charges that can be made on County credit cards. This will help limit the County's exposure to theft or other improper use.

Client's Response:

The County has a committee consisting of the County Auditor, County Treasurer, and a Commissioner that will develop this policy.

PREVIOUSLY REPORTED ITEM RESOLVED

Collateral Assignment (03-1)

Of the four depositories used by the Wilkin County Treasurer during 2003, two depositories pledged collateral to secure deposits in excess of the \$100,000 FDIC insurance coverage. The County could not provide documentation of a perfected security interest in the pledged collateral from either of the two depositories.

Resolution

The County now has documentation on file of a perfected interest in all pledged collateral for County deposits in excess of FDIC insurance.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS RESOLVED

Capital Asset Accounting System (01-4)

To comply with Governmental Accounting Standards Board (GASB) Statement 34, the County must establish accounting policies for capital assets and evaluate its capital asset accounting system to determine if it is capable of providing the information needed to comply with the reporting requirements of GASB Statement 34.

Resolution

The County established the capital asset policies necessary for the implementation of GASB Statement 34. The capital asset accounting system does provide the information needed for GASB Statement 34 reporting.

Road and Bridge Special Revenue Fund Balance Deficit (03-2)

At December 31, 2003, the Road and Bridge Special Revenue Fund had a fund balance deficit of \$163,437.

Resolution

At December 31, 2004, the Road and Bridge Special Revenue Fund had a positive fund balance of \$125,299.



STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

PATRICIA ANDERSON
STATE AUDITOR

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of County Commissioners
Wilkin County

We have audited the financial statements of Wilkin County as of and for the year ended December 31, 2004, and have issued our report thereon dated December 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Wilkin County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 96-4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition indicated above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wilkin County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Wilkin County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as item 01-2.

This report is intended solely for the information and use of the Board of County Commissioners and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: December 6, 2005