

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**BIG STONE COUNTY**  
**ORTONVILLE, MINNESOTA**

FOR THE YEAR ENDED DECEMBER 31, 2012

## **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, 2012**



**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, 2012**

Office	Name	Term Expires
<b>Commissioners</b>		
1st District	Walter Wulff*	January 2013
2nd District	Wade Athey	January 2013
3rd District	Brent Olson	January 2013
4th District	Roger Sandberg	January 2015
5th District	Joseph Berning**	January 2013
<b>Officers</b>		
<b>Elected</b>		
Attorney	William Watson	January 2015
Auditor	Michelle Knutson	January 2015
Recorder	Elaine Martig	January 2015
Sheriff	John Haukos	January 2015
Treasurer	Cindy Nelson	January 2015
<b>Appointed</b>		
Assessor	Sandra Vold	December 2012
Coroner	Robert Ross, M.D.	January 2015
Environmental Officer	Darren Wilke	Indefinite
Emergency Management Director	James Hasslen	Indefinite
Highway Engineer	Nicholas Anderson	May 2013
Human Resources Director	Susan Schultz	December 2012
	Dawn Gregoire	Indefinite
Veterans Service Officer	Daniel Meyer	Indefinite
<b>Family Services</b>		
<b>Board</b>		
Chair	Joseph Berning	January 2013
Vice Chair	Brent Olson	January 2013
Secretary	Kathy Morrill	July 2013
Member	Roger Sandberg	January 2015
Member	Wade Athey	January 2013
Member	Walter Wulff	January 2013
Member	Alice Stielow	July 2014
Director	Pam Rud	Indefinite

\*Chair 2012

\*\*Chair 2013

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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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Big Stone County, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Big Stone County as of December 31, 2012, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Big Stone County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information

has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2013, 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* in considering Big Stone County's internal control over financial reporting and compliance.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 7, 2013

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012  
(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, 2012. 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 position is \$31,420,783, of which \$23,352,785 is the net investment in capital assets, and \$1,921,712 is restricted to specific purposes. The \$6,146,286 remaining may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's net position increased by \$930,928 for the year ended December 31, 2012.
- The net cost of governmental activities for the current fiscal year was \$4,184,765. The net cost was funded by general revenues and other items totaling \$5,115,693.
- The fund balances of the governmental funds increased by \$1,136,637.

For the year ended December 31, 2012, the unrestricted fund balance of the General Fund was \$2,071,165, or 58.4 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 position presents information on all assets and liabilities of the County using the accrual basis of accounting, with the difference being reported as net position. Over time, increases or decreases in net position 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, Ditch Special Revenue Fund, and Debt Service Fund. Budgetary comparison schedules 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 Position on Exhibit 7.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$31,420,783 at the close of 2012. The largest portion of the net position (74.3 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.

	<b>Net Position (in Thousands)</b>	
	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Current and other assets	\$ 9,471	\$ 8,911
Capital assets	<u>24,138</u>	<u>23,617</u>
Total Assets	<u>\$ 33,609</u>	<u>\$ 32,528</u>
<b>Liabilities</b>		
Long-term liabilities	\$ 1,938	\$ 1,848
Other liabilities	<u>250</u>	<u>191</u>
Total Liabilities	<u>\$ 2,188</u>	<u>\$ 2,039</u>
<b>Net Position</b>		
Net investment in capital assets	\$ 23,353	\$ 22,777
Restricted	1,922	2,139
Unrestricted	<u>6,146</u>	<u>5,573</u>
Total Net Position	<u>\$ 31,421</u>	<u>\$ 30,489</u>

Unrestricted net position--the part of net position 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--is 19.6 percent of the net position.

## Governmental Activities

The County's activities increased net position by 3.05 percent (\$31,420,783 for 2012 compared to \$30,489,855 for 2011). Key elements of this increase in net position are as follows:

### Changes in Net Position (in Thousands)

	Governmental Activities	
	2012	2011
Revenues		
Program revenues		
Charges for services	\$ 1,126	\$ 1,019
Operating grants and contributions	4,453	4,705
Capital grants and contributions	259	-
General revenues		
Property taxes	4,203	3,715
Other	912	1,031
Total Revenues	<u>\$ 10,953</u>	<u>\$ 10,470</u>
Expenses		
General government	\$ 1,857	\$ 1,639
Public safety	1,076	1,010
Highways	3,782	3,724
Sanitation	198	181
Human services	2,490	2,281
Health	87	80
Culture and recreation	173	145
Conservation of natural resources	292	300
Economic development	33	33
Interest	33	35
Total Expenses	<u>\$ 10,021</u>	<u>\$ 9,428</u>
Change in Net Position	\$ 932	\$ 1,042
Net Position - January 1	<u>30,489</u>	<u>29,447</u>
Net Position - December 31	<u>\$ 31,421</u>	<u>\$ 30,489</u>

## **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, unrestricted 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 \$7,624,823, an increase of \$1,136,637 in comparison with the prior year. Of the combined ending fund balances, \$6,502,166 represents unrestricted fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is restricted to indicate that it is not available for new spending because it has already been restricted 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 unrestricted fund balance of \$2,071,165. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total expenditures. The General Fund's unrestricted fund balance represents 58.4 percent of total General Fund expenditures. During 2012, the ending fund balance increased by \$424,203.

The Highway Special Revenue Fund had an unrestricted fund balance of \$1,934,592 at fiscal year-end, representing 44.5 percent of its annual expenditures. The ending fund balance increased \$558,523 during 2012.

The Family Services Special Revenue Fund had an unrestricted fund balance of \$2,496,409 at fiscal year-end, representing 102.6 percent of its annual expenditures. The ending fund balance increased \$127,336 during 2012.

The Ditch Special Revenue Fund had a restricted fund balance of \$101,975 at fiscal year-end, representing 127.6 percent of its annual expenditures. The ending fund balance increased \$23,733 during 2012.

The Debt Service Fund had a restricted fund balance of \$89,207 at fiscal year-end, representing 104.4 percent of its annual expenditures. The ending fund balance increased \$2,842 during 2012.

## Governmental Activities

The County's total revenues were \$10,952,883. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2012.

**Table 1 - Total County Revenues**

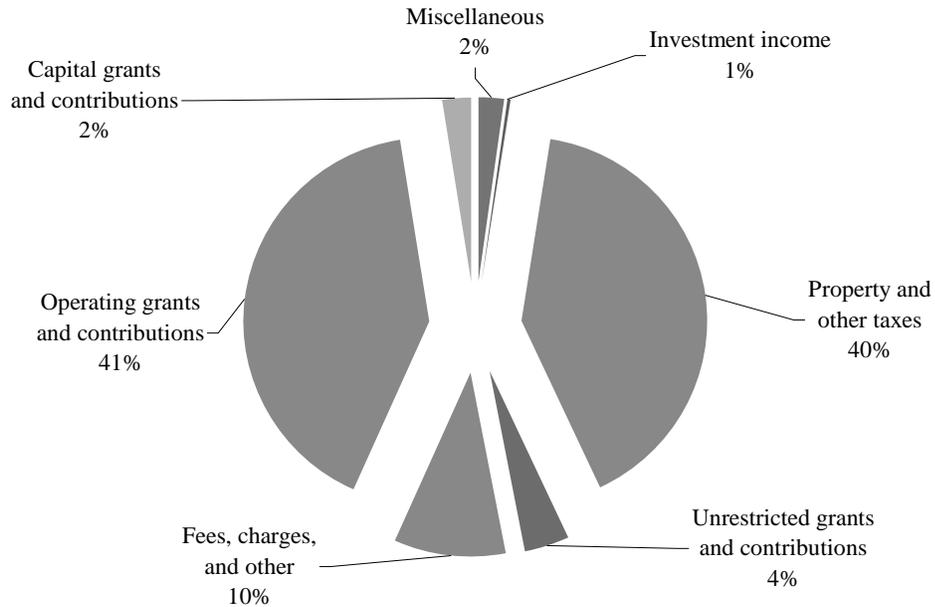


Table 2 presents the cost and revenue of each program, as well as the County's general revenues and special and extraordinary items.

Total revenues for the County were \$10,952,883, while total expenses were \$10,021,955. This reflects a \$930,928 increase in net position for the year ended December 31, 2012.

**Table 2 - Total County Expenditures**

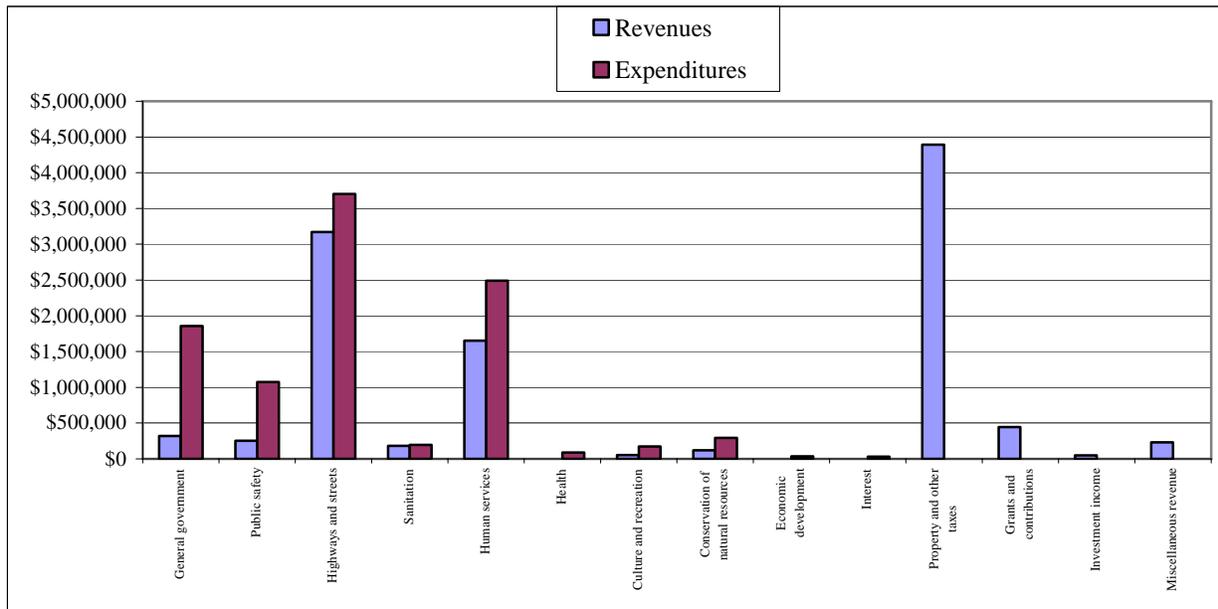


Table 3 presents the cost of each of the County’s four largest program functions, as well as each function’s net cost (total cost, less revenues generated by the activity). The net cost shows the financial burden that was placed on the County’s taxpayers by each of these functions.

**Table 3  
Governmental Activities**

	Total Cost of Services 2012	Net Cost of Services 2012
Highways and streets	\$ 3,782,048	\$ 529,924
Human services	2,490,439	835,286
General government	1,857,090	1,536,569
Public safety	1,076,274	821,595
All others	816,104	461,391
<b>Totals</b>	<b>\$ 10,021,955</b>	<b>\$ 4,184,765</b>

**General Fund Budgetary Highlights**

The actual charges to appropriations (expenditures) were \$167,351 over the final budget amounts.

Resources available for appropriation were also \$391,967 above the final budgeted amount. An insurance dividend, insurance proceeds from hail damage, and additional election cost reimbursements received, not budgeted for, were the cause of this.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The County's capital assets for its governmental activities at December 31, 2012, totaled \$24,137,831 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, infrastructure and intangibles. The investment in capital assets increased \$520,616, or 2.2 percent, from the previous year.

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

	<u>2012</u>	<u>2011</u>
Land	\$ 696	\$ 699
Infrastructure	20,324	19,682
Buildings	1,619	1,631
Improvements other than buildings	147	158
Machinery and equipment	1,335	1,430
Intangibles	<u>17</u>	<u>17</u>
Total	<u>\$ 24,138</u>	<u>\$ 23,617</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 \$905,000 which was backed by the full faith and credit of the government.

**Table 5**  
**Outstanding Debt**

	<u>2012</u>	<u>2011</u>
General obligation bonds - drainage	\$ -	\$ 15,000
General obligation bonds - capital improvement	<u>905,000</u>	<u>960,000</u>
Total	<u>\$ 905,000</u>	<u>\$ 975,000</u>

The County's debt related to general obligation bonds decreased by \$70,000 (7.2 percent) during the fiscal year.

Minnesota statutes limit the amount of debt a county may levy to 3.00 percent of its total market value. At the end of 2012, the County's outstanding debt was 0.08 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 2013 budget, tax rates, and fees that will be charged for the year.

- The average unemployment rate for Big Stone County for 2012 was 5.175 percent. This compares favorably with the state unemployment rate of 5.708 percent and shows a decrease 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 2013 are budgeted to increase 5.08 percent (\$178,799) over the 2012 original budget. The 2013 anticipated revenues, other than tax levy, state aid, and special assessments, are budgeted to increase 1.66 percent (\$14,108) over the 2012 original budget.
- The gross property tax levy for the County increased 0.09 percent (\$4,153) from 2012, and the net tax levy (the amount spread to taxpayers) increased 1.00 percent (\$43,429) from 2012. This does not reflect the state's elimination of the homestead credit.

## **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 POSITION  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2012**

**Assets**

Cash and pooled investments	\$ 5,943,590
Investments	1,222,700
Receivables - net	2,063,628
Inventories	221,707
Prepaid items	1,419
Deferred charges	18,188
Capital assets	
Non-depreciable	713,010
Depreciable - net of accumulated depreciation	23,424,821
	<hr/>
<b>Total Assets</b>	<b>\$ 33,609,063</b>

**Liabilities**

Accounts payable and other current liabilities	\$ 237,839
Accrued interest payable	12,327
Long-term liabilities	
Due within one year	120,096
Due in more than one year	1,818,018
	<hr/>
<b>Total Liabilities</b>	<b>\$ 2,188,280</b>

**Net Position**

Net investment in capital assets	\$ 23,352,785
Restricted for	
Public safety	47,062
Highways and streets	1,566,687
Conservation of natural resources	155,438
Other purposes	152,525
Unrestricted	6,146,286
	<hr/>
<b>Total Net Position</b>	<b>\$ 31,420,783</b>

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

**EXHIBIT 2**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Fees, Charges, Fines, and Other</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b><u>Functions/Programs</u></b>					
<b>Governmental activities</b>					
General government	\$ 1,857,090	\$ 196,527	\$ 109,330	\$ 14,664	\$ (1,536,569)
Public safety	1,076,274	87,116	164,256	3,307	(821,595)
Highways and streets	3,782,048	197,093	2,814,214	240,817	(529,924)
Sanitation	197,571	123,286	58,350	-	(15,935)
Human services	2,490,439	423,468	1,231,685	-	(835,286)
Health	87,418	1,125	-	-	(86,293)
Culture and recreation	172,749	9,162	44,154	-	(119,433)
Conservation of natural resources	292,362	88,064	30,572	-	(173,726)
Economic development	33,344	-	-	-	(33,344)
Interest	32,660	-	-	-	(32,660)
<b>Total Governmental Activities</b>	<b>\$ 10,021,955</b>	<b>\$ 1,125,841</b>	<b>\$ 4,452,561</b>	<b>\$ 258,788</b>	<b>\$ (4,184,765)</b>
<b>General Revenues</b>					
Property taxes					\$ 4,203,287
Gravel taxes					70,233
Mortgage registry and deed tax					4,380
Payments in lieu of tax					113,575
Grants and contributions not restricted to specific programs					444,274
Unrestricted investment income					47,575
Miscellaneous					232,369
<b>Total general revenues</b>					<b>\$ 5,115,693</b>
<b>Change in net position</b>					<b>\$ 930,928</b>
<b>Net Position - Beginning</b>					<b>30,489,855</b>
<b>Net Position - Ending</b>					<b>\$ 31,420,783</b>

**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012**

	<b>General</b>	<b>Highway</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 2,212,366	\$ 922,943
Undistributed cash in agency funds	41,364	80,222
Petty cash and change funds	1,820	75
Investments	-	1,222,700
Taxes receivable		
Prior	63,724	21,845
Special assessments receivable		
Prior	14,480	-
Noncurrent	-	-
Accounts receivable	4,374	-
Accrued interest receivable	15,505	2,145
Loans receivable	100,000	-
Due from other governments	38,876	1,476,155
Advance to other funds	90,173	-
Inventories	-	221,707
Prepaid items	1,419	-
	<b>\$ 2,584,101</b>	<b>\$ 3,947,792</b>
<b><u>Liabilities and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 17,710	\$ 7,687
Salaries payable	31,742	24,077
Due to other governments	35,988	1,742
Advance from other funds	-	-
Deferred revenue - unavailable	84,635	1,391,080
	<b>\$ 170,075</b>	<b>\$ 1,424,586</b>
<b>Fund Balances</b>		
Nonspendable	\$ 124,925	\$ 221,707
Restricted	217,936	366,907
Committed	676,745	146,979
Assigned	23,980	1,787,613
Unassigned	1,370,440	-
	<b>\$ 2,414,026</b>	<b>\$ 2,523,206</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,584,101</b>	<b>\$ 3,947,792</b>

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

**EXHIBIT 3**

<u>Family Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ 2,393,052	\$ 189,639	\$ 88,162	\$ 5,806,162
10,066	536	1,045	133,233
2,300	-	-	4,195
-	-	-	1,222,700
21,635	-	1,781	108,985
-	441	-	14,921
-	88,838	-	88,838
4,177	-	-	8,551
-	-	-	17,650
-	-	-	100,000
205,707	1,972	-	1,722,710
-	-	-	90,173
-	-	-	221,707
-	-	-	1,419
<b><u>\$ 2,636,937</u></b>	<b><u>\$ 281,426</u></b>	<b><u>\$ 90,988</u></b>	<b><u>\$ 9,541,244</u></b>
\$ 88,412	\$ -	\$ -	\$ 113,809
25,066	-	-	80,885
5,415	-	-	43,145
-	88,200	-	88,200
21,635	91,251	1,781	1,590,382
<b><u>\$ 140,528</u></b>	<b><u>\$ 179,451</u></b>	<b><u>\$ 1,781</u></b>	<b><u>\$ 1,916,421</u></b>
\$ -	\$ -	\$ -	\$ 346,632
-	101,975	89,207	776,025
150,000	-	-	973,724
2,346,409	-	-	4,158,002
-	-	-	1,370,440
<b><u>\$ 2,496,409</u></b>	<b><u>\$ 101,975</u></b>	<b><u>\$ 89,207</u></b>	<b><u>\$ 7,624,823</u></b>
<b><u>\$ 2,636,937</u></b>	<b><u>\$ 281,426</u></b>	<b><u>\$ 90,988</u></b>	<b><u>\$ 9,541,244</u></b>

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**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2012**

<b>Fund balance - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>7,624,823</b>
Amounts reported for governmental activities in the statement of net position 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.		24,137,831
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,590,382
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (905,000)	
Unamortized discount on general obligation bonds	9,168	
Unamortized bond issuance costs	18,188	
Compensated absences	(520,803)	
Net OPEB obligation	(521,479)	
Accrued interest payable	(12,327)	
	(1,932,253)	(1,932,253)
<b>Net Position of Governmental Activities (Exhibit 1)</b>		<b>\$ 31,420,783</b>

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>General</b>	<b>Highway</b>
<b>Revenues</b>		
Taxes	\$ 2,468,334	\$ 880,669
Special assessments	117,610	-
Licenses and permits	16,231	-
Intergovernmental	803,047	3,781,778
Charges for services	200,200	154,735
Gifts and contributions	500	-
Investment earnings	46,105	7,495
Miscellaneous	314,708	42,358
	<b>\$ 3,966,735</b>	<b>\$ 4,867,035</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 1,748,080	\$ -
Public safety	1,095,767	-
Highways and streets	-	4,175,783
Sanitation	193,188	-
Human services	-	-
Health	36,957	-
Culture and recreation	158,541	-
Conservation of natural resources	227,694	-
Economic development	33,344	-
<b>Intergovernmental</b>	50,461	170,012
<b>Debt service</b>		
Principal	-	-
Interest	-	-
Administrative (fiscal) fees	-	-
	<b>\$ 3,544,032</b>	<b>\$ 4,345,795</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 422,703</b>	<b>\$ 521,240</b>
<b>Other Financing Sources (Uses)</b>		
Proceeds from the sale of assets	1,500	-
	<b>\$ 424,203</b>	<b>\$ 521,240</b>
<b>Fund Balance - January 1</b>	<b>1,989,823</b>	<b>1,964,683</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>37,283</b>
	<b>\$ 2,414,026</b>	<b>\$ 2,523,206</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,414,026</b>	<b>\$ 2,523,206</b>

**EXHIBIT 5**

<u>Family Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ 816,123	\$ -	\$ 85,035	\$ 4,250,161
-	103,549	-	221,159
-	-	-	16,231
1,320,775	-	3,255	5,908,855
371,440	-	-	726,375
-	-	-	500
-	95	-	53,695
52,028	-	-	409,094
<b><u>\$ 2,560,366</u></b>	<b><u>\$ 103,644</u></b>	<b><u>\$ 88,290</u></b>	<b><u>\$ 11,586,070</u></b>
\$ -	\$ -	\$ -	\$ 1,748,080
-	-	-	1,095,767
-	-	-	4,175,783
-	-	-	193,188
2,433,030	-	-	2,433,030
-	-	-	36,957
-	-	-	158,541
-	64,491	-	292,185
-	-	-	33,344
-	-	-	220,473
-	15,000	55,000	70,000
-	420	29,998	30,418
-	-	450	450
<b><u>\$ 2,433,030</u></b>	<b><u>\$ 79,911</u></b>	<b><u>\$ 85,448</u></b>	<b><u>\$ 10,488,216</u></b>
\$ 127,336	\$ 23,733	\$ 2,842	\$ 1,097,854
-	-	-	1,500
<b><u>\$ 127,336</u></b>	<b><u>\$ 23,733</u></b>	<b><u>\$ 2,842</u></b>	<b><u>\$ 1,099,354</u></b>
2,369,073	78,242	86,365	6,488,186
-	-	-	37,283
<b><u>\$ 2,496,409</u></b>	<b><u>\$ 101,975</u></b>	<b><u>\$ 89,207</u></b>	<b><u>\$ 7,624,823</u></b>

**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, 2012**

**Net change in fund balance - total governmental funds (Exhibit 5) \$ 1,099,354**

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	\$ 1,590,382	
Deferred revenue - January 1	<u>(2,225,069)</u>	(634,687)

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	\$ 2,359,427	
Net book value of assets disposed of	(80,263)	
Current year depreciation and depletion	<u>(1,758,548)</u>	520,616

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

Principal repayments		
General obligation bonds		70,000
Amortization of discount on bonds and issuance costs		<u>(2,486)</u>

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	\$ 694	
Change in compensated absences	6,544	
Change in net OPEB liability	(166,390)	
Change in inventories	<u>37,283</u>	<u>(121,869)</u>

**Change in Net Position of Governmental Activities (Exhibit 2) \$ 930,928**

**FIDUCIARY FUNDS**

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**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

***EXHIBIT 7***

**STATEMENT OF FIDUCIARY NET POSITION  
AGENCY FUNDS  
DECEMBER 31, 2012**

<u>Assets</u>	
Cash and pooled investments	<u>\$ 243,987</u>
<u>Liabilities</u>	
Accounts payable	\$ 5,835
Due to other governments	236,179
Advance from other funds	<u>1,973</u>
<b>Total Liabilities</b>	<b><u>\$ 243,987</u></b>

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**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

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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, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). 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 position and the statement of activities) display information about Big Stone County. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately.

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

In the government-wide statement of net position, 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 position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position.

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 accounted for in another fund.
- The Highway Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as committed property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

- The Family Services Special Revenue Fund accounts for restricted revenue resources from the federal, state, and other oversight agencies, as well as committed property tax revenues used for economic assistance and community social services programs.
- The Ditch Special Revenue Fund accounts for special assessment levies against benefitted property restricted for construction and maintenance of an agricultural drainage ditch system.
- The Debt Service Fund is used to account for the accumulation of restricted resources used for, and the payment of, principal, interest, and related costs.

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.

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

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is 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 Position or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2012, 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 2012 were \$38,636.

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

3. 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 nonspendable fund balance account in applicable governmental funds to indicate that they are not in spendable form.

All receivables are shown net of an allowance for uncollectibles.

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

4. 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.

5. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net position 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.

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

6. 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 value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

7. 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

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

7. Compensated Absences (Continued)

incurred in the government-wide financial statements. The government-wide statement of net position 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.

8. 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.

9. 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 position. 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.

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

10. Classification of Net Position

Net position in the government-wide financial statements is classified in the following categories:

Net investment in capital assets - the amount of net position representing capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

11. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - amounts in which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or by law through constitutional provisions or enabling legislation.

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

11. Classification of Fund Balances (Continued)

Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned - amounts the County intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Auditor who has been delegated that authority by Board resolution.

Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

12. Minimum Fund Balance

Big Stone County has adopted a minimum fund balance policy for the General Fund, the Highway Special Revenue Fund, and the Family Services Special Revenue Fund. All three funds are heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined it needs to maintain a minimum unrestricted fund balance (committed, assigned, and unassigned) of no less than five months of operating expenditures. The Fund Balance Policy was adopted by the County Board on December 1, 2011. At December 31, 2012, unrestricted fund balances for all three funds were at or above the minimum fund balance levels.

13. 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	\$ 5,943,590
Investments	1,222,700
Statement of fiduciary net assets	
Cash and pooled investments	<u>243,987</u>
Total Cash and Investments	<u>\$ 7,410,277</u>

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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.

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, 2012, the County's deposits in banks were entirely covered by federal depository insurance or by collateral in accordance with Minnesota statutes.

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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;
- (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.

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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.

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, 2012, the County's investments were not exposed to custodial credit risk.

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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, 2012. The County has no investments subject to investment risks.

Checking	\$	753,667
Savings		4,462,415
Certificates of deposit		2,190,000
Petty cash		4,195
		4,195
Total Cash and Investments	\$	7,410,277

2. Receivables

Receivables as of December 31, 2012, 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	\$ 108,985	\$ -
Special assessments	103,759	88,838
Accounts receivable	8,551	-
Loan receivable	100,000	33,333
Interest	17,650	-
Advances to other governments	1,973	-
Due from other governments	1,722,710	-
	1,722,710	-
Total Governmental Activities	\$ 2,063,628	\$ 122,171

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 297,590	\$ -	\$ -	\$ 297,590
Gravel pits	354,163	-	3,421	350,742
Right-of-way	47,695	-	-	47,695
Intangible assets	16,983	-	-	16,983
<b>Total capital assets not depreciated</b>	<b>\$ 716,431</b>	<b>\$ -</b>	<b>\$ 3,421</b>	<b>\$ 713,010</b>
Capital assets depreciated				
Buildings	\$ 3,610,308	\$ 57,337	\$ -	\$ 3,667,645
Land improvements	245,352	-	-	245,352
Machinery and equipment	4,547,137	207,059	217,337	4,536,859
Infrastructure	39,583,393	2,095,031	-	41,678,424
<b>Total capital assets depreciated</b>	<b>\$ 47,986,190</b>	<b>\$ 2,359,427</b>	<b>\$ 217,337</b>	<b>\$ 50,128,280</b>
Less: accumulated depreciation for				
Buildings	\$ 1,979,113	\$ 69,245	\$ -	\$ 2,048,358
Land improvements	87,240	11,289	-	98,529
Machinery and equipment	3,117,677	221,521	137,074	3,202,124
Infrastructure	19,901,376	1,453,072	-	21,354,448
<b>Total accumulated depreciation</b>	<b>\$ 25,085,406</b>	<b>\$ 1,755,127</b>	<b>\$ 137,074</b>	<b>\$ 26,703,459</b>
<b>Total capital assets depreciated, net</b>	<b>\$ 22,900,784</b>	<b>\$ 604,300</b>	<b>\$ 80,263</b>	<b>\$ 23,424,821</b>
Governmental Activities Capital Assets, Net	<b>\$ 23,617,215</b>	<b>\$ 604,300</b>	<b>\$ 83,684</b>	<b>\$ 24,137,831</b>

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

Governmental Activities	
General government	\$ 108,187
Public safety	38,052
Highways and streets, including depreciation of infrastructure assets	1,590,713
Sanitation	428
Human services	3,539
Culture and recreation	14,208
<b>Total Depreciation Expense - Governmental Activities</b>	<b>\$ 1,755,127</b>

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities	
Highways and streets	\$ 3,421

B. Interfund Receivables, Payables, and Transfers

1. The composition of interfund balances as of December 31, 2012, is as follows:

Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Special Revenue Taxes and Penalties Agency Fund	\$ 88,200  1,973
Total Advances To/From Other Funds		\$ 90,173

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. Taxes and Penalties Agency Fund advance is for a forfeited land advance to provide working capital to cover costs in excess of revenues.

2. Transfers

There were no interfund transfers for the year ended December 31, 2012.

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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2. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2012, were as follows:

Accounts payable	\$	113,809
Salaries payable		80,885
Due to other governments		43,145
Total Payables	\$	237,839

2. Long-Term Debt

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.

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
General obligation bonds 2009 G.O. Capital Improvement Bonds	2025	\$40,000 - \$85,000	1.5 - 4.0	\$ 1,000,000	\$ 905,000
Less: unamortized discount					(9,168)
General Obligation Bonds, Net					\$ 895,832

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Debt Service Requirements

Debt payments on the capital improvement bonds are made from the Debt Service Fund. Debt service requirements at December 31, 2012, were as follows:

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2013	\$ 55,000	\$ 29,035
2014	60,000	27,885
2015	60,000	26,535
2016	60,000	25,035
2017	65,000	23,310
2018 - 2022	355,000	82,995
2023 - 2025	250,000	15,200
Total	<u>\$ 905,000</u>	<u>\$ 229,995</u>

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds					
Drainage	\$ 15,000	\$ -	\$ 15,000	\$ -	\$ -
Capital improvement	960,000	-	55,000	905,000	55,000
Less: unamortized discount	(10,001)	-	(833)	(9,168)	-
Total bonds payable	\$ 964,999	\$ -	\$ 69,167	\$ 895,832	\$ 55,000
Compensated absences	527,348	14,299	20,844	520,803	65,096
Other postemployment benefits	355,089	166,390	-	521,479	-
Governmental Activities Long-Term Liabilities	<u>\$ 1,847,436</u>	<u>\$ 180,689</u>	<u>\$ 90,011</u>	<u>\$ 1,938,114</u>	<u>\$ 120,096</u>

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

D. Fund Balance

Fund Balances	General	Highway	Family Services	Ditch	Debt Service	Total
Nonspendable						
Advances	\$ 90,173	\$ -	\$ -	\$ -	\$ -	\$ 90,173
Loan receivable	33,333	-	-	-	-	33,333
Inventory	-	221,707	-	-	-	221,707
Prepays	1,419	-	-	-	-	1,419
Restricted for						
Law library	2,564	-	-	-	-	2,564
Recorder's Technology Fund	60,842	-	-	-	-	60,842
Recorder's Compliance Fund	87,587	-	-	-	-	87,587
Enhanced 911	32,629	-	-	-	-	32,629
Sheriff's contingency	5,200	-	-	-	-	5,200
Gravel pit restoration	-	137,089	-	-	-	137,089
Gun permit fees	9,233	-	-	-	-	9,233
Highway allotments	-	229,818	-	-	-	229,818
Solid waste	1,532	-	-	-	-	1,532
Unspent grant monies	18,349	-	-	-	-	18,349
Ditch	-	-	-	101,975	-	101,975
Debt service	-	-	-	-	89,207	89,207
Committed to						
Capital projects	143,665	-	-	-	-	143,665
Building maintenance	478,156	-	-	-	-	478,156
MSI equipment and building repair	54,924	-	-	-	-	54,924
County road projects	-	146,979	-	-	-	146,979
Out-of-home placements	-	-	150,000	-	-	150,000
Assigned to						
Library capital	6,000	-	-	-	-	6,000
Enhanced 911	17,980	-	-	-	-	17,980
Highway	-	1,784,843	-	-	-	1,784,843
Family Services	-	-	2,346,409	-	-	2,346,409
Subsequent year expenditures	-	2,770	-	-	-	2,770
Unassigned	1,370,440	-	-	-	-	1,370,440
Total Fund Balances	<u>\$ 2,414,026</u>	<u>\$ 2,523,206</u>	<u>\$ 2,496,409</u>	<u>\$ 101,975</u>	<u>\$ 89,207</u>	<u>\$ 7,624,823</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 General 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.

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description (Continued)

General 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, and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

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. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for the General Employees Retirement Fund 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 the Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service.

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description (Continued)

For General 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 General 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 General Employees Retirement Fund and the Public Employees Police and Fire Fund. That report may be obtained on the internet at [www.mnpera.org](http://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.

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. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent.

The County is required to contribute the following percentages of annual covered payroll in 2012:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2012, 2011, and 2010, for the General Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
General Employees Retirement Fund	\$ 178,209	\$ 173,687	\$ 176,040
Public Employees Police and Fire Fund	44,422	40,970	37,548

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

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. 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 5.00 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.

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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3. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by Big Stone County during the year ended December 31, 2012, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 3,404	\$ 3,404
Percentage of covered payroll	5.0%	5.0%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

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 between January 1, 1991, and December 31, 2011, 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.

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

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 24 employees eligible for this benefit in 2012. The cost from this program totaled \$162,389 (\$33,525 for elected officials and \$128,864 for employees) in 2012.

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 accrued 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	\$ 335,096
Interest on net OPEB obligation	14,204
Adjustment to ARC	<u>(20,521)</u>
Annual OPEB cost (expense)	\$ 328,779
Contributions made during the year	<u>(162,389)</u>
Increase in net OPEB obligation	\$ 166,390
Net OPEB Obligation - Beginning of Year	<u>355,089</u>
Net OPEB Obligation - End of Year	<u><u>\$ 521,479</u></u>

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2010, 2011, and 2012, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2010	\$ 295,137	\$ 176,548	59.8%	\$ 245,816
December 31, 2011	293,285	184,012	62.7	355,089
December 31, 2012	328,779	162,389	49.4	521,479

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial accrued liability for benefits was \$3,991,730, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,991,730. The covered payroll (annual payroll of active employees covered by the plan) was \$2,695,105, and the ratio of the UAAL to the covered payroll was 148.1 percent.

Actuarial Methods and Assumptions

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 - Other Postemployment Benefits, 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.

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

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, 2012, 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 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 6 years. Both rates included a 2.5 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2012, was 26 years.

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). 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.

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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4. Summary of Significant Contingency and Other Items

A. Risk Management (Continued)

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 \$460,000 per claim in 2012 and \$470,000 in 2013. 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**

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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, 2 from each county, except the county with the largest population, which has 3 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 2012 was \$50,461.

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 Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Pipestone, Redwood, Renville, Swift, and Yellow Medicine Counties; and Lincoln, Lyon, Murray, and Rock Counties represented by the Southwest Health and Human Services, 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**

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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, 2011 (the most recent information available):

Total assets	\$	2,127,562
Total liabilities		564,148
Total net assets		1,563,414
Total revenues		3,744,479
Total expenses		4,103,387
Net decrease in net assets		358,908

The Board reported no long-term obligations at December 31, 2011.

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.

PrimeWest Health

PrimeWest Health is a county-based purchasing health plan which 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.

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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4. Summary of Significant Contingency and Other Items

C. Joint Ventures

PrimeWest Health (Continued)

Control of PrimeWest Health is vested in a Joint Powers Board, composed of two Commissioners from each member county (one active and one alternate). Each member of the Joint Powers Board is appointed by the County Commissioners of the county he or she represents.

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 PrimeWest 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.

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**

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4. Summary of Significant Contingency and Other Items

C. Joint Ventures (Continued)

Central Minnesota Emergency Services Board

The Central Minnesota Regional Radio Board was established in 2007, under the authority conferred upon the member parties by Minn. Stat. §§ 471.59 and 403.39. As of June 1, 2011, the Central Minnesota Regional Radio Board changed its name to the Central Minnesota Emergency Services Board. Members include the City of St. Cloud and the Counties of Benton, Big Stone, Douglas, Grant, Kandiyohi, Meeker, Mille Lacs, Morrison, Otter Tail, Pope, Sherburne, Stearns, Stevens, Swift, Todd, Traverse, Wadena, Wilkin, and Wright.

The purpose of the Central Minnesota Emergency Services Board is to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) owned and operated by the State of Minnesota. 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.

In the event of dissolution of the Central Minnesota Emergency Services Board, all property, assets, and funds of the Board shall be distributed to the parties of the agreement upon termination in direct proportion to their participation and contribution. Any city or county that has withdrawn from the agreement prior to termination of the Board shall share in the distribution of property, assets, and funds of the Board only to the extent they shared in the original expense.

During 2012, Big Stone County contributed \$1,841 to the Joint Powers Board. Complete financial information for the Central Minnesota Emergency Services Joint Powers Board can be obtained from the City of St. Cloud at 400 - 2nd Street South, St. Cloud, Minnesota 56301.

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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4. Summary of Significant Contingency and Other Items

C. Joint Ventures (Continued)

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 11 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. A new agreement was signed in December 2010 to include an additional three counties.

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 2012, Big Stone County did not make a contribution to the Partnership, as a contribution was made by the Countryside Public Health Service.

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.

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.

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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

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. According to the latest information available, 37 counties are members under this agreement. 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 2012, 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.

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.

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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

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.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

**EXHIBIT A-1**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,461,736	\$ 2,461,736	\$ 2,468,334	\$ 6,598
Special assessments	133,800	133,800	117,610	(16,190)
Licenses and permits	16,700	16,700	16,231	(469)
Intergovernmental	620,730	620,730	803,047	182,317
Charges for services	170,800	170,800	200,200	29,400
Gifts and contributions	-	-	500	500
Investment earnings	60,700	60,700	46,105	(14,595)
Miscellaneous	110,302	110,302	314,708	204,406
<b>Total Revenues</b>	<b>\$ 3,574,768</b>	<b>\$ 3,574,768</b>	<b>\$ 3,966,735</b>	<b>\$ 391,967</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 149,149	\$ 149,149	\$ 145,460	\$ 3,689
Law library	7,000	7,000	5,354	1,646
Auditor	201,993	201,993	204,742	(2,749)
Treasurer	91,426	91,426	89,806	1,620
Accounting and auditing	39,360	39,360	36,280	3,080
Information technology	154,061	154,061	179,590	(25,529)
Human resources	52,924	52,924	78,821	(25,897)
Safety	2,463	2,463	-	2,463
General administration	169,523	169,523	140,571	28,952
Elections	37,843	37,843	45,460	(7,617)
Attorney	78,394	78,394	83,950	(5,556)
Recorder	158,573	158,573	144,512	14,061
Assessor	235,840	235,840	231,288	4,552
Planning and zoning	55,060	55,060	109,628	(54,568)
Buildings and plant	139,215	139,215	184,264	(45,049)
Veterans service officer	63,074	63,074	68,354	(5,280)
<b>Total general government</b>	<b>\$ 1,635,898</b>	<b>\$ 1,635,898</b>	<b>\$ 1,748,080</b>	<b>\$ (112,182)</b>
<b>Public safety</b>				
Sheriff	\$ 818,706	\$ 818,706	\$ 884,464	\$ (65,758)
Boat and water safety	2,467	2,467	5,091	(2,624)
Coroner	4,200	4,200	4,855	(655)
Probation	51,000	51,000	48,601	2,399
Emergency management	35,426	35,426	59,447	(24,021)
E-911 system	113,000	113,000	93,309	19,691
<b>Total public safety</b>	<b>\$ 1,024,799</b>	<b>\$ 1,024,799</b>	<b>\$ 1,095,767</b>	<b>\$ (70,968)</b>

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

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**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Sanitation</b>				
Solid waste	\$ 195,121	\$ 195,121	\$ 193,188	\$ 1,933
<b>Health</b>				
Public health	\$ 52,500	\$ 52,500	\$ 36,957	\$ 15,543
<b>Culture and recreation</b>				
Culture and recreation	\$ 101,572	\$ 101,572	\$ 111,625	\$ (10,053)
Historical society	21,000	21,000	24,531	(3,531)
Toqua Park	21,651	21,651	22,385	(734)
<b>Total culture and recreation</b>	<u>\$ 144,223</u>	<u>\$ 144,223</u>	<u>\$ 158,541</u>	<u>\$ (14,318)</u>
<b>Conservation of natural resources</b>				
Extension	\$ 109,235	\$ 109,235	\$ 97,681	\$ 11,554
Conservation	76,508	76,508	76,075	433
Feedlot management	17,507	17,507	15,708	1,799
Water planning	38,085	38,085	38,230	(145)
<b>Total conservation of natural resources</b>	<u>\$ 241,335</u>	<u>\$ 241,335</u>	<u>\$ 227,694</u>	<u>\$ 13,641</u>
<b>Economic development</b>				
Other	\$ 32,344	\$ 32,344	\$ 33,344	\$ (1,000)
<b>Intergovernmental</b>				
Health	\$ 50,461	\$ 50,461	\$ 50,461	\$ -
<b>Total Expenditures</b>	<u>\$ 3,376,681</u>	<u>\$ 3,376,681</u>	<u>\$ 3,544,032</u>	<u>\$ (167,351)</u>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	\$ 198,087	\$ 198,087	\$ 422,703	\$ 224,616
<b>Other Financing Sources (Uses)</b>				
Proceeds from the sale of assets	-	-	1,500	1,500
<b>Net Change in Fund Balance</b>	\$ 198,087	\$ 198,087	\$ 424,203	\$ 226,116
<b>Fund Balance - January 1</b>	<u>1,989,823</u>	<u>1,989,823</u>	<u>1,989,823</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u>\$ 2,187,910</u>	<u>\$ 2,187,910</u>	<u>\$ 2,414,026</u>	<u>\$ 226,116</u>

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

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

*EXHIBIT A-2*

**BUDGETARY COMPARISON SCHEDULE  
HIGHWAY SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 849,624	\$ 849,624	\$ 880,669	\$ 31,045
Intergovernmental	3,477,226	3,477,226	3,781,778	304,552
Charges for services	162,000	162,000	154,735	(7,265)
Investment earnings	15,000	15,000	7,495	(7,505)
Miscellaneous	29,000	29,000	42,358	13,358
<b>Total Revenues</b>	<b>\$ 4,532,850</b>	<b>\$ 4,532,850</b>	<b>\$ 4,867,035</b>	<b>\$ 334,185</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 346,040	\$ 346,040	\$ 364,815	\$ (18,775)
Other - highways and streets	17,250	17,250	9,679	7,571
Construction	2,659,490	2,659,490	2,571,262	88,228
Maintenance	661,000	661,000	677,616	(16,616)
Equipment and maintenance shops	779,350	779,350	529,897	249,453
Material and services for resale	14,450	14,450	22,514	(8,064)
<b>Total highways and streets</b>	<b>\$ 4,477,580</b>	<b>\$ 4,477,580</b>	<b>\$ 4,175,783</b>	<b>\$ 301,797</b>
<b>Intergovernmental</b>				
Highways and streets	160,000	160,000	170,012	(10,012)
<b>Total Expenditures</b>	<b>\$ 4,637,580</b>	<b>\$ 4,637,580</b>	<b>\$ 4,345,795</b>	<b>\$ 291,785</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (104,730)</b>	<b>\$ (104,730)</b>	<b>\$ 521,240</b>	<b>\$ 625,970</b>
<b>Fund Balance - January 1</b>	<b>1,964,683</b>	<b>1,964,683</b>	<b>1,964,683</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>37,283</b>	<b>37,283</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,859,953</b>	<b>\$ 1,859,953</b>	<b>\$ 2,523,206</b>	<b>\$ 663,253</b>

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

*EXHIBIT A-3*

**BUDGETARY COMPARISON SCHEDULE  
FAMILY SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 820,707	\$ 820,707	\$ 816,123	\$ (4,584)
Intergovernmental	1,328,060	1,328,060	1,320,775	(7,285)
Charges for services	210,715	210,715	371,440	160,725
Miscellaneous	31,144	31,144	52,028	20,884
<b>Total Revenues</b>	<b>\$ 2,390,626</b>	<b>\$ 2,390,626</b>	<b>\$ 2,560,366</b>	<b>\$ 169,740</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 611,080	\$ 611,080	\$ 647,756	\$ (36,676)
Social services	1,779,546	1,779,546	1,785,274	(5,728)
<b>Total Expenditures</b>	<b>\$ 2,390,626</b>	<b>\$ 2,390,626</b>	<b>\$ 2,433,030</b>	<b>\$ (42,404)</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 127,336</b>	<b>\$ 127,336</b>
<b>Fund Balance - January 1</b>	<b>2,369,073</b>	<b>2,369,073</b>	<b>2,369,073</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,369,073</b>	<b>\$ 2,369,073</b>	<b>\$ 2,496,409</b>	<b>\$ 127,336</b>

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

*EXHIBIT A-4*

**BUDGETARY COMPARISON SCHEDULE  
DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Special assessments	\$ 88,500	\$ 88,500	\$ 103,549	\$ 15,049
Investment earnings	-	-	95	95
<b>Total Revenues</b>	<b>\$ 88,500</b>	<b>\$ 88,500</b>	<b>\$ 103,644</b>	<b>\$ 15,144</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Other	\$ 91,660	\$ 91,660	\$ 64,491	\$ 27,169
<b>Debt service</b>				
Principal	15,000	15,000	15,000	-
Interest	420	420	420	-
Administrative (fiscal) fees	450	450	-	450
<b>Total Expenditures</b>	<b>\$ 107,530</b>	<b>\$ 107,530</b>	<b>\$ 79,911</b>	<b>\$ 27,619</b>
<b>Net Change in Fund Balance</b>	<b>\$ (19,030)</b>	<b>\$ (19,030)</b>	<b>\$ 23,733</b>	<b>\$ 42,763</b>
<b>Fund Balance - January 1</b>	<b>78,242</b>	<b>78,242</b>	<b>78,242</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 59,212</b>	<b>\$ 59,212</b>	<b>\$ 101,975</b>	<b>\$ 42,763</b>

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

**EXHIBIT A-5**

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2012**

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%
January 1, 2012	-	3,991,730	3,991,730	0.0	2,695,105	148.1

Significant Plan Provision and Actuarial Methods and Assumption Changes

2012

Since the last actuarial valuation as of January 1, 2009, the following plan provisions and actuarial assumptions have changed:

Plan Provisions

- Employees hired after January 1, 2012, are not eligible for the postemployment medical subsidy.
- Reimbursement for the Medicare Part D premium is limited to \$50 per month for eligible employees who retire on or after January 1, 2012. Current retirees are grandfathered to full Part D premium.
- Non-union retirees who retire on or after January 1, 2012, receive a reimbursement limited to the \$1,000 Minnesota Comprehensive Health Association (MCHA) premium amount, and they do not receive the \$50 per month subsidy before reaching Medicare eligibility. Their reimbursement had been limited to the \$500 MCHA premium amount, and employees hired before January 1, 1991, were eligible for the \$50 per month subsidy before reaching Medicare eligibility.

Actuarial Assumptions

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2012

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 budget amendments in 2012.

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

Fund	Expenditures	Budget	Excess
General	\$ 3,544,032	\$ 3,376,681	\$ 167,351
Family Services Special Revenue	2,433,030	2,390,626	42,404

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 to pay the accrual liability for postemployment benefits is zero. Currently, two actuarial valuations are available. As the information becomes available, future reports will provide additional trend analysis to meet the three valuation funding status requirement.

See Note 3.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

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**SUPPLEMENTARY INFORMATION**

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**GOVERNMENTAL FUNDS**

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**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

*EXHIBIT B-1*

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 89,000	\$ 89,000	\$ 85,035	\$ (3,965)
Intergovernmental	-	-	3,255	3,255
<b>Total Revenues</b>	<b>\$ 89,000</b>	<b>\$ 89,000</b>	<b>\$ 88,290</b>	<b>\$ (710)</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 55,000	\$ 55,000	\$ 55,000	\$ -
Interest	29,998	29,998	29,998	-
Administrative (fiscal) fees	550	550	450	100
<b>Total Expenditures</b>	<b>\$ 85,548</b>	<b>\$ 85,548</b>	<b>\$ 85,448</b>	<b>\$ 100</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 3,452</b>	<b>\$ 3,452</b>	<b>\$ 2,842</b>	<b>\$ (610)</b>
<b>Fund Balance - January 1</b>	<b>86,365</b>	<b>86,365</b>	<b>86,365</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 89,817</b>	<b>\$ 89,817</b>	<b>\$ 89,207</b>	<b>\$ (610)</b>

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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.

Social Welfare - to account for the collection and disbursement of funds held on behalf of individuals in the Social Welfare program.

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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## **OTHER SCHEDULES**

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**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

*EXHIBIT C-1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>FAMILY SERVICES COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 111,801	\$ 60,952	\$ 44,474	\$ 128,279
<b><u>Liabilities</u></b>				
Due to other governments	\$ 111,801	\$ 60,952	\$ 44,474	\$ 128,279
 <b><u>SOCIAL WELFARE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 1,230	\$ 45,857	\$ 41,252	\$ 5,835
<b><u>Liabilities</u></b>				
Accounts payable	\$ 1,230	\$ 45,857	\$ 41,252	\$ 5,835
 <b><u>STATE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 19,882	\$ 464,490	\$ 464,113	\$ 20,259
<b><u>Liabilities</u></b>				
Due to other governments	\$ 19,882	\$ 464,490	\$ 464,113	\$ 20,259

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 157,898</u>	<u>\$ 12,016,457</u>	<u>\$ 12,084,741</u>	<u>\$ 89,614</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ 157,898	\$ 12,014,484	\$ 12,084,741	\$ 87,641
Advance from other funds	<u>-</u>	<u>1,973</u>	<u>-</u>	<u>1,973</u>
<b>Total Liabilities</b>	<u><b>\$ 157,898</b></u>	<u><b>\$ 12,016,457</b></u>	<u><b>\$ 12,084,741</b></u>	<u><b>\$ 89,614</b></u>
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 290,811</u>	<u>\$ 12,587,756</u>	<u>\$ 12,634,580</u>	<u>\$ 243,987</u>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 1,230	\$ 45,857	\$ 41,252	\$ 5,835
Due to other governments	289,581	12,539,926	12,593,328	236,179
Advance from other funds	<u>-</u>	<u>1,973</u>	<u>-</u>	<u>1,973</u>
<b>Total Liabilities</b>	<u><b>\$ 290,811</b></u>	<u><b>\$ 12,587,756</b></u>	<u><b>\$ 12,634,580</b></u>	<u><b>\$ 243,987</b></u>

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

*EXHIBIT D-1*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Shared Revenue**

**State**

Highway users tax	\$	3,386,302
County program aid		264,116
PERA rate reimbursement		11,448
Disparity reduction aid		89,020
Police aid		32,363
Enhanced 911		75,107
Market value credit		79,690
		79,690
<b>Total shared revenue</b>	<b>\$</b>	<b>3,938,046</b>

**Reimbursement for Services**

Minnesota Department of Natural Resources	\$	76,146
Minnesota Department of Human Services		298,951
		298,951
<b>Total reimbursement for services</b>	<b>\$</b>	<b>375,097</b>

**Payments**

**Local**

Payments in lieu of taxes	\$	113,575
Local contributions		5,234
		5,234
<b>Total payments</b>	<b>\$</b>	<b>118,809</b>

**Grants**

**State**

Minnesota Department/Board/Office of		
Public Safety	\$	59,119
Corrections		9,028
Human Services		420,044
Natural Resources		45,615
Enterprise Technology		11,000
Water and Soil Resources		116,342
Veterans Affairs		2,298
Peace Officer Standards and Training Board		1,993
Pollution Control Agency		55,950
		55,950
<b>Total state</b>	<b>\$</b>	<b>721,389</b>

**Federal**

Department of		
Agriculture	\$	47,371
Health and Human Services		485,702
Homeland Security		222,441
		222,441

<b>Total federal</b>	<b>\$</b>	<b>755,514</b>
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<b>Total state and federal grants</b>	<b>\$</b>	<b>1,476,903</b>
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<b>Total Intergovernmental Revenue</b>	<b>\$</b>	<b>5,908,855</b>
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**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

*EXHIBIT D-2*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ <u>47,371</u>
<b>U.S. Election Assistance Commission</b>		
Passed Through Minnesota Secretary of State Help America Vote Act Requirements Payments	90.401	\$ <u>6,966</u>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Human Services Temporary Assistance for Needy Families (TANF) Cluster Temporary Assistance for Needy Families (TANF)	93.558	\$ 53,322
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	93.714	1,150
Child Support Enforcement	93.563	83,510
Refugee and Entrant Assistance - State-Administered Programs	93.566	10
Child Care and Development Block Grant	93.575	2,155
Stephanie Tubbs Jones Child Welfare Services Program	93.645	750
Foster Care - Title IV-E	93.658	76,788
Social Services Block Grant	93.667	57,010
Chafee Foster Care Independence Program	93.674	345
Children's Health Insurance Program	93.767	1
Medical Assistance Program	93.778	<u>210,661</u>
<b>Total U.S. Department of Health and Human Services</b>		\$ <u><b>485,702</b></u>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	\$ 3,307
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	13,611
Passed Through Prairie Five Community Action Council Emergency Food and Shelter National Board Program	97.024	2,851
Passed Through West Central Minnesota Emergency Medical Services Regulatory Board Homeland Security Grant Program	97.067	<u>27,918</u>
<b>Total U.S. Department of Homeland Security</b>		\$ <u><b>47,687</b></u>
<b>Total Federal Awards</b>		\$ <u><u><b>587,726</b></u></u>

**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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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, 2012. 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 or changes in net position 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. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Temporary Assistance for Needy Families (TANF) Cluster	\$ 54,472
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**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

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5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 755,514
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036) monies received in 2012 but expended in 2011	(174,754)
Help America Vote Act Requirements Payments (CFDA #90.401) grant monies unspent in previous years and expended in 2012	<u>6,966</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 587,726</u>

6. Subrecipients

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2012.

7. 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.



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**BIG STONE COUNTY  
ORTONVILLE, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major program is:

Medical Assistance Program

CFDA #93.778

The threshold for distinguishing between Types A and B programs was \$300,000.

Big Stone County qualified as low-risk auditee? **Yes**

## 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

**Criteria:** A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

**Condition:** Several of the County's departments that collect fees lack proper segregation of duties. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

**Context:** Due to the limited number of office personnel within the County, segregation of the accounting functions 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 accounting point of view.

**Effect:** Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

**Cause:** The County informed us that due to the current workload and available resources, it would not be able to hire additional qualified accounting staff to segregate duties in every department.

**Recommendation:** We recommend that the County's elected officials and management be aware of the lack of segregation of accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff to the extent possible.

#### Client's Response:

*Big Stone County's management is aware that staff size does not provide for adequate segregation of accounting duties and responsibilities. Additional procedures will be implemented where possible.*

## ITEM ARISING THIS YEAR

### 12-1 Itemized Receipts for Credit Card Purchases

**Criteria:** Sound internal controls should provide a system to ensure that all credit card purchases are supported by itemized receipts, and Big Stone County's credit card policy requires such documentation. Additionally, Minn. Stat. § 375.171 provides that a purchase by credit card must "comply with all statutes, rules, or county policy applicable to county purchases," and Minn. Stat. § 471.38, subd. 1, requires claims presented for payment must be in writing and itemized. Monthly statements received from a credit card company lack sufficient detail to comply with these requirements.

**Condition:** We reviewed two credit card claims paid by the Family Services Department that did not include all necessary itemized vendor receipts or other documentation to support all charges on the monthly billing.

**Context:** Documentation of claims paid is a fundamental requirement of a sound accounting system; it is the primary evidence used to support and explain the nature of the County's cash outlays and expenditures recorded in the general ledger.

**Effect:** Billings received from a credit card company lack sufficient detail to permit the County Board to adequately review and approve expenditures incurred by using credit cards. In order to pay these bills, the County must have itemized invoices or receipts to support items charged.

**Cause:** Internal controls are not adequate to ensure Family Services Department staff provide itemized vendor invoices or receipts for all credit card purchases. Departmental personnel reviewing and authorizing payment of the credit card claims either did not request the supporting documentation that was missing or did not follow up to ensure the necessary documentation was received and was valid before payment of the credit card billing.

**Recommendation:** We recommend the Family Services Department staff adhere to Minn. Stat. §§ 375.171 and 471.38, subd. 1, and to the County's credit card policy. Departmental personnel reviewing the claim should ensure that credit card claims are accompanied with itemized vendor invoices or receipts that support all charges.

#### Client's Response:

*Family Service staff will be retrained on the Credit Card Policy and Departmental staff will ensure that credit card claims are accompanied with itemized vendor invoices or receipts that support all charges.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Tax Levy Allocation (11-1)**

The total amount of taxes levied for Big Stone County for 2011 matched the Board-authorized total of \$4,228,000, but the allocation by fund differed for three funds.

**Resolution**

For the 2012 audit, the total amount of taxes levied matched the Board-authorized total and the allocation by fund for all County funds.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

ITEM ARISING THIS YEAR

12-2 Eligibility Testing

**Program:** U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778)

**Pass-Through Agency:** Minnesota Department of Human Services

**Criteria:** OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

**Condition:** The state maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. While periodic supervisory case reviews are performed to provide reasonable assurance of compliance with grant requirements for eligibility, not all documentation was available to support participant eligibility. In other circumstances, information was input into MAXIS incorrectly. The following instances were noted in our sample of 40 cases tested:

- Two cases did not have verification of asset requirements. For these cases, the most recent bank account balance for each case was not updated in MAXIS.
- One case did not have verification of income. The amount reported for an individual's income was not accurately updated in MAXIS to that shown on the Social Security Income (SSI) statement provided with the application.

**Questioned Costs:** Not applicable. The County administers the program, but benefits to participants in this program are paid by the State of Minnesota.

**Context:** The State of Minnesota contracts with the County to perform the “intake function” (meeting with the social services client to determine income and categorical eligibility), while the state maintains the computer systems supporting the eligibility determination process and actually pays the benefits to participants.

**Effect:** The improper input of information into MAXIS and lack of follow-up of issues increases the risk that a client will receive benefits when they are not eligible.

**Cause:** Program personnel entering case information into MAXIS did not ensure all required information was input into MAXIS correctly or that all required information was obtained and/or retained.

**Recommendation:** We recommend that the County implement review procedures to provide reasonable assurance that all necessary documentation to support an eligibility determination is obtained. In addition, consideration should be given to providing additional training to program personnel.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Family Services Director*

Corrective Action Planned:

*Big Stone County Family Services will implement review procedures to provide reasonable assurances that all necessary documentation to support eligibility determination is obtained. Big Stone County Family Service staff will be provided with additional training.*

Anticipated Completion Date:

*July 1, 2013*

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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***

### Independent Auditor's Report

Board of County Commissioners  
Big Stone County

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Big Stone County, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 7, 2013.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Big Stone County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 97-1 and 12-1, that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Big Stone County's financial statements are free from 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**

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, 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 audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Big Stone County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

## **Other Matters**

Big Stone County's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 7, 2013

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REBECCA OTTO  
STATE AUDITOR

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## REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

### Independent Auditor's Report

Board of County Commissioners  
Big Stone County

#### **Report on Compliance for Each Major Federal Program**

We have audited Big Stone County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2012. 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.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for Big Stone County's major federal program based on our audit of the types of compliance requirements referred to above. 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

### ***Opinion on Each Major Federal Program***

In our opinion, Big Stone County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 12-2. Our opinion on the major federal program is not modified with respect to this matter.

Big Stone County's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Big Stone County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of Big Stone County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 12-2, that we consider to be a significant deficiency.

Big Stone County's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Big Stone County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Purpose of This Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 7, 2013