

HAND COUNTY

AUDIT REPORT

For the Two Years Ended December 31, 2004



State of South Dakota
Department of Legislative Audit
427 South Chapelle
%500 East Capitol
Pierre, SD 57501-5070

**HAND COUNTY
COUNTY OFFICIALS
December 31, 2004**

Board of Commissioners:

**Delmar Fawcett, Chairman
Philip Testerman
Larry Rowen
Richard Strasburg
Ronald D. Campbell**

Auditor:

Sandra Selting

Treasurer:

Sheri Koeck

State's Attorney:

Jim Jones

Register of Deeds:

Sheila Coss

Sheriff:

Douglus DeBoer

HAND COUNTY
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2004 FINANCIAL SECTION



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PIERRE SD 57501-5070
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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

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

County Commission
Hand County
Miller, South Dakota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hand County, South Dakota (County), as of December 31, 2004, and for the year then ended which collectively comprise the County's basic financial statements and have issued our report thereon dated August 4, 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 the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting that we have reported to the management of the County in a separate communication dated August 4, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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*. We noted certain matters that we have reported to the management of the County in a separate communication dated August 4, 2005.



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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

County Commission
Hand County
Miller, South Dakota

We have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hand County, South Dakota (County), as of December 31, 2004, and for the year then ended, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—modified cash basis of the governmental activities, each major fund, and the aggregate remaining fund information of Hand County as of December 31, 2004, and the respective changes in financial position—modified cash basis, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting described in Note 1.c. to the financial statements.

As described in Note 1. c., the County has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of December 31, 2004. Accordingly, a comparison of the accompanying financial statements to financial statements presented in prior years is not recommended. Concurrent with the implementation of the new financial reporting model, the County changed its basis of accounting from a basis consistent with accounting principles generally accepted in the United States to a modified cash basis.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2005 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. 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.

**HAND COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004**

Our discussion and analysis of Hand County's financial performance provides an overview of the County's financial activities for the fiscal year ended December 31, 2004, within the limitations of the County's modified cash basis of accounting. Please read it in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- The County's total expenditures exceeded total revenue, on the modified cash basis of accounting, by \$171,444.87 for the year.
- The County expended \$173,647.46 of Homeland Security grants to help fund local response services.
- The County's General Fund ended the year with a fund balance of \$1,202,985.67.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the County's modified cash basis of accounting.

Report Components

This annual report consists of four parts as follows:

Government-Wide Financial Statements: The Statement of Net Assets and the Statement of Activities provide information about the activities of the County using a government-wide focus (or "as a whole").

Fund Financial Statements: Fund financial statements focus on the individual parts of County government. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant ("major") funds. For *governmental activities*, these statements tell how these services were financed in the short term as well as what remains for future spending. For *fiduciary funds*, these statements reflect the balance of flow-thru type funds at the end of the year.

Notes to the Financial Statements: The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Required Supplementary Information: This Management's Discussion and Analysis and the Budgetary Comparison Schedules represent financial information required by GASB to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statement"). The Budgetary Comparison Schedule is presented on a budgetary basis of accounting whereby capital outlay expenditures are reported within the respective functions rather than as a separate capital outlay function.

Basis of Accounting

The County has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the County's modified cash basis of accounting, revenues and expenses and related assets are recorded when they result from cash transactions, except for the recording of investments.

Proprietary funds - Internal Service Funds – internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the primary governments and its component units, or to other governments, on a cost-reimbursement basis. The activity and balances of the Unemployment Internal Service Fund are reclassified and reported as Governmental Activities in the Statement of Net Assets and the Statement of Activities.

Fiduciary funds - Fiduciary funds are used to account for assets that are primarily flow-thru in nature. These funds are used to account for revenues for which the county has the fiduciary responsibility to apportion, such as, property taxes and license plates revenues.

A FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Assets - Modified Cash Basis

The County's combined net assets, resulting from modified cash basis transactions, are shown below. No comparisons are shown for the county as this is the first year using the modified cash basis.

	<i>Governmental Activities</i>
	<u>2004</u>
Cash and Cash Equivalents	\$ 1,710,397.99
Investments	57,973.00
Total Assets	<u>1,768,370.99</u>
Net Assets:	
Restricted	12,935.00
Unrestricted	1,755,435.99
Total Net Assets	<u>\$ 1,768,370.99</u>
Adjusted Beginning Net Assets	2,096,626.58
Increase (Decrease) Net Assets	(328,255.59)
Percentage of Increase (Decrease) in Net Assets	(16%)

Governmental Activities

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenue, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. This type of format highlights the relative financial burden of each of the functions on the County's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue, even if restricted for a specific purpose.

For the year ended December 31, 2004, total expenses for governmental activities, resulting from modified cash basis transactions, amounted to \$2,823,397.84. Of these total expenses, taxpayers and other general revenues funded only \$1,761,975.41 while those directly benefiting from the program funded \$735,131.55 from grants and other contributions and \$154,846.01 from charges for services.

	<i>Statement of Activities</i>	<i>Statement of Activities</i>
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	2004	2004
General Government	\$ 543,792	\$ 488,925
Public Safety	456,460	429,419
Public Works	1,361,922	598,315
Health and Welfare	58,215	39,778
Culture and Recreation	58,458	58,458
Conservation of Natural Resources	149,419	123,392
Urban and Economic Development	2,738	2,737
Debt Service	192,396	192,396
Total	<u>\$ 2,823,400</u>	<u>\$ 1,933,420</u>

A FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

Certain funds experienced noteworthy changes from the prior year and are highlighted as follows:

- On the modified cash basis of accounting, the General Fund reported revenues of \$1,735,787.08 and expenditures and net transfers of \$1,765,914.75, resulting in a decrease in fund balance of \$30,127.67.

General Fund Budgetary Highlights

Over the course of the year, the County Board revised the General Fund budget at various times. The final adjusted budget, however, was consistent with the prior year budget. The only significant difference between the current and prior year budgets was an increase in the property tax estimate from the prior year.

For the year ended December 31, 2004, General Fund expenditures were \$130,599.34 below final appropriations, while actual resources available for appropriation were \$140,427.97 above the final budgeted amount.

Budget supplements were made to the Sheriff's budget and Emergency Management budget due to grants received from Homeland Security. Contingency transfers were made in December to the Emergency Management budget and Debt Service plus smaller increases to some of the General Fund budgets.

**HAND COUNTY
STATEMENT OF NET ASSETS
MODIFIED CASH BASIS
December 31, 2004**

	Primary Government Governmental Activities
ASSETS:	
Cash and Cash Equivalents	\$ 1,710,397.99
Investments	57,973.00
TOTAL ASSETS	\$ 1,768,370.99
 NET ASSETS:	
Restricted for: (Note 5)	
Road and Bridge Fund	361,724.89
Permanently Restrictd Purposes	60,255.91
Other Purposes	145,908.79
Unrestricted (Deficit)	1,200,481.40
TOTAL NET ASSETS	\$ 1,768,370.99

The notes to the financial statements are an integral part of this statement.

**HAND COUNTY
BALANCE SHEET
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2004**

	General Fund	Road & Bridge Fund	Other Non-Major Governmental Funds	Total Governmental Funds
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	\$ 1,202,985.67	\$ 361,724.89	\$ 135,256.70	\$ 1,699,967.26
Investments			57,973.00	57,973.00
TOTAL ASSETS	<u>\$ 1,202,985.67</u>	<u>\$ 361,724.89</u>	<u>\$ 193,229.70</u>	<u>\$ 1,757,940.26</u>
Fund Balances:				
Reserved For:	\$ 2,504.27	\$	\$	\$ 2,504.27
Election Grant			60,255.91	60,255.91
Permanently Reserved Purposes				
Unreserved Fund Balances:				
Designated for Next Year's Appropriation	454,877.08	135,099.62		589,976.70
Designated for Capital Outlay Accumulations	42,000.00	80,000.00		122,000.00
Undesignated, Reported in	703,604.32	146,625.27		850,229.59
Special Revenue Funds			132,973.79	132,973.79
Total Fund Balances	<u>1,202,985.67</u>	<u>361,724.89</u>	<u>193,229.70</u>	<u>1,757,940.26</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,202,985.67</u>	<u>\$ 361,724.89</u>	<u>\$ 193,229.70</u>	<u>\$ 1,757,940.26</u>

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Internal service funds are used by management to charge the costs of activities, such as unemployment, to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets

10,430.73

Net Assets - Governmental Activities

\$ 1,768,370.99

The notes to the financial statements are an integral part of this statement.

Clerk of Courts Fees	5,586.80		5,586.80
Other Fees	6,032.97		6,032.97
Public Safety:			
Law Enforcement	5,968.78		5,968.78
Prisoner Care	3,240.16		3,240.16
Public Works:			
Highways		18,889.58	18,889.58
Other	10,110.74	2,158.41	12,269.15
Health and Welfare:			
Economic Assistance:			
Poor Lien Recoveries	18,436.62		18,436.62
Conservation of Natural Resources	26,027.14		26,027.14
Fines and Forfeits:			
Costs	1,225.50		1,225.50
Forfeits	1,900.00		1,900.00
Miscellaneous Revenue:			
Investment Earnings	40,146.01	2,282.91	42,428.92
Rent	1,836.98		1,836.98
Contributions and Donations	6,770.00		6,770.00
Refund of Prior Year's Expenditures	2,161.60		2,161.60
Other	7,491.09	14,706.59	22,737.68
Total Revenue	<u>1,735,787.08</u>	<u>610,027.80</u>	<u>2,570,542.03</u>

Expenditures:			
General Government:			
Legislative:			
Board of County Commissioners	43,768.39		43,768.39
Elections	18,387.81		18,387.81
Judicial System	2,034.83		2,034.83
Financial Administration:			
Auditor	77,018.02		77,018.02
Treasurer	71,665.02		71,665.02
Data Processing	7,334.02		7,334.02
Legal Services:			
State's Attorney	68,241.69		68,241.69
Court Appointed Attorney	18,991.56		18,991.56
Other Administration:			
General Government Building	76,043.21		76,043.21
Director of Equalization	85,500.24		85,500.24

Soil Conservation:					
County Extension	46,006.48				46,006.48
Weed and Pest Control	103,412.27				103,412.27
Urban and Economic Development:					
Urban Development:					
Planning and Zoning	2,737.53				2,737.53
Debt Service	192,395.90				192,395.90
Total Expenditures	<u>1,253,876.42</u>	<u>1,322,322.33</u>	<u>247,199.09</u>		<u>2,823,397.84</u>
Other Financing Sources (Uses):					
Transfers In (Note 4)		480,000.00	42,302.02		522,302.02
Transfers Out (Note 4)	(516,302.02)		(6,000.00)		(522,302.02)
Insurance Proceeds (Catastrophic)	1,392.31				1,392.31
Sale of County Property	2,871.38	77,147.25			80,018.63
Total Other Financing Sources (Uses)	<u>(512,038.33)</u>	<u>557,147.25</u>	<u>36,302.02</u>		<u>81,410.94</u>
Net Change in Fund Balances	(30,127.67)	(155,147.28)	13,830.08		(171,444.87)
Fund Balance - Beginning	1,233,113.34	673,682.89	179,399.62		2,086,195.85
Effect Due Accounting Change (Note 6)		(156,810.72)			(156,810.72)
Adjusted Fund Balance - Beginning	<u>1,233,113.34</u>	<u>516,872.17</u>	<u>179,399.62</u>		<u>1,929,385.13</u>
FUND BALANCE - ENDING	<u>\$ 1,202,985.67</u>	<u>\$ 361,724.89</u>	<u>\$ 193,229.70</u>		<u>\$ 1,757,940.26</u>

The notes to the financial statements are an integral part of this statement.

HAND COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET CASH ASSETS
MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2004

	Internal Service Fund
Operating Revenue	\$ 0.00
Operating Expenses	0.00
Change in Net Assets	0.00
Net Assets - Beginning	10,430.73
NET ASSETS - ENDING	\$ 10,430.73

The notes to the financial statements are an integral part of this statement.

HAND COUNTY
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.c, these financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

a. Financial Reporting Entity:

The reporting entity of Hand County, (County) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation:

On June 10, 1999, the Governmental Accounting Standards Board (GASB) issued Statement of Governmental Accounting Standards No. 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (No. 34). GASB No. 34 amended accounting principles generally accepted in the United States (USGAAP) by establishing a new reporting model for the annual financial reports for state and local governments, including states, cities, towns, villages, counties, school districts and special purpose governments. For the County, GASB No. 34 implementation is first required for the calendar year ending December 31, 2004. The new reporting model significantly changed the focus of the required financial statements from a focus on fund types to a focus on major funds and on government-wide information. The implementation of GASB No. 34 results in a lack of comparability between these financial statements and those presented in prior years.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Proprietary Funds:

Internal Service Funds – internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the primary governments and its component units, or to other governments, on a cost-reimbursement basis. The particular types of goods or services provided to other funds are for payment of unemployment claims. Internal service funds are never considered to be major funds. The Unemployment Fund is the only internal service fund maintained by the County.

Fiduciary Funds:

Fiduciary funds consist of the following sub-category and are never considered to be major funds:

Agency funds - Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are used to accumulate funds derived from taxes, fees and assessments which are passed through to other governmental and taxing entities.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

During 2004, the County changed its basis of accounting from a basis essentially in conformity with accounting principles generally accepted in the United States (USGAAP) to the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

Measurement Focus:

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting as defined below.

In the fund financial statements, the “current financial resources” measurement focus or the economic resources” measurement focus is used, applied within the limitations of the modified cash basis of accounting.

Basis of Accounting:

In the Government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. Acceptable modifications to the cash basis of accounting implemented by the County in these financial statements are

h. Equity Classifications:

Government-wide Statements:

Equity is classified as net assets and is displayed in two components

1. Restricted net assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between “Reserved” and “Unreserved” components. Proprietary fund equity is classified the same as in the government-wide financial statements.

i. Application of Net Assets:

It is the County’s policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

2. DEPOSITS AND INVESTMENTS

The County follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The County’s cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 7-20-1, 7-20-1.1 and 7-20-1.2, and may be in the form of demand or time deposits.

Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank’s public debt rating which may not be less than “AA” or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost, plus interest, if the account is of the add-on type.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The County’s policy is to credit all income from deposits and investments to the General Fund. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income, with a resulting transfer to another fund at the discretion of the Board of County Commissioners. Accordingly, in the fund financial statements, these interfund transfers are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities.

4. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2004 were as follows:

Year Ended December 31, 2004:

<u>Transfers From:</u>	<u>Transfers To:</u>	<u>Other Governmental Funds:</u>	
	Road and Bridge Fund	Emergency Management Fund	Total
Major Funds:			
General Fund	\$ 480,000.00	\$ 36,302.02	\$ 516,302.02
Other Governmental Funds:			
E-911 Fund		6,000.00	6,000.00
Total	\$ 480,000.00	\$ 42,302.02	\$ 522,302.02

The transfers were made as budgeted operating transfers to finance yearly operations and to pay for services.

5. RESTRICTED NET ASSETS

Restricted net assets for the year ended December 31, 2004 were as follows:

Major Funds:		
Road and Bridge Fund	\$ 361,724.89	
Permanently Restricted Purposes:		
Wetlands Trust Fund	42,222.91	
Library Fund	18,033.00	
Total Permanently Restricted Purposes	60,255.91	
Other Purposes:		
Emergency Management Fund	27,680.55	
E-911 Fund	88,005.82	
Domestic Abuse Fund	9,488.01	
Ree Heights Disolved Township Fund	695.66	
Library Fines Fund	7,103.75	
Internal Service Fund – Unemployment	10,430.73	
General Fund – Elections Grant	2,504.27	
Total Other Purposes	145,908.79	
Total Restricted Net Assets		\$ 567,889.59

These balances are restricted to the federal grant and statutory requirements.

6. ACCOUNTING CHANGES

The Net Assets as of January 1, 2004 have been adjusted to restate the beginning net assets or fund balance, as applicable, to summarize the effects of applying GASB 34-modified cash basis on the Government-Wide Statement of Activities and the Fund Statement of Revenues, Expenditures and Changes in Fund Balances for the first year of its implementation.

Worker's Compensation:

The County purchases liability insurance for worker's compensation from a commercial carrier.

Unemployment Benefits:

The County has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

The County has reserved equity in the Unemployment Claims Fund in the amount of \$10,430.73 for the payment of future unemployment benefits.

During the year ended December 31, 2004 no claims for unemployment benefits were paid. At December 31, 2004 no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

**REQUIRED SUPPLEMENTARY INFORMATION
HAND COUNTY
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
For the Year Ended December 31, 2004
(Continued)**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Director of Equalization	85,755.73	85,755.73	85,500.24	255.49
Register of Deeds	69,027.66	69,027.66	58,694.90	10,332.76
Veterans' Service Officer	8,915.00	8,915.00	8,792.81	122.19
Predatory Animal (GFP)	7,319.38	7,319.38	7,319.38	0.00
Public Safety:				
Law Enforcement:				
Sheriff	161,640.98	180,256.03	175,720.00	4,536.03
County Jail	60,250.00	60,250.00	46,507.35	13,742.65
Coroner	1,450.00	4,012.29	4,012.29	0.00
Protective and Emergency Services:				
Fire Protection	4,200.00	4,200.00	3,385.24	814.76
Public Works:				
Sanitation:				
Solid Waste	20,724.00	20,724.00	19,679.06	1,044.94
Health and Welfare:				
Economic Assistance:				
Support of Poor	31,000.00	31,000.00	27,049.41	3,950.59
Public Welfare	200.00	200.00	196.56	3.44
Health Assistance:				
County Nurse	25,400.00	25,400.00	25,138.90	261.10
Mental Health Services:				
Mentally Ill	13,200.00	13,200.00	5,830.00	7,370.00
Culture and Recreation:				
Culture:				
Public Library	62,796.02	63,696.02	58,013.55	5,682.47
Conservation of Natural Resources:				
Soil Conservation:				
County Extension	41,506.46	46,694.71	46,006.48	688.23
Weed and Pest Control	108,365.94	108,365.94	103,412.27	4,953.67
Urban and Economic Development:				
Urban Development:				
Planning and Zoning	3,071.00	3,071.00	2,737.53	333.47
Debt Service	192,395.00	192,395.90	192,395.90	0.00
Total Expenditures	<u>1,399,475.24</u>	<u>1,384,475.76</u>	<u>1,253,876.42</u>	<u>130,599.34</u>
Excess of Revenue Over (Under)				
Expenditures	326,483.21	341,482.69	481,910.66	140,427.97
Other Financing Sources (Uses):				
Operating Transfers Out	(700,000.00)	(700,000.00)	(516,302.02)	183,697.98
Insurance Proceeds (Catastrophic)	0.00	0.00	1,392.31	1,392.31
Sale of County Property	1,000.00	1,000.00	2,871.38	1,871.38
Total Other Financing Sources (Uses)	<u>(699,000.00)</u>	<u>(699,000.00)</u>	<u>(512,038.33)</u>	<u>186,961.67</u>
Net Change in Fund Balances	(372,516.79)	(357,517.31)	(30,127.67)	327,389.64
Fund Balance - Beginning	1,233,113.34	1,233,113.34	1,233,113.34	0.00
FUND BALANCE - ENDING	<u>\$ 860,596.55</u>	<u>\$ 875,596.03</u>	<u>\$ 1,202,985.67</u>	<u>\$ 327,389.64</u>

HAND COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Schedules of Budgetary Comparisons for the General Fund
and for each major Special Revenue Fund with a legally required budget.

Note 1. Budgets and Budgetary Accounting:

The County follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Between the fifteenth and thirtieth days of July in each year the Board of County commissioners prepares and files with the County Auditor a provisional budget for the following year, containing a detailed estimate of cash balances, revenues and expenditures.
2. Prior to the first Tuesday in September in each year a notice of budget hearing is published once each week for two successive weeks, and the text of the provisional budget is published with the first publication.
3. The Board of County Commissioners holds a meeting for the purpose of considering the provisional budget on or prior to the first Tuesday in September in each year. Such hearings must be concluded by October first. Changes made to the provisional budget are entered at length in the minutes of the Board of County Commissioners.
4. Before October first of each year the Board of County Commissioners adopts an annual budget for the ensuing year. The adopted budget is filed in the office of the County Auditor.
5. After adoption by the Board of County Commissioners, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 7.
6. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total county budget.
7. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
8. Unexpended appropriations lapse at year end unless encumbered by resolution of the Board of County Commissioners.
9. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
10. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with USGAAP.

2003 FINANCIAL SECTION



427 SOUTH CHAPELLE
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PIERRE SD 57501-5070
(605) 773-3595
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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

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

County Commission
Hand County, South Dakota

We have audited the financial statements of Hand County, South Dakota (County), as of December 31, 2003, and for the year then ended and have issued our report thereon dated August 4, 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 the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting that we have reported to the management of the County in a separate communication dated August 4, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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*. We also noted certain matters that we have reported to the management of the County in a separate communication dated August 4, 2005.



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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

County Commission
Hand County, South Dakota

We have audited the accompanying general-purpose financial statements of Hand County, South Dakota (County), as of December 31, 2003, and for the year then ended, as listed in the Table of Contents. These general-purpose financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these general-purpose 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 opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Hand County as of December 31, 2003, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2005 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. 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.

Martin L. Guindon, CPA
Auditor General

August 4, 2005

Liabilities and Equity:					
Current Liabilities:					
Due to Other Governments	\$	\$	\$	\$	\$
Amounts Held for Others			87,209.55		
Deferred Revenue	19,723.83	407.41	8,210.94		
Total Current Liabilities	<u>19,723.83</u>	<u>407.41</u>	<u>95,420.49</u>	<u>0.00</u>	<u>0.00</u>
Long-Term Liabilities:					
Accrued Leave Payable					53,100.03
Other Long-Term Debt Payable	0.00	0.00	0.00		350,354.50
Total Long-Term Liabilities	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>403,454.53</u>
Total Liabilities	<u>19,723.83</u>	<u>407.41</u>	<u>95,420.49</u>	<u>0.00</u>	<u>403,454.53</u>
Fund Equity:					
Investment in General Fixed Assets					2,801,538.81
Retained Earnings:					
Reserved for Unemployment		10,430.73			
Fund Balances:					
Reserved for Inventory		156,810.72			
Reserved for Capital Outlay					
Accumulations	32,000.00	80,000.00			
Reserved for Law Library					6,359.10
Reserved for Wetlands Trust					39,940.00
Reserved for Library - Expendable					16,123.90
Reserved for Library - Nonexpendable					9,457.00
Unreserved Fund Balances:					
Designated for Next Year's					
Appropriations	488,189.43	124,997.66			
Undesignated	712,923.91	425,753.23			
Total Fund Equity	<u>1,233,113.34</u>	<u>787,561.61</u>	<u>71,880.00</u>	<u>10,430.73</u>	<u>0.00</u>
TOTAL LIABILITIES & FUND EQUITY	\$ <u>1,252,837.17</u>	\$ <u>787,969.02</u>	\$ <u>167,300.49</u>	\$ <u>10,430.73</u>	\$ <u>403,454.53</u>

The notes to the financial statements are an integral part of this statement.

Other Financing Sources (Uses):			
Operating Transfers In	515,000.00		
Insurance Proceeds (Catastrophic)		305.91	
Sale of County Property	12,409.01	916.13	
Operating Transfers Out		(515,000.00)	
Total Other Financing Sources (Uses)	<u>527,409.01</u>	<u>(513,777.96)</u>	<u>0.00</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	(167,928.95)	(5,630.63)	1,974.95
Other Changes in Fund Balance:			
Changes in Reserve for Inventory of Supplies	76,575.07		
Fund Balance, January 1, 2003	<u>878,915.49</u>	<u>1,238,743.97</u>	<u>20,508.05</u>
FUND BALANCE, DECEMBER 31, 2003	<u>\$ 787,561.61</u>	<u>\$ 1,233,113.34</u>	<u>\$ 22,483.00</u>

The notes to the financial statements are an integral part of this statement.

Public Works:					
Highways				26,400.00	45,317.65
Other	6,000.00	9,589.03	3,589.03		18,917.65
Health and Welfare:					
Economic Assistance:					
Poor Lien Recoveries	6,000.00	4,646.08	(1,353.92)		
Conservation of Natural Resources	50,000.00	58,523.48	8,523.48		
Fines and Forfeits:					
Costs	1,500.00	1,530.50	30.50		
Forfeits	1,000.00	1,500.00	500.00		
Miscellaneous Revenue:					
Investment Earnings	80,000.00	41,211.77	(38,788.23)		
Rent	2,000.00	2,869.60	869.60		
Refund of Prior Year's Expenditures	2,000.00	2,942.38	942.38		
Other	2,500.00	147.51	(2,352.49)	500.00	600.00
Total Revenue	<u>1,703,952.01</u>	<u>1,675,727.95</u>	<u>(28,224.06)</u>	<u>550,428.13</u>	<u>602,312.96</u>

Expenditures:					
General Government:					
Legislative:					
Board of County Commissioners		54,030.32	9.88		
Contingency	54,040.20				
(Amount Transferred)	100,000.00				
Elections	(50,728.49)		49,271.51		
Judicial System	2,950.00	970.69	1,979.31		
Financial Administration:	10,000.00	4,121.90	5,878.10		
Auditor	74,191.04	74,055.51	135.53		
Treasurer	67,456.95	67,450.99	5.96		
Data Processing	10,400.00	6,525.40	3,874.60		
Legal Services:					
State's Attorney	66,876.73	66,832.67	44.06		
Court Appointed Attorney	11,824.70	11,824.70	0.00		
Abused and Neglected Child Defense	1,500.00	0.00	1,500.00		
Other Administration:					
General Government Building	109,416.40	109,386.99	29.41		
Director of Equalization	82,133.00	78,993.08	3,139.92		
Register of Deeds	67,716.60	67,666.60	50.00		
Veterans Service Officer	7,934.00	7,373.88	560.12		
Predatory Animal (GFP)	7,319.38	7,319.38	0.00		
Public Safety:					
Law Enforcement:					
Sheriff	159,281.55	159,028.52	253.03		
County Jail	67,173.75	32,928.04	34,245.71		

Other Financing Sources (Uses):							
Operating Transfers In (Note 5)							
Insurance Proceeds (Catastrophic)							
Sale of County Property							
Operating Transfers Out (Note 5)							
Total Other Financing Sources (Uses)							
Excess of Revenue and Other Sources Over							
(Under) Expenditures and Other Uses							
Other Changes in Fund Balance:							
Changes in Reserve for Inventory of Supplies							
Fund Balance, January 1, 2003							
FUND BALANCE,							
DECEMBER 31, 2003							

The notes to the financial statements are an integral part of this statement.

**HAND COUNTY
 COMBINED STATEMENT OF CASH FLOWS
 ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUNDS
 For the Year Ended December 31, 2003**

	Proprietary Fund Types Internal Service	Fiduciary Fund Types Nonexpendable Trust
Cash Flows from Operating Activities:		
Operating Income	\$	\$ 8,000.00
Cash Flows from Investing Activities:		
Gain on Market Value of Stock		270.00
Net Increase (Decrease) in Cash and Cash Equivalents During the Fiscal Year	0.00	8,270.00
Cash and Cash Equivalents at Beginning of Year	10,430.73	41,127.00
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 10,430.73	\$ 49,397.00

The notes to the financial statements are an integral part of this statement.

buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, are not capitalized along with other general fixed assets. No depreciation has been provided on general fixed assets.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Interest costs incurred during construction of fixed assets are not capitalized along with other fixed asset costs.

The total December 31, 2003 balance of general fixed assets was based on actual costs.

Long-term liabilities expected to be financed from governmental funds are accounted for in the general long-term debt account group, not in the governmental funds.

The two account groups are not "funds." They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

d. Basis of Accounting:

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

All governmental funds, expendable trust funds and agency funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due.

All proprietary funds and nonexpendable trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

e. Budgets and Budgetary Accounting:

The county follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Between the fifteenth and thirtieth days of July in each year the board of county commissioners prepares and files with the county auditor a provisional budget for the following year, containing a detailed estimate of cash balances, revenues and expenditures.
2. Prior to the first Tuesday in September in each year a notice of budget hearing is published once each week for two successive weeks, and the text of the provisional budget is published with the first publication.
3. The board of county commissioners holds a meeting for the purpose of considering the provisional budget on or prior to the first Tuesday in September in each year. Such hearings must be concluded by October first. Changes made to the provisional budget are entered at length in the minutes of the board of county commissioners.
4. Before October first of each year the board of county commissioners adopts an annual budget for the ensuing year. The adopted budget is filed in the office of the county auditor.

Investments - In general, SDCL 4-5-6 permits county funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Investments are stated at fair value.

The investments at December 31, 2003 were as follows:

	Fair Value
Stock	<u>\$ 9,457.00</u>

The investment in stock is comprised of 300 shares of various common stock which was a gift to the public library. The stock is to be held as a nonexpendable trust. The income derived from this stock is to be used for the operation of the library, with the exact purpose to be determined at the discretion of the library board.

g. Inventory:

Inventory is valued at Average Cost. Inventory in the special revenue funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

h. Deferred Revenue:

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

i. Cash Flows:

The county pools its cash resources for depositing and investing purposes. The proprietary funds essentially have access to their cash resources on demand. Accordingly, all reported deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

2. PROPERTY TAX

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year.

The county is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation of the property in the county.

The purchase price at the commencement of the financing (capital acquisition) leases were:

	Caterpillar Loader	Volvo Motor Graders	John Deere Motor Grader	John Deere Dozer
Principal	\$ 100,122.21	\$ 218,874.00	\$ 183,000.00	\$ 73,815.00
Interest	14,272.39	37,187.36	15,376.05	13,487.79
TOTAL	\$ 114,394.60	\$ 256,061.36	\$ 198,376.05	\$ 87,302.79

The annual requirements to amortize all debt outstanding as of December 31, 2003, except for compensated absences but including interest payments of \$31,175.32, are as follows:

Annual Requirements to Amortize Long-Term Debt
December 31, 2003

Year Ending Dec. 31,	Financing (Capital Acquisition) Leases
2004	\$ 136,393.71
2005	133,702.50
2006	57,379.37
2007	22,878.92
TOTAL	\$ 350,354.50

5. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2003 were as follows:

Year Ended December 31, 2003:

<u>Transfers From:</u>	<u>Transfers To:</u>		<u>Total</u>
	Road and Bridge Fund	Emergency Management Fund	
General Fund	\$ 500,000.00	\$ 15,000.00	\$ 515,000.00

The transfers were made as budgeted operating transfers to finance yearly operations.

6. RETIREMENT PLAN

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's

9. ACCOUNTING PRINCIPLES CHANGE

On June 10, 1999, the Governmental Accounting Standards Board (GASB) issued Statement of Governmental Accounting Standards No. 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (No. 34). GASB No. 34 establishes new requirements for the annual financial reports for state and local governments, including states, cities, towns, villages, counties, school districts and special purpose governments. For the county, GASB No. 34 implementation is first required for the calendar year ending December 31, 2004. The effect of the implementation of GASB No. 34 on the financial statements of the county has not yet been determined.

AUDITOR'S COMMENT SECTION

HAND COUNTY
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Audit Findings:

The prior audit report contained no written audit comments.

SCHEDULE OF CURRENT AUDIT FINDINGS

Current Audit Findings:

There are no written current audit findings to report.

Closing Conference

The contents of this report were discussed with Chairman Delmar Fawcett, Commissioners Philip Testerman, Larry Rowen, Richard Strasburg and Ronald Campbell, and Auditor Sandra Selting on August 2, 2005.