

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

BIG STONE COUNTY
ORTONVILLE, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2009

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

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 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of 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 approximately 730 public pension funds; and

Tax Increment Financing - 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 Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

For the Year Ended December 31, 2009



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

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2009**

Office	Name	Term Expires
Commissioners		
1st District	Walter Wulff	January 2013
2nd District	Wade Athey	January 2011
3rd District	Brent Olson*	January 2013
4th District	Roger Sandberg**	January 2011
5th District	Joseph Berning	January 2013
Officers		
Elected		
Attorney	William Watson	January 2011
Auditor	Michelle Knutson	January 2011
Recorder	Elaine Martig	January 2011
Sheriff	John Haukos	January 2011
Treasurer	Cindy Nelson	January 2011
Appointed		
Assessor	Sandra Vold	December 2012
Coroner	Robert Ross, M.D.	January 2011
Environmental Officer	Darren Wilke	Indefinite
Emergency Management Director	James Hasslen	Indefinite
Highway Engineer	Nicholas Anderson	May 2013
Human Resources Director	Susan Schultz	Indefinite
Veterans Service Officer	Daniel Meyer	Indefinite
Family Services		
Board		
Chair	Roger Sandberg	January 2011
Vice Chair	Wade Athey	January 2011
Secretary	Kathy Morrill	July 2011
Member	Walter Wulff	January 2013
Member	Brent Olson	January 2013
Member	Joseph Berning	January 2013
Member	Alice Stielow	July 2010
Director	Gale Mittelstaedt	Indefinite

*Chair 2009

**Chair 2010

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Big Stone County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Big Stone County as of and for the year ended December 31, 2009, 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 basic 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 Big Stone County as of December 31, 2009, 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 Note 3.C. to the financial statements, during the year ended December 31, 2009, the County adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The Management's Discussion and Analysis and the budgetary comparison schedules 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 basic financial statements of Big Stone County. The statement and schedule listed as supplementary information in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of Big Stone County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented 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 June 4, 2010, on our consideration of Big Stone 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 4, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009
(Unaudited)**

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of the County's financial activities for the fiscal year ended December 31, 2009. 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 the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$29,268,161, of which \$22,371,525 is invested in capital assets, net of related debt, and \$2,415,790 is restricted to specific purposes. The \$4,480,846 remaining may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's net assets decreased by \$341,088 for the year ended December 31, 2009.
- The net cost of governmental activities for the current fiscal year was \$4,800,719. The net cost was funded by general revenues and other items totaling \$4,459,631.
- The fund balances of the governmental funds increased by \$71,935.

For the year ended December 31, 2009, the unreserved fund balance of the General Fund was \$1,141,898, or 28.7 percent, of the total General Fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The basic financial statements consist of three parts: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other required supplementary information.

Government-Wide Financial Statements

The 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 assets and liabilities of the County using the accrual basis of accounting, 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 health of the County is improving or deteriorating. You will also need to consider other nonfinancial factors, such as changes in the County's property tax base and the condition of County roads and other capital assets, to assess the overall health of the County.

The statement of activities presents the County's governmental activities. Most of the basic services are reported here, including general government, public safety, highways and streets, sanitation, family services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities. The County has no business-type activities or component units for which the County is legally accountable.

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

Fund Financial Statements

The fund financial statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law or by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

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 how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using modified accrual accounting. 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 County's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County adopts an annual appropriated budget for its General Fund, Highway Special Revenue Fund, Family Services Special Revenue Fund, and Ditch Special Revenue Fund. Budgetary comparison statements have been provided for each of these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on Exhibits 3 through 6 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside of the County. Fiduciary funds are not reflected in the government-wide statements because the resources of these funds are not available to support the County's own programs or activities. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All fiduciary activities are reported in a separate statement of fiduciary net assets on Exhibit 7.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$29,268,161 at the close of 2009. The largest portion of the net assets (76.4 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure, such as roads and bridges), less any related outstanding 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.

	Net Assets (in thousands)	
	Governmental Activities	
	2009	2008
Assets		
Current and other assets	\$ 8,238	\$ 7,922
Capital assets	22,926	22,647
Total Assets	\$ 31,164	\$ 30,569
Liabilities		
Long-term liabilities	\$ 1,643	\$ 532
Other liabilities	253	428
Total Liabilities	\$ 1,896	\$ 960
Net Assets		
Invested in capital assets, net of related debt	\$ 22,371	\$ 22,647
Restricted	2,416	1,320
Unrestricted	4,481	5,642
Total Net Assets	\$ 29,268	\$ 29,609

Unrestricted net assets--the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--are 15.3 percent of the net assets.

Governmental Activities

The County's governmental activities decreased net assets by 1.2 percent (\$29,268,161 for 2009 compared to \$29,609,249 for 2008). Key elements of this decrease in net assets are as follows:

	Governmental Activities	
	2009	2008
Changes in Net Assets (in thousands)		
Revenues		
Program revenues		
Charges for services	\$ 874	\$ 965
Operating grants and contributions	4,266	4,227
Capital grants and contributions	-	598
General revenues		
Property taxes	3,214	2,953
Other	1,246	1,262
Total Revenues	\$ 9,600	\$ 10,005
Expenses		
General government	\$ 1,658	\$ 1,607
Public safety	1,205	1,042
Highways and streets	3,629	3,299
Sanitation	222	220
Human services	2,638	2,417
Health	80	76
Culture and recreation	146	155
Conservation of natural resources	296	266
Economic development	55	51
Interest	12	4
Total Expenses	\$ 9,941	\$ 9,137
Change in Net Assets	\$ (341)	\$ 868
Net Assets - January 1	29,609	28,741
Net Assets - December 31	\$ 29,268	\$ 29,609

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$6,051,443, an increase of \$71,935 in comparison with the prior year. Of the combined ending fund balances, \$4,958,593 represents unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons either by state law, grant agreements, or bond covenants.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unreserved fund balance of \$1,141,898. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund's unreserved fund balance represents 28.7 percent of total General Fund expenditures. During 2009, the ending fund balance decreased by \$633,055.

The Highway Special Revenue Fund had an unreserved fund balance of \$1,650,969 at fiscal year-end, representing 49.2 percent of its annual expenditures. The ending fund balance increased \$915,137 during 2009.

The Family Services Special Revenue Fund had an unreserved fund balance of \$2,078,711 at fiscal year-end, representing 77.5 percent of its annual expenditures. The ending fund balance decreased \$191,998 during 2009.

The Ditch Special Revenue Fund had an unreserved fund balance of \$87,015 at fiscal year-end. The ending fund balance decreased \$18,149 during 2009.

Governmental Activities

The County's total revenues were \$9,599,710. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2009.

**Table 1
Total County Revenues**

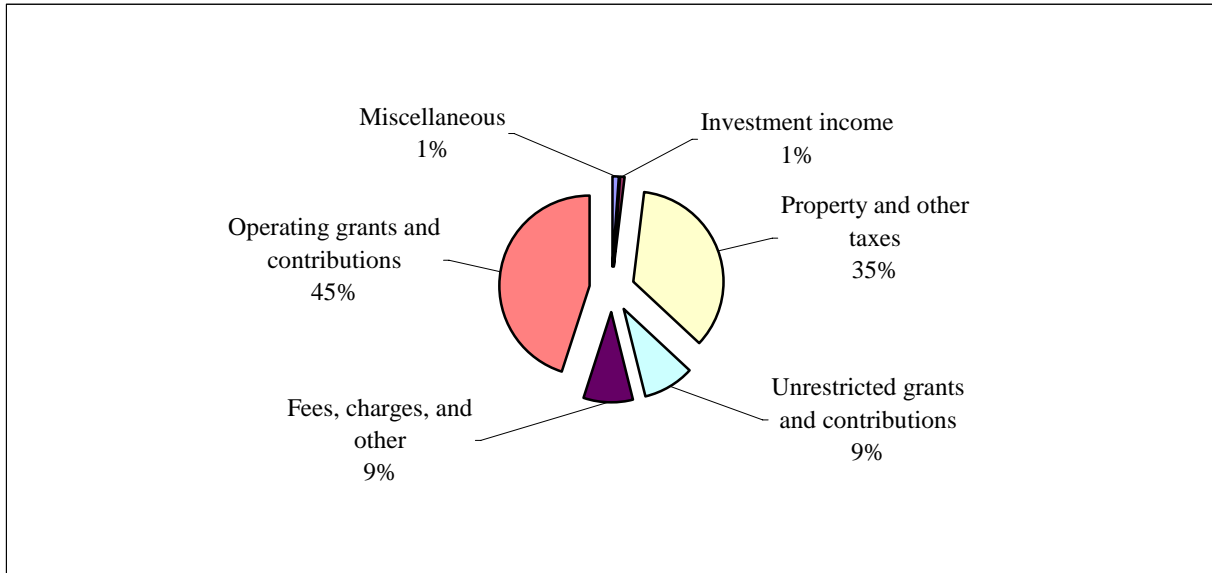
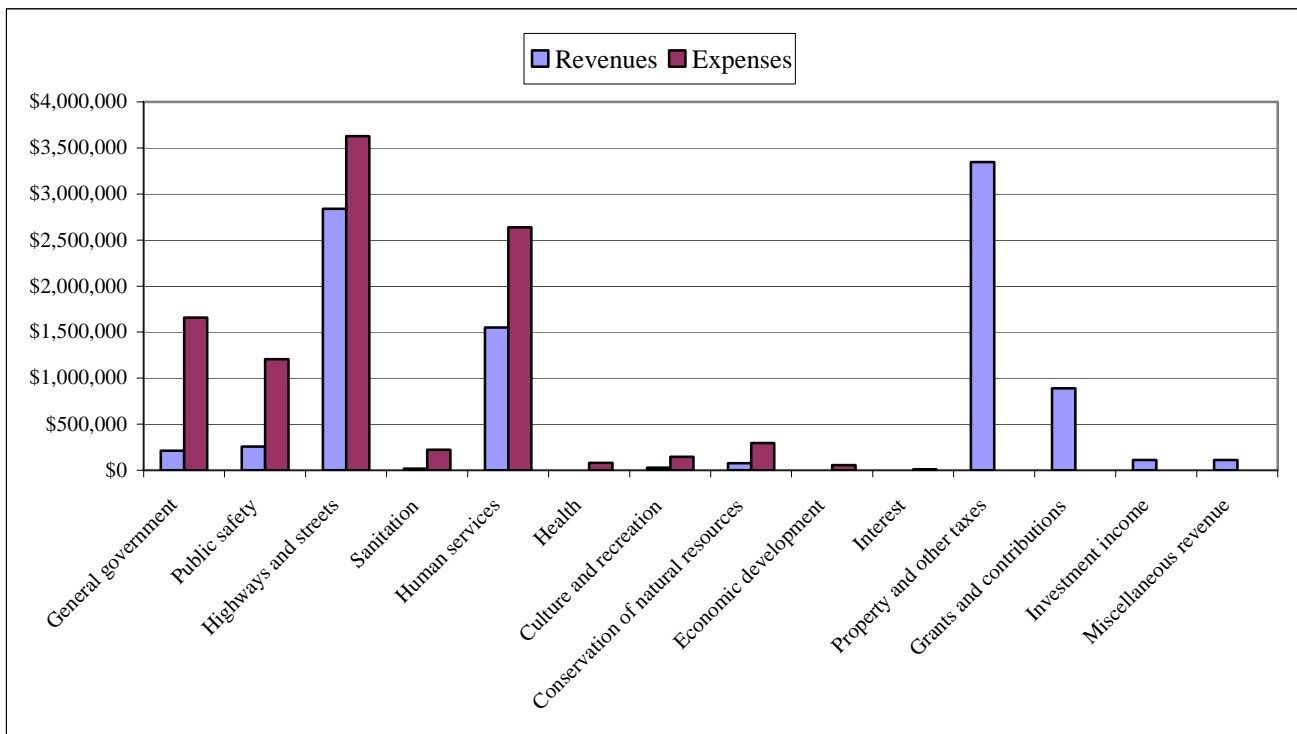


Table 2 presents the cost and revenue of each program, as well as the County’s general revenues.

Total revenues for the County were \$9,599,710, while total expenses were \$9,940,798. This reflects a \$341,088 decrease in net assets for the year ended December 31, 2009.

Table 2



The cost of all governmental activities this year was \$9,940,798. However, as shown on the statement of activities on Exhibit 2, the amount that taxpayers ultimately financed for these activities through County taxes was only \$4,800,719, because some of the cost was paid by those who directly benefited from the programs (\$874,155) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4,265,924). The County paid for the remaining “public benefit” portion of governmental activities with \$4,459,631 in general revenues, primarily taxes (some of which could only be used for certain programs) and other revenues, such as grants and contributions not restricted to specific programs, and interest.

Table 3 presents the cost of each of the County’s four largest program functions, as well as each function’s net cost (total cost, less revenues generated by the activity). The net cost shows the financial burden that was placed on the County’s taxpayers by each of these functions.

**Table 3
Governmental Activities**

	Total Cost of Services 2009	Net Cost of Services 2009
Highways and streets	\$ 3,629,062	\$ 790,708
Human services	2,638,213	1,088,865
General government	1,658,068	1,447,126
Public safety	1,205,165	946,312
All others	810,290	527,708
Totals	\$ 9,940,798	\$ 4,800,719

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) were \$534,897 over the final budget amounts. The most significant negative variance (\$449,708) occurred in the County’s general government area, where the remodeling costs to the County office building were finally completed, but had been budgeted for in 2008. Overall, the project came in significantly higher than expected. Reasons for other significant variances of actual expenditures to final budget include a one-time payout of a portion of the 2008 Easy Heat settlement to Main Street Industries and some unplanned professional services.

On the other hand, resources available for appropriation were also \$68,397 above the final budgeted amount despite \$96,850 less investment income. An insurance dividend, additional charges for services, and state and federal grants were also received and not budgeted for.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2009, totaled \$22,926,183 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, infrastructure, and intangibles. The investment in capital assets increased \$279,183, or 1.2 percent, from the previous year.

Table 4
Capital Assets at Year-End
(Net of Depreciation, in thousands)

	2009	2008
Land	\$ 699	\$ 700
Construction in progress	84	458
Infrastructure	18,805	18,747
Buildings	1,724	1,063
Improvements other than buildings	165	163
Machinery and equipment	1,432	1,516
Intangibles	17	-
Total	<u>\$ 22,926</u>	<u>\$ 22,647</u>

Additional information about 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 total outstanding debt of \$1,045,000, which was backed by the full faith and credit of the government.

Table 5
Outstanding Debt

	2009	2008
General obligation bonds - drainage	\$ 45,000	\$ 60,000
General obligation bonds - capital improvement	1,000,000	-
Total	<u>\$ 1,045,000</u>	<u>\$ 60,000</u>

The County's debt related to general obligation bonds increased by \$985,000 (164.2 percent) during the fiscal year due to the issuance of \$1,000,000 of capital improvement bonds for highway construction.

Minnesota statutes limit the amount of debt a county may levy to 3 percent of its total market value. At the end of 2009, the County's outstanding debt was 0.12 percent of its total estimated market value.

Additional information on the County's long-term debt can be found in the notes to the financial statements of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County's elected and appointed officials considered many factors when setting the 2010 budget, tax rates, and fees that will be charged for the year.

- The average unemployment rate for Big Stone County for 2009 was 6.092 percent. This compares favorably with the state unemployment rate of 7.967 percent but shows an increase from the County's 5.717 percent rate of one year ago. This could impact the level of services requested by County residents.
- The County's General Fund expenditures for 2010 are budgeted to decrease 7.4 percent (\$760,005) over the 2009 original budget. The 2010 anticipated revenues, other than tax levy, state aid, and special assessments, are budgeted to decrease 2.6 percent (\$1,705,335) over the 2009 original budget.
- The property tax levy for the County increased 1.30 percent (\$54,822) from 2009, and the net tax levy (the amount spread to taxpayers) increased 3.63 percent from 2009. In addition, the state unallotted \$48,850 of the County's 2009 County Program Aid during the year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Big Stone County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County Auditor, Michelle R. Knutson, Big Stone County Courthouse, 20 - 2nd Street S.E., Suite 103, Ortonville, Minnesota 56278.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2009**

Assets

Cash and pooled investments	\$ 4,158,702
Investments	1,654,533
Receivables - net	2,175,942
Inventories	226,249
Deferred charges	23,147
Capital assets	
Non-depreciable	800,340
Depreciable - net of accumulated depreciation	<u>22,125,843</u>
Total Assets	<u>\$ 31,164,756</u>

Liabilities

Accounts payable and other current liabilities	\$ 243,330
Accrued interest payable	10,105
Long-term liabilities	
Due within one year	96,811
Due in more than one year	<u>1,546,349</u>
Total Liabilities	<u>\$ 1,896,595</u>

Net Assets

Invested in capital assets - net of related debt	\$ 22,371,525
Restricted for	
Public safety	156,184
Highways and streets	1,661,682
Human services	12,276
Conservation of natural resources	130,569
Capital projects	342,023
Other purposes	113,056
Unrestricted	<u>4,480,846</u>
Total Net Assets	<u>\$ 29,268,161</u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Fees, Charges, Fines, and Other	Operating Grants and Contributions	
<u>Functions/Programs</u>				
Governmental activities				
General government	\$ 1,658,068	\$ 180,214	\$ 30,728	\$ (1,447,126)
Public safety	1,205,165	68,865	189,988	(946,312)
Highways and streets	3,629,062	195,207	2,643,147	(790,708)
Sanitation	222,055	121,347	57,875	(42,833)
Human services	2,638,213	262,847	1,286,501	(1,088,865)
Health	79,450	1,130	-	(78,320)
Culture and recreation	146,377	7,978	18,118	(120,281)
Conservation of natural resources	295,644	36,567	39,567	(219,510)
Economic development	54,703	-	-	(54,703)
Interest	12,061	-	-	(12,061)
Total Governmental Activities	\$ 9,940,798	\$ 874,155	\$ 4,265,924	\$ (4,800,719)
General Revenues				
Property taxes				\$ 3,214,384
Gravel taxes				73,535
Mortgage registry and deed tax				3,519
Payments in lieu of tax				55,688
Grants and contributions not restricted to specific programs				890,327
Unrestricted investment income				109,593
Miscellaneous				112,585
Total general revenues				\$ 4,459,631
Change in net assets				\$ (341,088)
Net Assets - Beginning				29,609,249
Net Assets - Ending				\$ 29,268,161

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009**

	<u>General</u>	<u>Highway</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled investments	\$ 1,471,374	\$ 368,748	\$ 2,038,589	\$ 159,811	\$ 4,038,522
Undistributed cash in agency funds	28,298	80,023	6,866	798	115,985
Petty cash and change funds	1,820	75	2,300	-	4,195
Investments	-	1,622,700	-	31,833	1,654,533
Taxes receivable					
Prior	58,950	22,255	23,121	-	104,326
Special assessments receivable					
Prior	18,847	-	-	717	19,564
Noncurrent	-	-	-	123,563	123,563
Accounts receivable	3,802	1,518	14,396	-	19,716
Accrued interest receivable	35,111	4,903	-	40	40,054
Due from other governments	36,589	1,685,916	146,158	56	1,868,719
Advance to other funds	105,400	-	-	-	105,400
Inventories	-	226,249	-	-	226,249
Total Assets	<u>\$ 1,760,191</u>	<u>\$ 4,012,387</u>	<u>\$ 2,231,430</u>	<u>\$ 316,818</u>	<u>\$ 8,320,826</u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009**

	<u>General</u>	<u>Highway</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 22,493	\$ 1,946	\$ 64,285	\$ 123	\$ 88,847
Salaries payable	24,927	20,399	17,476	-	62,802
Contracts payable	-	16,635	-	-	16,635
Due to other governments	38,330	1,155	35,561	-	75,046
Advance from other funds	-	-	-	105,400	105,400
Deferred revenue - unavailable	108,733	1,664,519	23,121	124,280	1,920,653
Total Liabilities	\$ 194,483	\$ 1,704,654	\$ 140,443	\$ 229,803	\$ 2,269,383
Fund Balances					
Reserved for					
Advance to other funds	\$ 105,400	\$ -	\$ -	\$ -	\$ 105,400
Inventories	-	226,249	-	-	226,249
Law library	7,092	-	-	-	7,092
Recorder's technology fund	36,563	-	-	-	36,563
Recorder's compliance fund	51,785	-	-	-	51,785
Enhanced 911	147,171	-	-	-	147,171
Sheriff's contingency	3,501	-	-	-	3,501
Gravel pit restoration	-	88,492	-	-	88,492
Gun permit fees	5,513	-	-	-	5,513
Capital improvements	-	342,023	-	-	342,023
Election equipment grant	24,708	-	-	-	24,708
Unspent grant monies	42,077	-	12,276	-	54,353
Unreserved					
Designated for					
Future expenditures	960,335	50,000	616,098	-	1,626,433
Compensated absences	181,563	212,401	88,637	-	482,601
Undesignated	-	1,388,568	1,373,976	87,015	2,849,559
Total Fund Balances	\$ 1,565,708	\$ 2,307,733	\$ 2,090,987	\$ 87,015	\$ 6,051,443
Total Liabilities and Fund Balances	\$ 1,760,191	\$ 4,012,387	\$ 2,231,430	\$ 316,818	\$ 8,320,826

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2009**

Fund balance - total governmental funds (Exhibit 3)	\$	6,051,443
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.		22,926,183
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,920,653
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (1,045,000)	
Unamortized discount on general obligation bonds	11,667	
Unamortized bond issuance costs	23,147	
Compensated absences	(482,600)	
Net OPEB obligation	(127,227)	
Accrued interest payable	(10,105)	
		(1,630,118)
Net Assets of Governmental Activities (Exhibit 1)		\$ 29,268,161

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>General</u>	<u>Highway</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total</u>
Revenues					
Taxes	\$ 1,846,015	\$ 728,880	\$ 693,072	\$ -	\$ 3,267,967
Special assessments	115,719	-	-	68,770	184,489
Licenses and permits	19,544	-	-	-	19,544
Intergovernmental	902,417	2,402,740	1,535,899	-	4,841,056
Charges for services	199,969	169,571	230,968	-	600,508
Gifts and contributions	100	-	-	-	100
Investment earnings	105,150	16,628	-	158	121,936
Miscellaneous	153,117	24,136	31,879	2,500	211,632
Total Revenues	\$ 3,342,031	\$ 3,341,955	\$ 2,491,818	\$ 71,428	\$ 9,247,232
Expenditures					
Current					
General government	\$ 2,097,751	\$ -	\$ -	\$ -	\$ 2,097,751
Public safety	1,158,491	-	-	-	1,158,491
Highways and streets	-	3,195,256	-	-	3,195,256
Sanitation	216,236	-	-	-	216,236
Human services	-	-	2,683,816	-	2,683,816
Health	38,145	-	-	-	38,145
Culture and recreation	143,689	-	-	-	143,689
Conservation of natural resources	224,866	-	-	71,258	296,124
Economic development	54,703	-	-	-	54,703
Intergovernmental	41,305	138,886	-	-	180,191
Debt service					
Principal	-	-	-	15,000	15,000
Interest	-	-	-	2,872	2,872
Bond issuance costs	-	24,800	-	-	24,800
Administrative (fiscal) fees	-	-	-	447	447
Total Expenditures	\$ 3,975,186	\$ 3,358,942	\$ 2,683,816	\$ 89,577	\$ 10,107,521
Excess of Revenues Over (Under)					
Expenditures	\$ (633,155)	\$ (16,987)	\$ (191,998)	\$ (18,149)	\$ (860,289)

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>General</u>	<u>Highway</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total</u>
Other Financing Sources (Uses)					
Proceeds from the sale of bonds	\$ -	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Discount on bonds issued	-	(12,500)	-	-	(12,500)
Proceeds from the sale of assets	100	1,500	-	-	1,600
Total Other Financing Sources (Uses)	\$ 100	\$ 989,000	\$ -	\$ -	\$ 989,100
Net Change in Fund Balance	\$ (633,055)	\$ 972,013	\$ (191,998)	\$ (18,149)	\$ 128,811
Fund Balance - January 1	2,198,763	1,392,596	2,282,985	105,164	5,979,508
Increase (decrease) in reserved for inventories	-	(56,876)	-	-	(56,876)
Fund Balance - December 31	\$ 1,565,708	\$ 2,307,733	\$ 2,090,987	\$ 87,015	\$ 6,051,443

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 128,811

Amounts reported for governmental activities in the statement of activities are different because:

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Deferred revenue - December 31	\$ 1,920,653	
Deferred revenue - January 1	(1,516,007)	404,646

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. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. The difference is the net book value of the assets disposed of.

Expenditures for general capital assets and infrastructure	\$ 1,855,785	
Current year depreciation and depletion	(1,576,602)	279,183

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Debt issued		
Bond principal	\$ (1,000,000)	
Bond issuance costs	12,500	
Bond discount	24,800	(962,700)
Principal repayments		
General obligation bonds		15,000
Amortization of discount on bonds and issuance costs		(2,486)

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 accrued interest payable	\$ (8,742)	
Change in compensated absences	(10,697)	
Change in net OPEB liability	(127,227)	
Change in inventories	(56,876)	(203,542)

Change in Net Assets of Governmental Activities (Exhibit 2) \$ (341,088)

FIDUCIARY FUNDS

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2009**

Assets

Cash and pooled investments	\$ <u>194,089</u>
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Liabilities

Due to other governments	\$ <u>194,089</u>
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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2009. 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.

A. Financial Reporting Entity

Big Stone County was established February 20, 1862, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. § 373.01. As required by accounting principles generally accepted in the United States of America, these financial statements present Big Stone County. 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. The County Auditor serves as the clerk of the Board of Commissioners, but has no vote.

Joint Ventures

The County participates in several joint ventures described in Note 4.C. The County also participates in jointly-governed organizations described in Note 4.D. and a related organization described in Note 4.E.

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 Big Stone County. These statements include the financial activities of the overall County government,

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately.

In the government-wide statement of net assets, the governmental activities are presented on a consolidated basis and 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 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 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 that are 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 financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. The County reports all of its governmental funds as major 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.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Highway 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 Family 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:

Fiduciary Funds - 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 revenues in the year for which they are levied. 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. Big Stone County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general 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 and then unrestricted resources as needed.

D. Assets, Liabilities, and Net Assets or Equity

1. 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, 2009, 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 received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2009 were \$105,153.

2. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is 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 other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectibles.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

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 May 15 and the second half payment due October 15 or November 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

3. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out 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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as 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 government as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets 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.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Capital Assets (Continued)

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.

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

<u>Assets</u>	<u>Years</u>
Buildings	25 - 125
Land improvements	15 - 35
Public domain infrastructure	15 - 70
Machinery and equipment	3 - 20

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. The liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide financial statements. The government-wide statement of net assets reports both current and noncurrent portions of compensated absences using full accrual accounting. The current portion consists of an amount based on a trend analysis of current usage of vacation and vested sick leave. The noncurrent portion consists of the remaining amount of vacation and total vested sick leave.

**BIG STONE COUNTY
ORTONVILLE, 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 statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as an other financing source. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Fund Equity

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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 certain 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.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliation of the County's total cash and investments to the basic financial statements follows:

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 4,158,702
Investments	1,654,533
Statement of fiduciary net assets	
Cash and pooled investments	<u>194,089</u>
Total Cash and Investments	<u>\$ 6,007,324</u>

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The County is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better or revenue obligations rated “AA” or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County has adopted a policy for custodial credit risk by obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2009, the County’s deposits in banks were entirely covered by federal depository insurance or by collateral in accordance with Minnesota statutes.

b. Investments

The County may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (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;

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. On December 31, 2009, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy that U.S. Treasury securities, U.S. agency securities, and obligations backed by U.S. Treasury and/or U.S. agency securities may be held without limit.

The following table presents the County's cash and deposit balances at December 31, 2009. The County has no investments subject to investment risks.

Checking	\$ 567,440
Savings	2,449,630
Certificates of deposit	2,986,059
Petty cash	<u>4,195</u>
Total Cash and Investments	<u>\$ 6,007,324</u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2009, 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	\$ 104,326	\$ -
Special assessments	143,127	123,563
Accounts receivable	19,716	-
Interest	40,054	-
Due from other governments	1,868,719	-
Total Governmental Activities	\$ 2,175,942	\$ 123,563

3. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 297,590	\$ -	\$ -	\$ 297,590
Gravel pits	354,499	-	336	354,163
Right-of-way	47,695	-	-	47,695
Construction in progress	457,666	-	373,757	83,909
Intangible assets	-	16,983	-	16,983
Total capital assets not depreciated	\$ 1,157,450	\$ 16,983	\$ 374,093	\$ 800,340
Capital assets depreciated				
Buildings	\$ 2,845,968	\$ 719,912	\$ -	\$ 3,565,880
Land improvements	217,967	12,466	-	230,433
Machinery and equipment	4,337,115	133,870	136,619	4,334,366
Infrastructure	34,661,968	1,346,311	-	36,008,279
Total capital assets depreciated	\$ 42,063,018	\$ 2,212,559	\$ 136,619	\$ 44,138,958

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings	\$ 1,783,221	\$ 58,742	\$ -	\$ 1,841,963
Land improvements	54,601	10,239	-	64,840
Machinery and equipment	2,821,201	218,265	136,619	2,902,847
Infrastructure	15,914,445	1,289,020	-	17,203,465
	<u>\$ 20,573,468</u>	<u>\$ 1,576,266</u>	<u>\$ 136,619</u>	<u>\$ 22,013,115</u>
Total accumulated depreciation				
Total capital assets depreciated, net	<u>\$ 21,489,550</u>	<u>\$ 636,293</u>	<u>\$ -</u>	<u>\$ 22,125,843</u>
Governmental Activities Capital Assets, Net	<u>\$ 22,647,000</u>	<u>\$ 653,276</u>	<u>\$ 374,093</u>	<u>\$ 22,926,183</u>

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

Governmental Activities	
General government	\$ 62,224
Public safety	27,982
Highways and streets, including depreciation of infrastructure assets	1,470,384
Sanitation	428
Human services	94
Culture and recreation	15,154
	<u>15,154</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,576,266</u>

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

Governmental Activities	
Highways and streets	\$ 336
	<u>336</u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2009, is as follows:

Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch Special Revenue	\$ 105,400

The Ditch Special Revenue Fund advance is to provide working capital to a ditch system with low reserves and current operating costs in excess of its revenues. This balance will be paid from future ditch special assessments.

C. Liabilities

1. Payables

Payables at December 31, 2009, were as follows:

Accounts payable	\$ 88,847
Salaries payable	62,802
Contracts payable	16,635
Due to other governments	75,046
Total Payables	\$ 243,330

2. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2009
General obligation bonds					
1996 G.O. Drainage Bonds	2012	\$15,000	4.0 - 5.6	\$ 235,000	\$ 45,000
2009 G.O. Capital Improvement Bonds	2025	\$40,000 - \$85,000	1.5 - 4.0	1,000,000	1,000,000
Total General Obligation Bonds				\$ 1,235,000	\$ 1,045,000
Less: unamortized discounts					(11,667)
General Obligation Bonds, Net					\$ 1,033,333

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

2. Long-Term Debt (Continued)

Debt Issued

On September 15, 2009, Big Stone County issued General Obligation Capital Improvement Bonds, Series 2009A, in the amount of \$1,000,000, with interest rates of 1.5 percent to 4.0 percent, to finance capital improvements to County roads.

3. Debt Service Requirements

Debt payments on the drainage bonds are made from the Ditch Special Revenue Fund. Debt service requirements at December 31, 2009, were as follows:

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 15,000	\$ 2,070
2011	15,000	1,253
2012	15,000	420
Total	<u>\$ 45,000</u>	<u>\$ 3,743</u>

Debt payments on the capital improvement bonds are made from the Highway Special Revenue Fund. Debt service requirements at December 31, 2009, were as follows:

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ -	\$ 27,220
2011	40,000	30,710
2012	55,000	29,998
2013	55,000	29,035
2014	60,000	27,885
2015 - 2019	320,000	115,435
2020 - 2024	385,000	55,940
2025	85,000	1,700
Total	<u>\$ 1,000,000</u>	<u>\$ 317,923</u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds					
Drainage	\$ 60,000	\$ -	\$ 15,000	\$ 45,000	\$ 15,000
Capital improvement	-	1,000,000	-	1,000,000	-
Less: unamortized discount	-	(12,500)	(833)	(11,667)	-
Total bonds payable	\$ 60,000	\$ 987,500	\$ 14,167	\$ 1,033,333	\$ 15,000
Compensated absences	471,903	10,697	-	482,600	81,811
Other postemployment benefits	-	127,227	-	127,227	-
Governmental Activities Long-Term Liabilities	<u>\$ 531,903</u>	<u>\$ 1,125,424</u>	<u>\$ 14,167</u>	<u>\$ 1,643,160</u>	<u>\$ 96,811</u>

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description

All full-time and certain part-time employees of Big Stone County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). 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.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description (Continued)

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 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 and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent 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 Public Employees Retirement Fund members whose annuity is calculated using Method 1, and all Public Employees Police and Fire Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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.

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 internet at www.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.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. 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 were required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary in 2009. Public Employees Police and Fire Fund members were required to contribute 9.4 percent of their annual covered salary in 2009.

The County is required to contribute the following percentages of annual covered payroll in 2009 and 2010:

	2009	2010
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.75	7.00
Public Employees Police and Fire Fund	14.10	14.10

The County's contributions for the years ending December 31, 2009, 2008, and 2007, for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	2009	2008	2007
Public Employees Retirement Fund	\$ 162,132	\$ 167,660	\$ 152,572
Public Employees Police and Fire Fund	33,599	34,404	25,652

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

Five employees of Big Stone County are covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA in accordance with Minn. Stat. ch. 353D. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.0 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by Big Stone County during the year ended December 31, 2009, were:

	Employee	Employer
Contribution amount	\$ 3,407	\$ 3,407
Percentage of covered payroll	5.0%	5.0%

Required contribution rates were 5.0 percent.

C. Other Postemployment Benefits (OPEB)

Beginning in 2009, Big Stone County implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

This statement required the County to calculate and record a net OPEB obligation at December 31, 2009.

The net OPEB obligation is, in general, the cumulative difference between the actuarial required contribution and the actual contributions since January 1, 2009.

Plan Description

Big Stone County pays the health insurance for qualified retired employees and elected officials. This is a single-employer defined benefit health care plan. To be eligible, employees must have worked for Big Stone County on a full-time basis or been elected to office for a minimum of 10 years, be at least 55 years old, and retire while in active service. Those eligible shall be entitled to the cost of their individual health insurance coverage up to a maximum monthly figure not to exceed the monthly premium for a Minnesota Comprehensive Health Association's (MCHA) medical coverage for their age group. However, all eligible retirees shall be required to apply for Medicare coverage and Blue Cross Blue Shield Senior Gold Medicare Supplement (including the additional preventative care) at their earliest eligibility. The retiree must purchase Medicare Parts A & B at their own expense. For eligible employees hired prior to January 1, 1991, the premium for the individual health insurance coverage or the Medicare supplement and the County's Group Medicare Part D coverage will be paid by Big Stone County until the death of the retiree. Any eligible employee hired after January 1, 1991, shall be eligible for one year of employer retiree insurance contributions for each five years of service with the County to a maximum of three years of contributions.

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Big Stone County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. The County has no implicit rate subsidy. The County had 9 elected officials and 23 employees eligible for this benefit in 2009. The cost from this program totaled \$169,897 (\$34,954 for elected officials and \$134,943 for employees) in 2009.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	\$ 297,124
Interest on net OPEB obligation	-
Adjustment to ARC	-
	-
Annual OPEB cost (expense)	\$ 297,124
Contributions made	169,897
	169,897
Increase in net OPEB obligation	\$ 127,227
Net OPEB obligation - Beginning of Year	-
	-
Net OPEB obligation - End of Year	\$ 127,227

The County's annual OPEB cost for December 31, 2009, was \$297,124. The percentage of annual OPEB cost contributed to the plan was 57.2 percent, and the net OPEB obligation for 2009 was \$127,227. Trend information for the previous two actuarial valuations is not available at this time based on the implementation date of December 31, 2009.

Funded Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the plan was not funded. The actuarial liability for benefits was \$3,542,463, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,542,463. The covered payroll (annual payroll of active employees covered by the plan) was \$2,461,776, and the ratio of the UAAL to the covered payroll was 143.9 percent.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2009, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a four percent investment rate of return (net of investment expenses), which is Big Stone County's implicit rate of return on the General Fund.

The annual health care cost trend is nine percent initially, reduced by decrements to an ultimate rate of five percent over eight years. Both rates included a three percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2009, was 29 years.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Summary of Significant Contingency 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 Intergovernmental Trust (MCIT), formerly Minnesota Counties Insurance Trust. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For all other risk, the County carries commercial insurance. 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 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. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$430,000 per claim in 2009 and \$450,000 per claim in 2010. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

B. 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.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Summary of Significant Contingency and Other Items (Continued)

C. Joint Ventures

Countryside Public Health Service

The Countryside Public Health Service was established July 1, 1979, by a joint powers agreement among Big Stone, Chippewa, Lac qui Parle, Swift, and Yellow Medicine Counties. The agreement was established to provide community health care for the residents of the five-county area. Each county's proportionate share of the total responsibility of the project is established on a per capita basis as determined by the most recent statistical estimates provided by the Minnesota Board of Health.

In the event of termination of the joint powers agreement, any property acquired as a result of the agreement and any surplus monies on hand at that time shall be divided among the counties in the same proportions as their respective proportionate financial responsibilities.

Control is vested in the Countryside Public Health Service Board of Health. The Board consists of 11 persons, two from each county, except the county with the largest population, which has three members. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

Financing is provided by state and federal grants, appropriations from member counties, and charges for services. Big Stone County's contribution for 2009 was \$41,305.

Complete financial statements for the Countryside Public Health Service can be obtained from its administrative office at P. O. Box 313, Benson, Minnesota 56215, or from the County Auditor's Office at the Courthouse.

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the County entered into a joint powers agreement with Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Pipestone, Redwood, Renville, Rock, and Swift Counties; and Lincoln, Lyon, and Murray Counties represented by the Lincoln, Lyon, and Murray Human Services Board, creating and operating the Southwestern Minnesota Adult Mental Health Consortium Board under the authority of Minn. Stat. § 471.59. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Summary of Significant Contingency and Other Items

C. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

The Board shall take actions and enter into such agreements as may be necessary to plan and develop within the Board's geographic jurisdiction, a system of care that will serve the needs of adults with serious and persistent mental illness. The governing board is composed of one board member from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

The following is a summary of the Board's annual financial report for the year ended December 31, 2009:

Total assets	\$	2,304,308
Total liabilities		327,637
Total net assets		1,976,671
Total revenues		4,271,686
Total expenses		4,327,451
Net decrease in net assets		55,765

The Board reported no long-term obligations at December 31, 2009.

A complete financial report of the Southwestern Minnesota Adult Mental Health Consortium Board can be obtained at 2200 - 23rd Street N.E., Suite 2050, Willmar, Minnesota 56201, or at the Cottonwood County Family Services Agency, Windom, Minnesota 56101.

Prime West Central County-Based Purchasing Initiative

The Prime West Central County-Based Purchasing Initiative was established in December 1998 by a joint powers agreement among Big Stone County and nine other counties under the authority of Minn. Stat. § 471.59. The purpose of this agreement is to plan and administer a multi-county, county-based purchasing program for medical assistance and general assistance medical care services and other health care programs as authorized by Minn. Stat. § 256B.692.

Control of the Purchasing Initiative is vested in a Joint Powers Board, composed of one Commissioner from each member county. Each member of the Joint Powers Board is appointed by the County Commissioners of the county he or she represents.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Summary of Significant Contingency and Other Items

C. Joint Ventures

Prime West Central County-Based Purchasing Initiative (Continued)

In the event of termination of the joint powers agreement, all assets owned pursuant to this agreement shall be sold, and the proceeds, together with monies on hand, will be distributed to the current members based on their proportional share of each member's county-based purchasing eligible population.

Financing is provided by medical assistance and general assistance medical care payments from the Minnesota Department of Human Services. Complete financial information can be obtained from its administrative office at Prime West Health, 2209 Jefferson Street, Suite 101, Alexandria, Minnesota 56308.

Pomme de Terre River Association

The Pomme de Terre River Association Joint Powers Board was established August 11, 1981, between Big Stone County and five other counties and their respective soil and water conservation districts. The agreement was made to develop and implement plans to protect property from damage of flooding; control erosion of land; protect streams and lakes from sedimentation and pollution; and maintain or improve the quality of water in the streams, lakes, and ground water lying within the boundaries of the watershed of the Pomme de Terre River. Administrative costs are apportioned equally to the soil and water conservation districts based on actual costs.

Control is vested in a Joint Powers Board, comprised of one representative of each of the County Boards of Commissioners and one representative from each soil and water conservation district board of supervisors included within the agreement.

During 2009, Big Stone County contributed \$551 to the Joint Powers Board for a water study.

Complete financial information for the Pomme de Terre River Association Joint Powers Board can be obtained from its administrative offices at 900 Roberts Street, Suite 104, Alexandria, Minnesota 56308.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Summary of Significant Contingency and Other Items

C. Joint Ventures (Continued)

Central Minnesota Regional Radio Board

The Central Minnesota Regional Radio Board Joint Powers Board was established June 5, 2007, between Big Stone County, the City of St. Cloud, and eleven other counties under authority of Minn. Stat. §§ 471.59 and 403.39. The purpose of the agreement is to formulate a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

Control is vested in a Joint Powers Board consisting of one County Commissioner and one City Council member for each party to the agreement. The members representing counties and cities shall be appointed by their respective governing bodies for the membership of that governing body. In addition, voting members of the Board include a member of the Central Minnesota Regional Advisory Committee, a member of the Central Minnesota Regional Radio System User Committee, and a member of the Owners and Operators Committee.

During 2009, Big Stone County contributed \$857 to the Joint Powers Board. Complete financial information for the Central Minnesota Regional Radio Board Joint Powers Board can be obtained from the City of St. Cloud at 400 - 2nd Street South, St. Cloud, Minnesota 56301.

Supporting Hands Nurse Family Partnership

The Supporting Hands Nurse Family Partnership was established in July 2007 by a joint powers agreement among Big Stone County and eleven other counties under the authority of Minn. Stat. §§ 471.59 and 145A.17. Big Stone County is part of the Countryside Public Health Service and is required to have this joint agreement. The purpose of this agreement is to organize, govern, plan, and administer a multi-county based Nurse Family Partnership Program specifically within the jurisdictional boundaries of the counties involved.

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2009, Big Stone County did not make a contribution to the Partnership, as a contribution was made by the Countryside Public Health Service.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Summary of Significant Contingency and Other Items

C. Joint Ventures

Supporting Hands Nurse Family Partnership (Continued)

McLeod County acts as fiscal agent for Supporting Hands Nurse Family Partnership. A complete financial report of the Supporting Hands Nurse Family Partnership can be obtained from McLeod County at 830 - 11th Street East, Glencoe, Minnesota 55336.

D. Jointly-Governed Organizations

Big Stone County, in conjunction with other local governments, has formed joint powers boards to provide a variety of services. The County participates along with other governments in the following organizations:

Minnesota River Basin Joint Powers Board

The Minnesota River Basin Joint Powers Board was established July 12, 1995, by an agreement between Big Stone County and 30 other counties. The agreement was made to promote orderly water quality improvement and management of the Minnesota River Watershed. Each county is responsible for its proportionate share of the administrative budget and for its share of benefits from any special project.

In the event of termination of the agreement, all property, real and personal, held by the Joint Powers Board shall be distributed by resolution of the policy committee to best accomplish the continuing purpose of the project.

Control is vested in an executive board of five officers elected from the membership of the Joint Powers Board, consisting of one representative and alternate from each County Board of Commissioners included in this agreement. During 2009, Big Stone County contributed \$625 to the Joint Powers Board.

Complete financial statements for the Minnesota River Basin Joint Powers Board can be obtained from its administrative office at Administration Building No. 14, 600 East 4th Street, Chaska, Minnesota 55318.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Summary of Significant Contingency and Other Items

D. Jointly-Governed Organizations (Continued)

Pioneerland Regional Library System

Big Stone County, along with several cities and other counties, participates in the Pioneerland Regional Library System in order to provide efficient and improved regional public library service. During the year, the County contributed \$61,822 to the System.

West Central S.W.A.T. Team

In July 2008, Big Stone County, along with several cities and other counties, entered into an agreement to create a feasible economical way by sharing the costs, to protect the citizens of the cities and counties involved. During the year, the County contributed \$770 to the Team.

E. Related Organization - Upper Minnesota River Watershed District

The County Board is responsible for appointing a majority of the Board of Managers for the Upper Minnesota River Watershed District, but the County's responsibility does not extend beyond making the appointments.

F. Agricultural Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and local lending institutions to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source water pollution. While the County is not liable for repayment of the loans in any manner, it does have certain responsibilities under the agreement.

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REQUIRED SUPPLEMENTARY INFORMATION

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,838,752	\$ 1,838,752	\$ 1,846,015	\$ 7,263
Special assessments	115,000	115,000	115,719	719
Licenses and permits	17,620	17,620	19,544	1,924
Intergovernmental	865,059	865,059	902,417	37,358
Charges for services	177,656	177,656	199,969	22,313
Gifts and contributions	-	-	100	100
Investment earnings	202,000	202,000	105,150	(96,850)
Miscellaneous	57,547	57,547	153,117	95,570
Total Revenues	\$ 3,273,634	\$ 3,273,634	\$ 3,342,031	\$ 68,397
Expenditures				
Current				
General government				
Commissioners	\$ 159,275	\$ 159,275	\$ 152,818	\$ 6,457
Human resources	88,830	88,830	86,500	2,330
Law library	4,000	4,000	6,034	(2,034)
Auditor	190,976	190,976	179,737	11,239
Treasurer	105,116	105,116	102,454	2,662
Assessor	241,758	241,758	252,412	(10,654)
Elections	300	300	69	231
Accounting and auditing	32,500	32,500	43,564	(11,064)
Data processing	135,560	135,560	148,717	(13,157)
Attorney	77,141	77,141	81,961	(4,820)
Recorder	164,156	164,156	160,020	4,136
Planning and zoning	58,529	58,529	50,105	8,424
Buildings and plant	186,970	186,970	636,678	(449,708)
Veterans service officer	22,932	22,932	24,580	(1,648)
Other general government	158,780	158,780	172,102	(13,322)
Total general government	\$ 1,626,823	\$ 1,626,823	\$ 2,097,751	\$ (470,928)
Public safety				
Sheriff	\$ 947,352	\$ 947,352	\$ 999,555	\$ (52,203)
Boat and water safety	2,429	2,429	2,097	332
Coroner	2,500	2,500	4,226	(1,726)
E-911 system	103,000	103,000	112,622	(9,622)
Emergency management	32,163	32,163	39,991	(7,828)
Total public safety	\$ 1,087,444	\$ 1,087,444	\$ 1,158,491	\$ (71,047)

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	\$ 225,386	\$ 225,386	\$ 216,236	\$ 9,150
Health				
Public health	\$ 36,980	\$ 36,980	\$ 38,145	\$ (1,165)
Culture and recreation				
Historical society	\$ 21,000	\$ 21,000	\$ 21,042	\$ (42)
Parks	20,298	20,298	29,802	(9,504)
Other	102,172	102,172	92,845	9,327
Total culture and recreation	\$ 143,470	\$ 143,470	\$ 143,689	\$ (219)
Conservation of natural resources				
Extension	\$ 107,535	\$ 107,535	\$ 102,390	\$ 5,145
Water planning	34,806	34,806	29,338	5,468
Feedlot management	18,091	18,091	17,296	795
Other	75,908	75,908	75,842	66
Total conservation of natural resources	\$ 236,340	\$ 236,340	\$ 224,866	\$ 11,474
Economic development				
Other	\$ 42,541	\$ 42,541	\$ 54,703	\$ (12,162)
Intergovernmental				
Health	\$ 41,305	\$ 41,305	\$ 41,305	\$ -
Total Expenditures	\$ 3,440,289	\$ 3,440,289	\$ 3,975,186	\$ (534,897)
Excess of Revenues Over (Under)				
Expenditures	\$ (166,655)	\$ (166,655)	\$ (633,155)	\$ (466,500)
Other Financing Sources (Uses)				
Proceeds from the sale of assets	-	-	100	100
Net Change in Fund Balance	\$ (166,655)	\$ (166,655)	\$ (633,055)	\$ (466,400)
Fund Balance - January 1	2,198,763	2,198,763	2,198,763	-
Fund Balance - December 31	\$ 2,032,108	\$ 2,032,108	\$ 1,565,708	\$ (466,400)

The notes to the required supplementary information are an integral part of this schedule.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
HIGHWAY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 693,735	\$ 693,735	\$ 728,880	\$ 35,145
Intergovernmental	3,003,265	3,003,265	2,402,740	(600,525)
Charges for services	118,000	118,000	169,571	51,571
Investment earnings	10,000	10,000	16,628	6,628
Miscellaneous	25,000	25,000	24,136	(864)
Total Revenues	\$ 3,850,000	\$ 3,850,000	\$ 3,341,955	\$ (508,045)
Expenditures				
Current				
Highways and streets				
Administration	\$ 344,210	\$ 344,210	\$ 322,584	\$ 21,626
Maintenance	674,940	674,940	627,857	47,083
Construction	2,148,585	2,148,585	1,706,965	441,620
Equipment and maintenance shops	638,610	638,610	511,251	127,359
Material and services for resale	25,230	25,230	19,878	5,352
Other - highways and streets	28,500	28,500	6,721	21,779
Total highways and streets	\$ 3,860,075	\$ 3,860,075	\$ 3,195,256	\$ 664,819
Intergovernmental				
Highways and streets	\$ 130,000	\$ 130,000	\$ 138,886	\$ (8,886)
Debt service				
Principal	\$ 85,000	\$ 85,000	\$ -	\$ 85,000
Interest	41,588	41,588	-	41,588
Bond issuance costs	-	-	24,800	(24,800)
Administrative (fiscal) charges	35,000	35,000	-	35,000
Total debt service	\$ 161,588	\$ 161,588	\$ 24,800	\$ 136,788
Total Expenditures	\$ 4,151,663	\$ 4,151,663	\$ 3,358,942	\$ 792,721
Excess of Revenues Over (Under) Expenditures	\$ (301,663)	\$ (301,663)	\$ (16,987)	\$ 284,676

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 2
(Continued)

**BUDGETARY COMPARISON SCHEDULE
HIGHWAY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Proceeds from sale of bonds	\$ 1,035,000	\$ 1,035,000	\$ 1,000,000	\$ (35,000)
Discount on bonds issued	-	-	(12,500)	(12,500)
Proceeds from sale of assets	100	100	1,500	1,400
Total Other Financing Sources (Uses)	<u>\$ 1,035,100</u>	<u>\$ 1,035,100</u>	<u>\$ 989,000</u>	<u>\$ (46,100)</u>
Net Change in Fund Balance	\$ 733,437	\$ 733,437	\$ 972,013	\$ 238,576
Fund Balance - January 1	1,392,596	1,392,596	1,392,596	-
Increase (decrease) in reserved for inventories	-	-	(56,876)	(56,876)
Fund Balance - December 31	<u><u>\$ 2,126,033</u></u>	<u><u>\$ 2,126,033</u></u>	<u><u>\$ 2,307,733</u></u>	<u><u>\$ 181,700</u></u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 697,116	\$ 697,116	\$ 693,072	\$ (4,044)
Intergovernmental	1,494,009	1,494,009	1,535,899	41,890
Charges for services	87,500	87,500	230,968	143,468
Miscellaneous	218,650	218,650	31,879	(186,771)
Total Revenues	<u>\$ 2,497,275</u>	<u>\$ 2,497,275</u>	<u>\$ 2,491,818</u>	<u>\$ (5,457)</u>
Expenditures				
Current				
Human services				
Income maintenance	\$ 613,000	\$ 613,000	\$ 634,362	\$ (21,362)
Social services	1,892,345	1,892,345	1,984,639	(92,294)
RSVP	101,000	101,000	64,815	36,185
Total Expenditures	<u>\$ 2,606,345</u>	<u>\$ 2,606,345</u>	<u>\$ 2,683,816</u>	<u>\$ (77,471)</u>
Net Change in Fund Balance	<u>\$ (109,070)</u>	<u>\$ (109,070)</u>	<u>\$ (191,998)</u>	<u>\$ (82,928)</u>
Fund Balance - January 1	<u>2,282,985</u>	<u>2,282,985</u>	<u>2,282,985</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 2,173,915</u></u>	<u><u>\$ 2,173,915</u></u>	<u><u>\$ 2,090,987</u></u>	<u><u>\$ (82,928)</u></u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 52,300	\$ 52,300	\$ 68,770	\$ 16,470
Investment earnings	-	-	158	158
Miscellaneous	-	-	2,500	2,500
Total Revenues	<u>\$ 52,300</u>	<u>\$ 52,300</u>	<u>\$ 71,428</u>	<u>\$ 19,128</u>
Expenditures				
Current				
Conservation of natural resources				
Other	\$ 5,500	\$ 5,500	\$ 71,258	\$ (65,758)
Debt service				
Principal	15,000	15,000	15,000	-
Interest	2,900	2,900	2,872	28
Administrative (fiscal) fees	500	500	447	53
Total Expenditures	<u>\$ 23,900</u>	<u>\$ 23,900</u>	<u>\$ 89,577</u>	<u>\$ (65,677)</u>
Net Change in Fund Balance	<u>\$ 28,400</u>	<u>\$ 28,400</u>	<u>\$ (18,149)</u>	<u>\$ (46,549)</u>
Fund Balance - January 1	<u>105,164</u>	<u>105,164</u>	<u>105,164</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 133,564</u></u>	<u><u>\$ 133,564</u></u>	<u><u>\$ 87,015</u></u>	<u><u>\$ (46,549)</u></u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 5

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2009

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2009	\$ -	\$3,542,463	\$3,542,463	0.0%	\$2,461,776	143.9%

See Note 3.C., Other Postemployment Benefits, for more information.

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2009

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund and the special revenue funds. The expenditure budget is approved at the fund level.

The budgets may be amended or modified at any time by the County Board. Expenditures may not legally exceed budgeted appropriations. Comparisons of final budgeted revenues and expenditures to actual are presented in the required supplementary information for the General Fund and special revenue funds.

2. Budget Basis of Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles.

3. Budget Amendments

There were no amendments to the budget in the current year.

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

Fund	Expenditures	Budget	Excess
General Fund	\$ 3,975,186	\$ 3,440,289	\$ 534,897
Special Revenue Funds			
Family Services	2,683,816	2,606,345	77,471
Ditch	89,577	23,900	65,677

5. Other Postemployment Benefits Funding Status

Beginning in 2009, Big Stone County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets is zero. Currently, only one actuarial valuation is available. Future reports will provide additional trend analysis to meet the three valuation funding status requirement as the information becomes available.

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SUPPLEMENTARY INFORMATION

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

AGENCY FUNDS

Family Services Collaborative - to account for the collection and disbursement of funds for the local collaborative.

State - to account for the collection and disbursement of the state's share of fees, fines, and mortgage registry and state deed taxes collected by the County.

Taxes and Penalties - to account for the collection of taxes and penalties and their distribution to the various funds and governmental units.

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Statement 1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Balance January 1	Additions	Deductions	Balance December 31
<u>FAMILY SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 126,424	\$ 50,035	\$ 68,197	\$ 108,262
<u>Liabilities</u>				
Due to other governments	\$ 126,424	\$ 50,035	\$ 68,197	\$ 108,262
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 11,975	\$ 386,532	\$ 390,374	\$ 8,133
<u>Liabilities</u>				
Due to other governments	\$ 11,975	\$ 386,532	\$ 390,374	\$ 8,133
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 54,000	\$ 10,043,939	\$ 10,020,245	\$ 77,694
<u>Liabilities</u>				
Due to other governments	\$ 53,240	\$ 10,043,939	\$ 10,019,485	\$ 77,694
Advance from other funds	760	-	760	-
Total Liabilities	\$ 54,000	\$ 10,043,939	\$ 10,020,245	\$ 77,694

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Statement 1
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 192,399	\$ 10,480,506	\$ 10,478,816	\$ 194,089
<u>Liabilities</u>				
Due to other governments	\$ 191,639	\$ 10,480,506	\$ 10,478,056	\$ 194,089
Advance from other funds	760	-	760	-
Total Liabilities	\$ 192,399	\$ 10,480,506	\$ 10,478,816	\$ 194,089

OTHER SCHEDULE

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 6

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2009**

Shared Revenue

State

Highway users tax	\$ 1,747,518
County program aid	518,401
PERA rate reimbursement	11,447
Disparity reduction aid	89,164
Police aid	33,756
Enhanced 911	76,403
Market value credit	271,315
	271,315

Total Shared Revenue **\$ 2,748,004**

Reimbursement for Services

Minnesota Department of Human Services **\$ 340,506**

Payments

Local

Payments in lieu of taxes	\$ 55,688
Local contributions	29,275
	29,275

Total Payments **\$ 84,963**

Grants

State

Minnesota Department/Board of	
Public Safety	\$ 1,500
Corrections	10,273
Human Services	417,461
Natural Resources	203,937
Water and Soil Resources	42,632
Peace Officer Standards and Training Board	2,378
Pollution Control Agency	55,475
	55,475

Total State **\$ 733,656**

Federal

Department of	
Agriculture	\$ 61,643
Commerce	38,508
Transportation	287,664
Health and Human Services	468,460
Homeland Security	31,771
Corporation for National and Community Service	45,881
	45,881

Total Federal **\$ 933,927**

Total State and Federal Grants **\$ 1,667,583**

Total Intergovernmental Revenue **\$ 4,841,056**

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 7

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Big Stone County.
- B. A significant deficiency in internal control was disclosed by the audit of financial statements of Big Stone County and is reported in the "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*." The significant deficiency is not a material weakness.
- C. No instances of noncompliance material to the financial statements of Big Stone County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for Big Stone County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program was:
 - Medical Assistance Program CFDA #93.778
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Big Stone County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

97-1 Segregation of Duties

Due to the limited number of personnel within some 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 Big Stone 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 Big Stone 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 followed by staff.

Client's Response:

Big Stone County's management is aware that staff size does not provide for adequate segregation of accounting duties and responsibilities. Management remains cognizant of the situation and strives to ensure that staff duties and responsibilities provide as much segregation as possible.

PREVIOUSLY REPORTED ITEMS RESOLVED

Audit Adjustments (06-1)

During our audit, we proposed material adjustments that resulted in significant changes to the County's financial statements.

Resolution

The County has continued to implement procedures over financial reporting to detect misstatements in the financial statements. No material audit adjustments were proposed for the 2009 audit.

Adding New Vendors to the Accounting System (08-1)

Big Stone County did not have procedures for reviewing new vendors added to the accounts payable system to determine if the new vendors added were legitimate vendors.

Resolution

The County has implemented a procedure for adding new vendors to the accounting system which includes verifying new vendors to a phone book or internet site for authenticity and quarterly review by the County Auditor of new vendors added or changes made to existing vendors in the system.

Information System Risk Management (08-2)

Big Stone County contracts with Computer Professionals Unlimited, Inc. (CPUI), a service organization, to provide computer hardware for hosting the County's applications; processing of accounting transactions of other data; daily, weekly, and full system backups of applications and processed data; and disaster recovery planning for continued operations. During our site visit to CPUI, we noted that computers were not located in a restricted area away from public view. The computers were in an unlocked cage. Daily backup tapes for information processed Monday through Thursday were kept onsite in a locked metal cabinet; however, the cabinet was not designed to protect the tapes from the heat that would be generated in the event of a fire. One fire extinguisher was observed in the office. Weekly and full system backup information was kept at an offsite location.

Resolution

CPUI now has a Sentry Safe that protects up to 1700 degrees. If necessary, the safe could be extracted through a nearby window in the event of a fire. In addition, the CPUI office now has two fire extinguishers, and computers are maintained in a locked storage room overnight.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS RESOLVED

Charges to Family Services - CFDA Nos. 93.563 and 93.778 (08-3)

Big Stone County charged Family Services for half of the quarterly County Attorney expenditures without any documentation for the charge. It also set Family Services' rent without any basis, such as square footage, for the amount.

Resolution

In September 2009, rent was updated to be paid at a set rate per foot, and attorney charges paid at 50 percent, which is consistent with the breakout in the County's indirect cost allocation plan.

Family Services Reporting - CFDA Nos. 93.563 and 93.778 (08-4)

The instructions for Income Maintenance Administrative Expense Report, DHS-2550, and the Social Services Fund Report, DHS-2556, require a hard copy, signed by the Director, be kept on file. The second quarter reports tested during our audit were not approved by the Director, and it was noted that the Income Maintenance Report was in error. This resulted in an overcharge to the Department of Human Services for administrative expenditures.

Resolution

The Income Maintenance Administrative Expense Report, DHS-2550, and the Social Services Fund Report, DHS-2556, reviewed during the 2009 audit were signed by the Director and kept on file.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Administrative Offense Procedures (08-5)

Deputies had discretion whether to give motorists a warning, issue a state ticket, or issue a County administrative ticket for violations considered traffic offenses for both state law and County ordinance purposes. If a County administrative ticket was issued, the amount to be paid did not include the surcharges for court costs that would have been included with a state ticket, and Big Stone County kept all the revenue without forwarding any portion to the state.

Resolution

On August 18, 2009, the County Board approved Resolution 2009-34 which authorizes administrative citations for certain traffic offenses pursuant to Minn. Stat. § 169.999 and requires that one-third of the penalty be remitted to the state.

OTHER ITEM FOR CONSIDERATION

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of this standard is to enhance the usefulness of information included in the financial report about fund balance through clearer fund balance classifications that can be more consistently applied, as well as to clarify existing governmental fund type definitions.

Fund Balance Reporting

The initial distinction made in reporting fund balance is identifying amounts considered *nonspendable* such as fund balance associated with inventories. Statement 54 also establishes fund balance classifications for spendable fund balance based on constraints imposed on how resources can be spent. The existing components of fund balance reserved, unreserved, designated, and undesignated are being replaced by restricted, committed, assigned, and unassigned as defined below:

- *Restricted* - amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in GASB Statement 54. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of GASB Statement 54 are effective for Big Stone County for the year ending December 31, 2011.

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REBECCA OTTO
STATE AUDITOR

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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*

Board of County Commissioners
Big Stone County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Big Stone County as of and for the year ended December 31, 2009, and have issued our report thereon dated June 4, 2010. 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 Big Stone County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial

reporting that we consider to be a material weakness as defined above. However, we identified a deficiency in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as item 97-1, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Big Stone 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 seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except for tax increment financing, because the County has no tax increment financing districts.

The results of our tests indicate that, for the items tested, Big Stone County complied with the material terms and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to Big Stone County, and it is reported for that reason.

Big Stone County's written response to the significant deficiency identified in our audit has been included in the Schedule of Findings and Questioned Costs. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of County Commissioners, audit committee, management, others within Big Stone County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 4, 2010

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Big Stone County

Compliance

We have audited the compliance of Big Stone County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2009. Big Stone County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Big Stone County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Big Stone County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2009.

Internal Control Over Compliance

Management of Big Stone County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Big Stone County as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 4, 2010. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is 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.

This report is intended solely for the information and use of the Board of County Commissioners, audit committee, management, others within Big Stone County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 4, 2010

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 8

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services Supplemental Nutrition Assistance Program Cluster State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	\$ 60,710
State Administrative Matching Grants for Supplemental Nutrition Assistance Program - ARRA	10.561	933
Total U.S. Department of Agriculture		\$ 61,643
U.S. Department of Commerce		
Passed Through Central Minnesota Regional Radio Board Public Safety Interoperable Communications Grant Program	11.555	\$ 38,508
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 140,173
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Temporary Assistance for Needy Families (TANF) Child Support Enforcement Cluster Child Support Enforcement	93.558	\$ 60,918
Child Support Enforcement - ARRA	93.563	87,144
Refugee and Entrant Assistance State-Administered Programs	93.563	12,123
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.566	173
Child Welfare Services State Grant	93.596	2,736
Foster Care - Title IV-E Cluster Foster Care - Title IV-E	93.645	3,000
Foster Care - Title IV-E - ARRA	93.658	25,035
Social Services Block Grant	93.658	765
Chafee Foster Care Independent Living Program	93.667	57,594
Medical Assistance Program	93.674	2,050
Block Grants for Community Mental Health Services	93.778	216,858
	93.958	64
Total U.S. Department of Health and Human Services		\$ 468,460
Corporation for National and Community Service		
Direct Retired and Senior Volunteer Program	94.002	\$ 45,881

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 8
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through United Way Emergency Food and Shelter National Board Program	97.024	\$ 7,375
Passed Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	23,731
Passed Through West Central Minnesota Emergency Medical Services Regulatory Board Homeland Security Grant Program	97.067	<u>665</u>
Total U.S. Department of Homeland Security		\$ <u>31,771</u>
Total Federal Awards		\$ <u><u>786,436</u></u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Big Stone County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Big Stone County under programs of the federal government for the year ended December 31, 2009. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Big Stone County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Big Stone County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 933,927
Less: Highway Planning and Construction grant monies expended in 2008 but not recognized as revenues in 2008 as the monies were not available (CFDA #20.205)	<u>(147,491)</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 786,436</u>

5. Subrecipients

During 2009, the County did not pass any federal money to subrecipients.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.