

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

STEVENS COUNTY
MORRIS, MINNESOTA

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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**STEVENS COUNTY
MORRIS, MINNESOTA**

Year Ended December 31, 2012



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

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**STEVENS COUNTY
MORRIS, MINNESOTA**

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**STEVENS COUNTY
MORRIS, MINNESOTA**

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**STEVENS COUNTY
MORRIS, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2012

			<u>Term Expires</u>
Elected			
Commissioners			
Board Member	Paul Watzke	District 1	January 2013
Board Member	Jeanne Ennen	District 2	January 2015
Chair	Ron Staples	District 3	January 2013
Board Member	Larry Sayre	District 4	January 2013
Board Member	Phil Gausman	District 5	January 2015
Attorney	Aaron Jordan		January 2015
Auditor/Treasurer	Neil Wiese		January 2015
County Recorder	Virginia Mahoney		January 2015
Registrar of Titles	Virginia Mahoney		January 2015
County Sheriff	Randy Willis		January 2015
Appointed			
Assessor	Judy Thorstad		December 2016
County Coordinator	Brian Giese		Indefinite
Coroner	Michael Busian, M.D.		Indefinite
Highway Engineer	Brian Giese		Indefinite
Human Services Director	Joanie Murphy		Indefinite
Veterans Service Officer	Hugh Reimers		Indefinite

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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
Stevens 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 Stevens 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 Stevens 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 and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Stevens 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 September 13, 2013, on our consideration of Stevens 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 Stevens 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 whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 13, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**STEVENS COUNTY
MORRIS, 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 County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$40,532,891, of which \$31,967,879 is the net investment in capital assets, and \$1,419,933 is restricted to specific purposes. The \$7,145,079 remaining may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's net position increased by \$1,536,829 for the year ended December 31, 2012. A large part of the increase is attributable to the County's net investment in capital assets.
- The net cost of governmental activities for the current fiscal year was \$5,461,585. The net cost was funded by general revenues totaling \$6,998,414.
- Fund balances of the governmental funds increased by \$401,983. Most of the increase was due to an increase in revenues in the General Fund and the Road and Bridge Special Revenue Fund compared to the budgeted amounts.
- For the year ended December 31, 2012, the assigned and unassigned fund balance of the General Fund was \$2,834,187, or 47.9 percent, of the total General Fund expenditures for the year, an increase of 6.4 percent.

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 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, human services, 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 discretely presented component units for which the County is legally accountable.

The government-wide financial statements are Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements provide detailed information about the funds--not the County as a whole. Some funds are required to be established by state law and 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, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Solid Waste Special Revenue Fund, and Debt Service Fund. A budgetary comparison schedule has been provided as either required or other supplementary information 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 shown as 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 \$40,532,891 at the close of 2012. The largest portion of the net position (78.9 percent) reflects the net investment in capital assets (for example: land, buildings, equipment, and infrastructure such as roads and bridges). However, it should be noted that these assets are not available for future spending. Comparative data with 2011 is presented.

	Governmental Activities Net Position	
	2012	2011
Assets		
Current and other assets	\$ 9,496,764	\$ 9,203,176
Capital assets	38,673,335	37,556,197
Total Assets	\$ 48,170,099	\$ 46,759,373
Liabilities		
Long-term liabilities	\$ 6,820,379	\$ 7,332,411
Other liabilities	816,829	430,900
Total Liabilities	\$ 7,637,208	\$ 7,763,311
Net Position		
Net investment in capital assets	\$ 31,967,879	\$ 30,675,364
Restricted	1,419,933	1,322,685
Unrestricted	7,145,079	6,998,013
Total Net Position	\$ 40,532,891	\$ 38,996,062

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 17.6 percent of net position.

Governmental Activities

The County's activities increased net position by 3.9 percent (\$38,996,062 for 2011 compared to \$40,532,891 for 2012). Key elements in this increase in net position are as follows for 2012, with comparative data for 2011.

	Governmental Activities Changes in Net Position	
	<u>2012</u>	<u>2011</u>
Revenues		
Program revenues		
Charges for services	\$ 1,827,476	\$ 1,539,683
Operating grants and contributions	4,736,791	4,584,157
Capital grants and contributions	274,477	382,996
General revenues		
Property taxes	5,821,557	5,311,767
Other	1,176,857	1,486,262
Total Revenues	<u>\$ 13,837,158</u>	<u>\$ 13,304,865</u>
Expenses		
General government	\$ 2,852,824	\$ 2,653,824
Public safety	2,055,991	2,453,275
Highways and streets	3,410,282	3,528,900
Sanitation	265,937	289,792
Human services	2,584,450	2,505,619
Health	118,169	126,866
Culture and recreation	183,801	148,312
Conservation of natural resources	438,306	488,218
Economic development	64,850	242,932
Interest	325,719	323,909
Total Expenses	<u>\$ 12,300,329</u>	<u>\$ 12,761,647</u>
Change in Net Position	\$ 1,536,829	\$ 543,218
Net Position - January 1	<u>38,996,062</u>	<u>38,452,844</u>
Net Position - December 31	<u>\$ 40,532,891</u>	<u>\$ 38,996,062</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 \$8,280,290, an increase of \$401,983 in comparison with the prior year. Of the combined ending fund balances, \$7,011,342 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, or is nonspendable.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an assigned and unassigned fund balance of \$2,834,187. As a measure of the General Fund's liquidity, it may be useful to compare assigned and unassigned fund balance to total expenditures. The General Fund's assigned and unassigned fund balance represents 47.9 percent of total General Fund expenditures. During 2012, the ending fund balance increased by \$233,545, primarily due to receiving more in revenue than expected.

The Road and Bridge Special Revenue Fund had an assigned fund balance of \$1,549,294 at fiscal year-end, representing 36.5 percent of its annual expenditures. The ending fund balance increased by \$102,561 primarily due to receiving more in revenue than was budgeted for.

The Human Services Special Revenue Fund had an assigned fund balance of \$2,269,169 at fiscal year-end, representing 87.7 percent of its annual expenditures. The ending fund balance only decreased by \$31,663 during 2012, as opposed to the planned budget deficit of \$320,000. This was mainly due to an increase of actual revenue versus budgeted.

The Solid Waste Special Revenue Fund had an assigned fund balance of \$350,373 at fiscal year-end, representing 358.5 percent of its annual expenditures, and the fund also transferred \$101,355 to the SCORE Department in the General Fund for SCORE use. The ending fund balance increased by \$521 during 2012.

The Ditch Special Revenue Fund had a restricted fund balance of \$230,723 at fiscal year-end. The ending fund balance increased by \$111,139 during 2012. This was due to the Ditch Authority budgeting to raise this balance.

The Debt Service Fund had a restricted fund balance of \$144,208 at fiscal year-end. The Debt Service Fund was created in 2011 due to the issuance of bonds by the Stevens County Housing and Redevelopment Authority (HRA) for the renovation of the courthouse and the addition of a Law Enforcement Center which the County leases from the HRA. The ending fund balance decreased by \$14,120 during 2012 primarily due to receiving less in revenue than was budgeted.

Governmental Activities

The County's total revenues were \$13,837,158. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2012.

Table 1
Total County Revenues

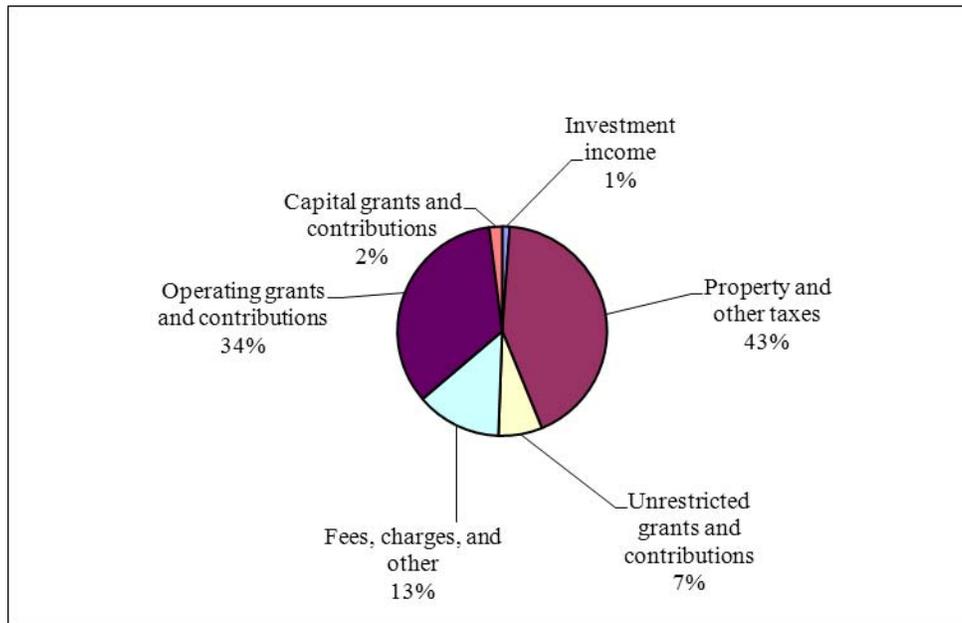
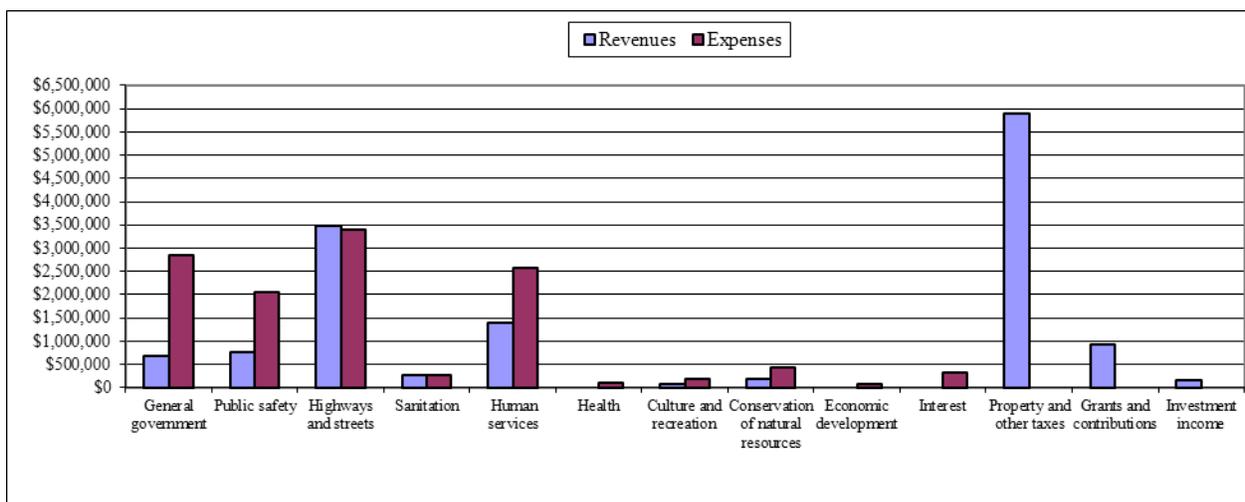


Table 2 presents the cost and revenue of each program, as well as the County's general revenues.

Total revenues for the County were \$13,837,158, while total expenses were \$12,300,329. This reflects a \$1,536,829 increase in net position for the year ended December 31, 2012.

Table 2
Total Revenues and Expenses



The cost of all governmental activities this year was \$12,300,329. However, as shown on the statement of activities (Exhibit 2), the amount that our taxpayers ultimately financed for these activities through County taxes was \$5,904,151 because some of the cost was paid by those who directly benefited from the programs (\$1,827,476) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,011,268). The County paid for the remaining “public benefit” portion of governmental activities with general revenues, primarily taxes (some of which could be used only for certain programs) and other revenues, such as grants and contributions not restricted to specific programs, and investment income.

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
Human services	\$ 2,584,450	\$ 1,191,197
Highways and streets	3,410,282	(80,908)
Public safety	2,055,991	1,294,489
General government	2,852,824	2,175,405
All others	1,396,782	881,402
Totals	\$ 12,300,329	\$ 5,461,585

General Fund Budgetary Highlights

Actual revenues were \$823,445 higher than budgeted, mostly due to intergovernmental revenue increases and actual expenditures were \$713,858 higher than budgeted. Courthouse operations exceeded budgeted totals by about \$140,000, mainly due to the generator lease, and Sheriff expenditures were about \$400,000 higher than budgeted due to purchases made with the Public Safety Answering Points Grant, and emergency management expenditures were about \$100,000 higher due to purchases made with the Patriot Project Grant.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County’s capital assets for its governmental activities at December 31, 2012, totaled \$38,673,335 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, and infrastructure. The investment in capital assets increased \$1,117,138, or 3.0 percent, from the previous year.

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

	2012	2011
Land	\$ 250,018	\$ 250,018
Right-of-way	792,161	792,161
Infrastructure	24,703,866	23,846,895
Building improvements	8,494	9,692
Buildings	10,535,423	10,807,882
Improvements other than buildings	51,271	72,761
Machinery, furniture, and equipment	2,309,602	1,743,391
Construction in progress	22,500	33,397
Totals	\$ 38,673,335	\$ 37,556,197

Additional information about the County's capital assets can be found in Note 3.A.3. to the financial statements.

Long-Term Debt

Stevens County has a lease arrangement with the Stevens County HRA resulting from the issuance of Public Project Revenue Bonds, which funds were used to renovate the courthouse and for the addition of a Law Enforcement Center, which were completed in 2010. The lease is based on the bond payments, with a balance at the end of 2012 of \$6,615,833, and maturity and lease payments will end in 2031. Payments of the principal and interest are made from the Debt Service Fund to make the bond payments.

There is a generator lease maturing in 2018, with a balance at the end of 2012 of \$89,623 and a few minor leases for copiers.

There is no long-term bonded debt as of December 31, 2012.

Additional information on the County's lease payments can be found in Note 3.C.2. to the financial statements.

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 Stevens County at the end of 2012 was 3.7 percent and shows a decrease from the County's 4.3 percent rate of one year ago. The state unemployment rate was 5.6 percent. The 2010 County population was 9,749, a decrease of 304, or 3.25 percent, from the 2000 census of 10,053.

- At the end of 2012, Stevens County set its 2013 revenue and expenditure budgets with a property tax levy increase of 7.3 percent as compared to a 7.2 percent increase in 2012.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Stevens 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's Auditor/Treasurer, Neil Wiese, Stevens County Courthouse, 400 Colorado Avenue, Suite 303, Morris, Minnesota 56267.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**STEVENS COUNTY
MORRIS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

Assets

Current assets

Cash and pooled investments	\$	7,729,137
Taxes receivable		
Prior - net		27,813
Special assessments receivable		
Current - net		202,208
Prior - net		392
Noncurrent - net		12,846
Accounts receivable - net		43,032
Accrued interest receivable		11,886
Due from other governments		1,240,949
Inventories		228,501

Capital assets

Non-depreciable		1,064,679
Depreciable - net of accumulated depreciation		37,608,656

Total Assets	\$	48,170,099
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Liabilities

Current liabilities

Accounts payable	\$	197,462
Salaries payable		125,980
Due to other governments		93,505
Customer deposits		32,481
Permit deposits		2,800
Compensated absences payable - current		77,595
Capital leases payable - current		287,006

Noncurrent liabilities

Compensated absences payable		401,929
Capital leases payable		6,418,450

Total Liabilities	\$	7,637,208
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Net Position

Net investment in capital assets	\$	31,967,879
Restricted for		
Public safety		357,312
Highways and streets		581,135
Conservation		230,723
Human services		7,692
Debt service		12,559
Held in trust for other purposes		892
Other purposes		229,620
Unrestricted		7,145,079

Total Net Position	\$	40,532,891
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**STEVENS COUNTY
MORRIS, MINNESOTA**

EXHIBIT 2

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

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>	
	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
<u>Functions/Programs</u>					
Primary government					
Governmental activities					
General government	\$ 2,852,824	\$ 582,575	\$ 94,844	\$ -	\$ (2,175,405)
Public safety	2,055,991	163,102	598,400	-	(1,294,489)
Highways and streets	3,410,282	411,111	2,805,602	274,477	80,908
Sanitation	265,937	202,893	55,950	-	(7,094)
Human services	2,584,450	282,220	1,111,033	-	(1,191,197)
Health	118,169	-	-	-	(118,169)
Culture and recreation	183,801	-	70,962	-	(112,839)
Conservation of natural resources	438,306	185,575	-	-	(252,731)
Economic development	64,850	-	-	-	(64,850)
Interest	325,719	-	-	-	(325,719)
Total Governmental Activities	<u>\$ 12,300,329</u>	<u>\$ 1,827,476</u>	<u>\$ 4,736,791</u>	<u>\$ 274,477</u>	<u>\$ (5,461,585)</u>
General Revenues					
Property taxes					\$ 5,821,557
Other taxes					11,807
Payments in lieu of tax					70,787
Grants and contributions not restricted to specific programs					935,498
Investment income					158,765
Total general revenues					<u>\$ 6,998,414</u>
Change in net position					<u>\$ 1,536,829</u>
Net Position - Beginning					<u>38,996,062</u>
Net Position - Ending					<u>\$ 40,532,891</u>

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**STEVENS COUNTY
MORRIS, MINNESOTA**

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

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 3,332,986	\$ 1,174,855
Petty cash and change funds	5,750	50
Undistributed cash in agency fund	45,765	12,776
Cash with fiscal agent	40,000	-
Taxes receivable		
Delinquent	15,599	4,880
Special assessments receivable		
Delinquent	-	-
Noncurrent	-	-
Accounts receivable	23,638	3,068
Accrued interest receivable	11,886	-
Due from other funds	1,007	2,343
Due from other governments	202,639	916,442
Advance to other funds	70,000	-
Inventories	-	228,501
	\$ 3,749,270	\$ 2,342,915
Total Assets	\$ 3,749,270	\$ 2,342,915
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 86,053	\$ 7,423
Salaries payable	75,662	22,494
Due to other funds	767	-
Due to other governments	69,414	-
Deferred revenue - unavailable	9,352	532,403
Customer deposits	-	-
Permit deposits	-	2,800
Advance from other funds	-	-
	\$ 241,248	\$ 565,120
Total Liabilities	\$ 241,248	\$ 565,120

EXHIBIT 3

<u>Human Services</u>	<u>Solid Waste</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ 2,236,091	\$ 357,721	\$ 358,052	\$ 136,119	\$ 7,595,824
-	-	-	-	5,800
11,717	1,954	8,218	7,083	87,513
-	-	-	-	40,000
4,962	-	-	2,372	27,813
-	-	392	-	392
-	-	215,054	-	215,054
12,447	3,879	-	-	43,032
-	-	-	-	11,886
-	-	-	-	3,350
121,868	-	-	-	1,240,949
-	-	-	-	70,000
-	-	-	-	228,501
<u>\$ 2,387,085</u>	<u>\$ 363,554</u>	<u>\$ 581,716</u>	<u>\$ 145,574</u>	<u>\$ 9,570,114</u>
\$ 61,607	\$ 10,326	\$ 32,053	\$ -	\$ 197,462
27,824	-	-	-	125,980
1,376	107	1,100	-	3,350
24,091	-	-	-	93,505
3,018	2,748	215,359	1,366	764,246
-	-	32,481	-	32,481
-	-	-	-	2,800
-	-	70,000	-	70,000
<u>\$ 117,916</u>	<u>\$ 13,181</u>	<u>\$ 350,993</u>	<u>\$ 1,366</u>	<u>\$ 1,289,824</u>

**STEVENS COUNTY
MORRIS, MINNESOTA**

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

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
(Continued)		
Fund Balances		
Nonspendable		
Inventories	\$ -	\$ 228,501
Advances to other funds	70,000	-
Restricted for		
Law library	2,465	-
Recorder's technology equipment	63,931	-
Real estate tax shortfall	84,496	-
E-911	250,740	-
Recorder's compliance	44,016	-
DARE	12,942	-
Gun permit fees	17,328	-
Attorney forfeitures	11,444	-
Social services youth	7,692	-
Veterans van	22,471	-
Public safety equipment purchase	57,822	-
Missing heirs	892	-
Sheriff's forfeited property	18,480	-
Extension publication	797	-
Ditch maintenance, repair, and other	-	-
Debt service	-	-
Committed for		
GIS mapping contract	8,319	-
Assigned for		
Future expenditures	1,800	-
Highways and streets	-	1,549,294
Human services	-	-
Solid waste	-	-
Unassigned	2,832,387	-
Total Fund Balances	\$ 3,508,022	\$ 1,777,795
Total Liabilities and Fund Balances	\$ 3,749,270	\$ 2,342,915

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>Solid Waste</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ 228,501
-	-	-	-	70,000
-	-	-	-	2,465
-	-	-	-	63,931
-	-	-	-	84,496
-	-	-	-	250,740
-	-	-	-	44,016
-	-	-	-	12,942
-	-	-	-	17,328
-	-	-	-	11,444
-	-	-	-	7,692
-	-	-	-	22,471
-	-	-	-	57,822
-	-	-	-	892
-	-	-	-	18,480
-	-	-	-	797
-	-	230,723	-	230,723
-	-	-	144,208	144,208
-	-	-	-	8,319
320,000	14,479	-	-	336,279
-	-	-	-	1,549,294
1,949,169	-	-	-	1,949,169
-	335,894	-	-	335,894
-	-	-	-	2,832,387
<u>\$ 2,269,169</u>	<u>\$ 350,373</u>	<u>\$ 230,723</u>	<u>\$ 144,208</u>	<u>\$ 8,280,290</u>
<u>\$ 2,387,085</u>	<u>\$ 363,554</u>	<u>\$ 581,716</u>	<u>\$ 145,574</u>	<u>\$ 9,570,114</u>

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STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT 4

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

Fund balance - total governmental funds (Exhibit 3)		\$ 8,280,290
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.		38,673,335
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		764,246
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Capital leases	\$ (6,705,456)	
Compensated absences	<u>(479,524)</u>	<u>(7,184,980)</u>
Net Position of Governmental Activities (Exhibit 1)		<u>\$ 40,532,891</u>

**STEVENS COUNTY
MORRIS, MINNESOTA**

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

	General	Road and Bridge
Revenues		
Taxes	\$ 3,294,985	\$ 1,031,401
Special assessments	-	-
Licenses and permits	19,136	-
Intergovernmental	1,717,812	3,002,617
Charges for services	419,984	254,805
Investment earnings	165,287	-
Miscellaneous	314,976	157,723
	\$ 5,932,180	\$ 4,446,546
Expenditures		
Current		
General government	\$ 2,609,990	\$ -
Public safety	2,195,382	-
Highways and streets	-	4,249,606
Sanitation	168,210	-
Human services	3,321	-
Health	118,169	-
Culture and recreation	183,801	-
Conservation of natural resources	283,218	-
Economic development	64,850	-
Intergovernmental	256,873	-
Debt service		
Principal	30,052	-
Interest	5,799	-
	\$ 5,919,665	\$ 4,249,606
Total Expenditures	\$ 5,919,665	\$ 4,249,606
Excess of Revenues Over (Under) Expenditures	\$ 12,515	\$ 196,940
Other Financing Sources (Uses)		
Transfers in	\$ 101,355	\$ -
Transfers out	-	-
Capital lease/installment purchase	119,675	-
	\$ 221,030	\$ -
Total Other Financing Sources (Uses)	\$ 221,030	\$ -
Net Change in Fund Balance	\$ 233,545	\$ 196,940
Fund Balance - January 1	3,274,477	1,675,234
Increase (decrease) in inventories	-	(94,379)
Fund Balance - December 31	\$ 3,508,022	\$ 1,777,795

EXHIBIT 5

Human Services	Solid Waste	Ditch	Debt Service	Total
\$ 946,972	\$ -	\$ -	\$ 570,800	\$ 5,844,158
-	199,603	258,367	-	457,970
-	-	-	-	19,136
1,330,213	-	-	-	6,050,642
137,816	-	-	-	812,605
-	-	1,001	-	166,288
140,123	-	3,260	-	616,082
\$ 2,555,124	\$ 199,603	\$ 262,628	\$ 570,800	\$ 13,966,881
\$ -	\$ -	\$ -	\$ -	\$ 2,609,990
-	-	-	-	2,195,382
-	-	-	-	4,249,606
-	97,727	-	-	265,937
2,586,787	-	-	-	2,590,108
-	-	-	-	118,169
-	-	-	-	183,801
-	-	151,489	-	434,707
-	-	-	-	64,850
-	-	-	-	256,873
-	-	-	265,000	295,052
-	-	-	319,920	325,719
\$ 2,586,787	\$ 97,727	\$ 151,489	\$ 584,920	\$ 13,590,194
\$ (31,663)	\$ 101,876	\$ 111,139	\$ (14,120)	\$ 376,687
\$ -	\$ -	\$ -	\$ -	\$ 101,355
-	(101,355)	-	-	(101,355)
-	-	-	-	119,675
\$ -	\$ (101,355)	\$ -	\$ -	\$ 119,675
\$ (31,663)	\$ 521	\$ 111,139	\$ (14,120)	\$ 496,362
2,300,832	349,852	119,584	158,328	7,878,307
-	-	-	-	(94,379)
\$ 2,269,169	\$ 350,373	\$ 230,723	\$ 144,208	\$ 8,280,290

**STEVENS COUNTY
MORRIS, 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) \$ 496,362

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	\$ 764,246	
Deferred revenue - January 1	<u>(893,969)</u>	(129,723)

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. Therefore, the change in net position differs from the change in fund balance by the net book value of the assets sold.

Expenditures for general capital assets and infrastructure	\$ 2,848,284	
Current year depreciation	<u>(1,731,146)</u>	1,117,138

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of activities.

Debt issued		
Capital lease		(119,675)

Principal repayments		
Leases payable		295,052

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in compensated absences	\$ (27,946)	
Change in inventories	<u>(94,379)</u>	<u>(122,325)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 1,536,829

FIDUCIARY FUNDS

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STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2012

<u>Assets</u>	
Cash and pooled investments	<u>\$ 692,256</u>
<u>Liabilities</u>	
Accounts payable	\$ 19,157
Advance taxes	14,092
Due to other governments	<u>659,007</u>
Total Liabilities	<u>\$ 692,256</u>

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**STEVENS COUNTY
MORRIS, MINNESOTA**

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

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

Stevens County was established February 20, 1862, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Joint Ventures

The County participates in several joint ventures described in Note 7.B. The County also participates in jointly-governed organizations and a related organization described in Note 7.C. and Note 7.D., respectively.

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 Stevens 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.

**STEVENS COUNTY
MORRIS, MINNESOTA**

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 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.

**STEVENS COUNTY
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Road and Bridge 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.

The Human 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 Solid Waste Special Revenue Fund accounts for restricted special assessment revenues, miscellaneous revenues, revenue resources from the state, and through an appropriation from the General Fund for the costs relating to disposal of the County's solid waste.

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.

**STEVENS COUNTY
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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. Stevens 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, 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. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/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 \$165,287.

**STEVENS COUNTY
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments (Continued)

Stevens County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does satisfy the requirements of Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7), as amended. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

2. Receivables and Payables

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

3. Inventories and Prepaid Items

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

**STEVENS COUNTY
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

3. Inventories and Prepaid Items (Continued)

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

4. 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 County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets 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. During the current period, the County did not have any capitalized interest.

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

<u>Assets</u>	<u>Years</u>
Buildings	25 - 40
Improvements other than buildings	20 - 35
Public domain infrastructure	15 - 70
Furniture, equipment, and vehicles	3 - 15

**STEVENS COUNTY
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Compensated Absences

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

6. 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.

7. 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.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the 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.

**STEVENS COUNTY
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. 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.

9. 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 for 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.

**STEVENS COUNTY
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

9. Classification of Fund Balances (Continued)

Committed - amounts that can be used 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/Treasurer 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.

10. Minimum Fund Balance

Stevens County has adopted a minimum fund balance policy for the General Fund. The General Fund is 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 they need to maintain a minimum unrestricted fund balance (committed, assigned, and unassigned) of no less than \$1,500,000.

**STEVENS COUNTY
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The following is a summary of individual funds that had expenditures in excess of budget for the year ended December 31, 2012.

	Expenditures	Budget	Excess
General Fund	\$ 5,919,665	\$ 5,205,807	\$ 713,858
Special Revenue Funds			
Road and Bridge	4,249,606	3,967,300	282,306
Human Services	2,586,787	2,490,422	96,365
Solid Waste	97,727	73,020	24,707

3. 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 position	
Governmental activities	
Cash and pooled investments	\$ 7,729,137
Statement of fiduciary net position	
Cash and pooled investments	692,256
Total Cash and Investments	\$ 8,421,393

**STEVENS COUNTY
MORRIS, MINNESOTA**

3. 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 and 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 does not have a deposit policy for custodial credit risk. As of December 31, 2012, the County's deposits were not exposed to custodial credit risk.

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;

**STEVENS COUNTY
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (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.

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.

**STEVENS COUNTY
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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. The County invests 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 in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2012, \$1,987,512 of repurchase agreements and \$851,965 of government securities were exposed to custodial credit risk because they were held by the counterparty.

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. Typically, the County invests in U.S. Treasury securities, U.S. agency securities, and obligations backed by the U.S. Treasury and/or U.S. agency securities without limit.

**STEVENS COUNTY
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table represents the County's cash and investment balances at December 31, 2012, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Federal National Mortgage Association	Aaa	Moody's		01/25/2017	\$ 100,007
Federal National Mortgage Association	Aaa	Moody's		02/27/2019	500,820
Federal National Mortgage Association	AA+	S&P		11/29/2022	98,821
Federal National Mortgage Association	Aaa	Moody's		03/12/2027	501,575
Federal National Mortgage Association	Aaa	Moody's		05/24/2027	500,605
Federal National Mortgage Association	Aaa	Moody's		05/28/2027	250,260
Total Federal National Mortgage Association			29.9%		\$ 1,952,088
Federal Home Loan Mortgage Corporation					
Federal Home Loan Mortgage Corporation	Aaa	Moody's		05/01/2014	\$ 7,889
Federal Home Loan Mortgage Corporation	Aaa	Moody's		09/01/2018	16,327
Federal Home Loan Mortgage Corporation	Aaa	Moody's		01/25/2027	799,716
Total Federal Home Loan Mortgage Corporation			12.6%		\$ 823,932
Federal Home Loan Bank					
Federal Home Loan Bank	Aaa	Moody's		11/23/2021	\$ 253,123
Federal Home Loan Bank	AA+	S & P		07/18/2022	250,065
Federal Home Loan Bank	AA+	S & P		07/22/2022	250,063
Federal Home Loan Bank	AA+	S & P		12/05/2022	248,082
Federal Home Loan Bank	AA+	S & P		12/28/2022	249,510
Federal Home Loan Bank	Aaa	Moody's		08/26/2025	250,482
Total Federal Home Loan Bank			23.0%		\$ 1,501,325
Small Business Administration Loan Pool					
Small Business Administration Loan Pool	N/R	N/A		06/25/2020	\$ 50,763
Small Business Administration Loan Pool	N/R	N/A		07/25/2020	12,879
Small Business Administration Loan Pool	N/R	N/A		11/25/2021	16,601
Small Business Administration Loan Pool	N/R	N/A		07/25/2023	60,570
Small Business Administration Loan Pool	N/R	N/A		04/25/2024	5,068
Small Business Administration Loan Pool	N/R	N/A		04/25/2024	69,484
Small Business Administration Loan Pool	N/R	N/A		10/25/2024	39,690
Small Business Administration Loan Pool	N/R	N/A		11/25/2025	16,211
Total Small Business Administration			<5%		\$ 271,266

**STEVENS COUNTY
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Investment pools/mutual funds					
MAGIC Fund	N/A	N/A	<5%		\$ 26
Repurchase agreements	N/A	N/A	30.4%		\$ 1,987,280
Total investments					\$ 6,535,917
Checking					(213,486)
Savings					11,407
Certificates of deposit					2,081,755
Petty cash and change funds					5,800
Total Cash and Investments					\$ 8,421,393

N/A - Not Applicable

N/R - Not Rated

<5% - Concentration is less than 5% of investments

2. Receivables

Receivables as of December 31, 2012, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 27,813	\$ -
Special assessments	215,446	12,846
Accounts receivable	43,032	-
Interest	11,886	-
Due from other governments	1,240,949	-
Total Governmental Activities	\$ 1,539,126	\$ 12,846

**STEVENS COUNTY
MORRIS, MINNESOTA**

3. 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	\$ 250,018	\$ -	\$ -	\$ 250,018
Right-of-way	792,161	-	-	792,161
Construction in progress	<u>33,397</u>	<u>12,648</u>	<u>23,545</u>	<u>22,500</u>
Total capital assets not depreciated	<u>\$ 1,075,576</u>	<u>\$ 12,648</u>	<u>\$ 23,545</u>	<u>\$ 1,064,679</u>
Capital assets depreciated				
Improvements other than buildings	\$ 134,712	\$ -	\$ 19,626	\$ 115,086
Building improvements	14,945	-	-	14,945
Buildings	13,091,828	42,054	-	13,133,882
Machinery, furniture, and equipment	4,894,216	1,048,756	178,054	5,764,918
Infrastructure	<u>37,933,469</u>	<u>1,768,371</u>	<u>-</u>	<u>39,701,840</u>
Total capital assets depreciated	<u>\$ 56,069,170</u>	<u>\$ 2,859,181</u>	<u>\$ 197,680</u>	<u>\$ 58,730,671</u>
Less: accumulated depreciation for				
Improvements other than buildings	\$ 61,951	\$ 21,490	\$ 19,626	\$ 63,815
Building improvements	5,253	1,198	-	6,451
Buildings	2,283,946	314,513	-	2,598,459
Machinery, furniture, and equipment	3,150,825	482,545	178,054	3,455,316
Infrastructure	<u>14,086,574</u>	<u>911,400</u>	<u>-</u>	<u>14,997,974</u>
Total accumulated depreciation	<u>\$ 19,588,549</u>	<u>\$ 1,731,146</u>	<u>\$ 197,680</u>	<u>\$ 21,122,015</u>
Total capital assets depreciated, net	<u>\$ 36,480,621</u>	<u>\$ 1,128,035</u>	<u>\$ -</u>	<u>\$ 37,608,656</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 37,556,197</u>	<u>\$ 1,140,683</u>	<u>\$ 23,545</u>	<u>\$ 38,673,335</u>

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

Governmental Activities	
General government	\$ 420,720
Public safety	213,329
Highways and streets, including depreciation of infrastructure assets	1,094,253
Human services	1,412
Conservation of natural resources	<u>1,432</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,731,146</u>

**STEVENS COUNTY
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Human Services Special Revenue	\$ 1,007
Road and Bridge Special Revenue	General	\$ 767
	Human Services Special Revenue	369
	Ditch Special Revenue	1,100
	Solid Waste Special Revenue	107
Total due to Road and Bridge Special Revenue Fund		\$ 2,343
Total Due To/From Other Funds		\$ 3,350

The outstanding balances between funds result mainly from the time lag between the dates the interfund goods and services are provided or reimbursable expenditures occurred, and when transactions are recorded in the accounting system, and when funds are repaid.

2. Advance From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch Special Revenue	\$ 70,000

The purpose of the advances from the General Fund to the Ditch Special Revenue Fund is to provide cash flow for various drainage systems. The advances will be repaid in future years through the use of special assessments levied on the benefited parcels.

**STEVENS COUNTY
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2012, consisted of the following:

Transfer to General Fund from Solid Waste Special Revenue Fund	<u>\$ 101,355</u>	Provide funding for recycling activities
--	-------------------	--

C. Liabilities

1. Payables

Payables of governmental activities at December 31, 2012, were as follows:

Accounts payable	\$ 197,462
Salaries payable	125,980
Due to other governments	93,505
Customer deposits	32,481
Permit deposits	<u>2,800</u>
Total Payables	<u>\$ 452,228</u>

2. Capital Leases

Stevens County has two lease agreements that qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The two capital leases are a generator lease and the courthouse lease.

Stevens County has entered into a lease arrangement with the Housing and Redevelopment Authority of Stevens County (HRA). The HRA agreed to issue \$7,685,000 in Public Project Revenue Bonds, Series 2009A, in order to finance the construction/remodel of the Courthouse. The building was completed in 2010.

**STEVENS COUNTY
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Capital Leases (Continued)

The proceeds of the sale of these bonds were placed into an escrow account. As the County requested construction reimbursements, the funds were transferred from escrow to the HRA, which subsequently transferred the funds to the County. The County's lease payment is essentially equal to the principal and interest on the bonds for the year. At December 31, 2012, the County has made reimbursement requests totaling \$6,880,833. The County recognizes a lease obligation only up to the amount of the reimbursement requests instead of the outstanding bond balance.

Capital leases consist of the following at December 31, 2012:

Type of Indebtedness	Maturity	Installment Amounts	Interest Rate (%)	Original	Balance
Courthouse lease	2031	\$265,000 - \$575,000	3.00 - 4.70	\$ 6,880,833	\$ 6,615,833
Generator lease	2018	\$12,005 - \$16,321	2.54	119,675	89,623

Payments on the Courthouse capital lease are made from the Debt Service Fund. The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2012, were as follows:

Year Ending December 31	Governmental Activities
2013	\$ 586,834
2014	583,509
2015	578,609
2016	577,009
2017	575,009
2018 - 2022	2,857,891
2023 - 2027	2,885,833
2028 - 2031	2,341,146
Total future minimum lease payments	\$ 10,985,840
Less: amount representing interest	(3,565,840)

**STEVENS COUNTY
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Capital Leases (Continued)

Year Ending December 31	Governmental Activities
Present value of minimum lease payments	\$ 7,420,000
Less	
Issuance costs paid from escrow	(61,790)
Net discount	(76,850)
Reserve fund in HRA's name	(301,013)
Bond fund in HRA's name	(370,528)
Interest earned on escrow account included in proceeds	6,014
Present Value of Minimum Lease Payments to be Paid by Stevens County	\$ 6,615,833

Payments on the generator capital lease are made from the General Fund. The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2012, were as follows:

Year Ending December 31	Governmental Activities
2013	\$ 13,789
2014	16,546
2015	16,547
2016	16,546
2017	16,547
2018	16,546
Total future minimum lease payments	\$ 96,521
Less: amount representing interest	(6,898)
Present Value of Minimum Lease Payments	\$ 89,623

**STEVENS COUNTY
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Changes in Long-Term Liabilities

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

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital lease - courthouse	\$ 6,880,833	\$ -	\$ 265,000	\$ 6,615,833	\$ 275,000
Capital lease - generator	-	119,675	30,052	89,623	12,006
Total capital leases	\$ 6,880,833	\$ 119,675	\$ 295,052	\$ 6,705,456	\$ 287,006
Compensated absences	451,578	27,946	-	479,524	77,595
Total Long-Term Liabilities	<u>\$ 7,332,411</u>	<u>\$ 147,621</u>	<u>\$ 295,052</u>	<u>\$ 7,184,980</u>	<u>\$ 364,601</u>

For the governmental activities, compensated absences are liquidated by the General Fund, the Road and Bridge Special Revenue Fund, and the Human Services Special Revenue Fund.

4. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Stevens 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.

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).

**STEVENS COUNTY
MORRIS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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.

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 Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

**STEVENS COUNTY
MORRIS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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; 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

**STEVENS COUNTY
MORRIS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

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	\$ 315,443	\$ 317,208	\$ 302,075
Public Employees Police and Fire Fund	55,536	54,314	50,556

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

B. Defined Contribution Plan

Four commissioners and one employee of Stevens 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.

**STEVENS COUNTY
MORRIS, MINNESOTA**

4. Pension Plans

B. Defined Contribution Plan (Continued)

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

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 6,907	\$ 6,907
Percentage of covered payroll	5%	5%

Required contribution rates were 5.0 percent.

5. 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 other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$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.

**STEVENS COUNTY
MORRIS, MINNESOTA**

6. Conduit Debt

In 2006, Darnen Dairy, LLP, issued \$3,800,000 Solid Waste Disposal Revenue Bonds, Series 2006, to finance solid waste disposal components of the company's addition to its dairy facility. The project is deemed to be in the public interest. Neither the County, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as a liability in the accompanying financial statements. As of December 31, 2012, the outstanding principal amount was \$3,800,000. This bond was called as of March 25, 2013.

In 2007, Riverview Dairy of MN, LLP, issued \$6,000,000 Solid Waste Disposal Revenue Bonds, Series 2007, to finance solid waste disposal components of the company's addition to its dairy facility. The project is deemed to be in the public interest. Neither the County, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as a liability in the accompanying financial statements. As of December 31, 2012, the outstanding principal amount was \$6,000,000. This bond was called as of March 25, 2013.

7. Summary of Significant Contingencies and Other Items

A. 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.

**STEVENS COUNTY
MORRIS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items (Continued)

B. Joint Ventures

West Central Area Agency on Aging

The West Central Area Agency on Aging was established June 2, 1992, by a joint powers agreement among Becker, Clay, Douglas, Grant, Otter Tail, Pope, Stevens, Traverse, and Wilkin Counties. In 2005, the Area Agency on Aging became part of a larger planning and service area covering 21 counties. This is a partnership between the Northwest Regional Development Commission, the 5-county service area of Region 2, and the West Central Area Agency on Aging. The combined area on aging, known as the Land of the Dancing Sky Area on Aging, was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the elderly in the 21-county area. Each county may be assessed a proportional share of the 25 percent of the administrative costs incurred in carrying out this agreement. Each county's proportional share of this 25 percent of the administrative costs will be based upon the number of persons age 60 or older living within that county.

The Land of the Dancing Sky umbrella board meets quarterly to discuss and approve major items such as the area plan and dollar allocations, while the advisory councils and joint powers boards continue to meet monthly to make decisions affecting their local counties.

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

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

Complete financial information can be obtained from:

West Central Area Agency on Aging
P. O. Box 726
Fergus Falls, Minnesota 56537

**STEVENS COUNTY
MORRIS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Horizon Community Health Board

Grant, Pope, Stevens, and Traverse Counties entered into a joint powers agreement creating and operating the Mid-State Community Health Services, pursuant to Minn. Stat. § 471.59. During 1994, Stevens Traverse Grant Public Health Nursing Service began receiving and administering the grant money.

Effective January 1, 2011, Mid-State Community Health Services became Horizon Community Health Board and included Douglas County as an additional member.

Complete financial information can be obtained from:

Horizon Community Health Board
211 East Minnesota Avenue, Suite 100
Glenwood, Minnesota 56334

Stevens Traverse Grant Public Health Nursing Service

Stevens County entered into a joint powers agreement creating and operating the Stevens Traverse Grant Public Health Nursing Service, pursuant to Minn. Stat. § 471.59. The Nursing Service is headquartered in Morris, Minnesota, and has other offices in Wheaton and Elbow Lake, Minnesota.

The management of the Nursing Service is vested in the Joint Public Health Nursing Board, which consists of nine members, three Commissioners each from Stevens County, Traverse County, and Grant County.

Financing is provided by state grants; appropriations from Stevens, Traverse, and Grant Counties; and charges for services. Stevens County's contribution for 2012 was \$118,169.

Complete financial statements for the Stevens Traverse Grant Public Health Nursing Service can be obtained from:

Stevens Traverse Grant Public Health Nursing Service
621 Pacific Avenue
Morris, Minnesota 56267

**STEVENS COUNTY
MORRIS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Rainbow Rider Transit Board

Douglas, Pope, Stevens, and Traverse Counties entered into a joint powers agreement to establish the West Central Multi-County Joint Powers Transit Board effective December 1, 1994, and empowered under Minn. Stat. § 471.59. Effective January 13, 2000, the Board changed its name from West Central Multi-County Joint Powers Transit Board to Rainbow Rider Transit Board. The purpose of the Board is to provide coordinated service delivery and a funding source for public transportation. The Board consists of two members appointed by each member county from its County Board for terms of one year each. Grant County and Todd County became member counties effective January 1, 2011 and 2012, respectively.

Complete financial information can be obtained from:

Rainbow Rider
P. O. Box 136
Lowry, Minnesota 56349

Minnesota River Basin Joint Powers Board

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

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

Control is vested in an executive board of five officers elected from the membership of the Joint Powers Board, consisting of one representative and alternate from each County Board of Commissioners included in this agreement.

**STEVENS COUNTY
MORRIS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Minnesota River Basin Joint Powers Board (Continued)

During 2012, Stevens County did not contribute any funds to the Joint Powers Board. Complete financial information can be obtained from:

Minnesota River Basin Joint Powers Board
Administration Building No. 14
600 East 4th Street
Chaska, Minnesota 55318

PrimeWest Central County-Based Purchasing Initiative

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

Control of the PrimeWest Central County-Based Purchasing Initiative is vested in a Joint Powers Board, comprised of one Commissioner from each member county. Each member of the 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 property purchased or 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, initial start-up loans from the member counties, and by proportional contributions from member counties, if necessary, to cover operational costs.

**STEVENS COUNTY
MORRIS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures

PrimeWest Central County-Based Purchasing Initiative (Continued)

Complete financial information can be obtained from:

PrimeWest Health Systems
Douglas County Courthouse
305 - 8th Avenue West
Alexandria, Minnesota 56308

Regional Fitness Center

Stevens County, along with the University of Minnesota, the City of Morris, and Independent School District No. 769, entered into a joint powers agreement under the authority of Minn. Stat. § 471.59 to establish and construct a Regional Fitness Center.

Control of the Regional Fitness Center is vested in a Joint Powers Board, composed of one member of the Stevens County Board of Commissioners, four members from the University of Minnesota, one member of the Morris City Council, one member of the School Board, and one member from the community at large.

In the event of termination of the joint powers agreement, any surplus monies generated by the operation of the Regional Fitness Center and any movable equipment shall be returned to the parties in proportion to their original contribution. The building, property, and all non-movable equipment and fixtures shall belong to the University of Minnesota.

Financing is provided by the 1998 Minnesota legislative appropriation of \$2,500,000 to the University of Minnesota and contributions in the amount of \$2,500,000 from the other parties to this agreement. Stevens County's share, \$200,000, was paid over a period of five years. Operational and maintenance expenses will be covered by membership fees and other income generated by the Regional Fitness Center. During 2012, Stevens County did not contribute any funds to the Regional Fitness Center.

**STEVENS COUNTY
MORRIS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Regional Fitness Center (Continued)

Complete financial information can be obtained from:

Morris Area Schools
201 South Columbia Avenue
Morris, Minnesota 56267

Pomme de Terre River Association

The Pomme de Terre River Association Joint Powers Board was established August 11, 1981, by an agreement between Stevens 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 County Board of Commissioners and one representative from each soil and water conservation district board of supervisors included within the agreement.

During 2012, Stevens County did not contribute any funds to the Joint Powers Board.

Complete financial information can be obtained from:

Pomme de Terre River Association Joint Powers Board
900 Roberts Street, Suite 104
Alexandria, Minnesota 56308

**STEVENS COUNTY
MORRIS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Supporting Hands Nurse Family Partnership Board

The Supporting Hands Nurse Family Partnership Board was established pursuant to Minn. Stat. §§ 145A.17 and 471.59 and a joint powers agreement, effective June 5, 2007. The Board consists of 12 members, which include an appointed Commissioner from each participating county. McLeod County is the fiscal agent. The primary purpose of the joint venture is to improve the health and life-course of low-income, first-time mothers and their children. The joint venture is financed primarily by contributions from participating counties.

Complete financial information can be obtained from:

Supporting Hands Nurse Family Partnership Board
2385 Hennepin Avenue North
Glencoe, Minnesota 55336

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, 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 of the Central Minnesota Emergency Services Board is vested in the Central Minnesota Emergency Services Board, which is composed of one Commissioner of each county appointed by their respective County Board and one City Council member from each city appointed by their respective City Council, as provided in the Central Minnesota Emergency Services Board's by-laws.

**STEVENS COUNTY
MORRIS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Central Minnesota Emergency Services Board (Continued)

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 it shared in the original expense.

The Central Minnesota Emergency Services Board has no long-term debt. Financing is provided by the appropriations from member parties and by state and federal grants. Complete financial information can be obtained from:

Central Minnesota Emergency Services Board
City of St. Cloud
Office of the Mayor
City Hall
400 Second Street South
St. Cloud, Minnesota 56303

C. Jointly-Governed Organizations

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

Western Area City/County Co-op

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

**STEVENS COUNTY
MORRIS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

District IV Transportation Planning

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

Stevens County Family Services Collaborative

The Stevens County Family Services Collaborative was established in 1997 under the authority of Minn. Stat. § 124D.23. The Collaborative includes Stevens County, Independent School District No. 771, the Stevens Traverse Grant Public Health Nursing Service, the Stevens Community Medical Center, and Rural Minnesota CEP, Inc. The purpose of the Collaborative is to provide coordinated family services and to commit resources to an integrated fund.

Control of the Stevens County Family Services Collaborative is vested in a Board of Directors, which is composed of one member appointed by each member party. The persons so appointed shall appoint two consumer representatives by the majority vote of the Board.

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

Financing is provided by state and federal grants and contributions from its member parties. Stevens County, in an agent capacity, reports the cash transactions of the Stevens County Family Services Collaborative as an agency fund on its financial statements. During 2012, the County did not contribute any funds to the Collaborative.

**STEVENS COUNTY
MORRIS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items (Continued)

D. Related Organization

Stevens County Housing and Redevelopment Authority

The County Board chair appoints a voting majority on the Stevens County Housing and Redevelopment Authority (HRA). In 2012, Stevens County did not appropriate any funds to the HRA. The County's accountability for the organization does not extend beyond making the appointment.

REQUIRED SUPPLEMENTARY INFORMATION

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**STEVENS COUNTY
MORRIS, 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>		
Revenues				
Taxes	\$ 3,345,593	\$ 3,345,593	\$ 3,294,985	\$ (50,608)
Licenses and permits	21,200	21,200	19,136	(2,064)
Intergovernmental	906,462	906,462	1,717,812	811,350
Charges for services	351,680	351,680	419,984	68,304
Fines and forfeits	8,000	8,000	-	(8,000)
Investment earnings	162,500	162,500	165,287	2,787
Miscellaneous	313,300	313,300	314,976	1,676
Total Revenues	<u>\$ 5,108,735</u>	<u>\$ 5,108,735</u>	<u>\$ 5,932,180</u>	<u>\$ 823,445</u>
Expenditures				
Current				
General government				
Commissioners	\$ 237,685	\$ 237,685	\$ 228,322	\$ 9,363
Law library	11,000	11,000	8,878	2,122
County coordinator	114,835	114,835	136,332	(21,497)
Auditor-Treasurer	372,671	372,671	355,258	17,413
Accounting and auditing	65,000	65,000	80,393	(15,393)
Tax forfeiture	500	500	2,843	(2,343)
Information technology	279,652	279,652	285,115	(5,463)
GIS	42,000	42,000	8,353	33,647
Elections	38,160	38,160	43,024	(4,864)
Attorney	245,645	245,645	254,949	(9,304)
Recorder	255,284	255,284	259,115	(3,831)
Planning and zoning	70,165	70,165	97,161	(26,996)
Assessor	253,940	253,940	252,840	1,100
Courthouse operations	297,958	297,958	437,754	(139,796)
Safety coordinator	36,135	36,135	34,835	1,300
Veterans service officer	50,664	50,664	46,923	3,741
Other general government	147,000	147,000	77,895	69,105
Total general government	<u>\$ 2,518,294</u>	<u>\$ 2,518,294</u>	<u>\$ 2,609,990</u>	<u>\$ (91,696)</u>
Public safety				
Sheriff	\$ 1,414,470	\$ 1,414,470	\$ 1,815,653	\$ (401,183)
WC SWAT	-	-	1,827	(1,827)
Coroner	30,000	30,000	19,395	10,605
Probation	100,922	100,922	128,475	(27,553)
Emergency management	73,600	73,600	174,908	(101,308)
E-911 system	89,000	89,000	55,124	33,876
Total public safety	<u>\$ 1,707,992</u>	<u>\$ 1,707,992</u>	<u>\$ 2,195,382</u>	<u>\$ (487,390)</u>

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

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**STEVENS COUNTY
MORRIS, 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>		
Expenditures				
Current (Continued)				
Sanitation				
Environmental services	\$ 157,405	\$ 157,405	\$ 168,210	\$ (10,805)
Human services				
Social service youth activity	\$ -	\$ -	\$ 3,321	\$ (3,321)
Health				
Nursing service	\$ 118,169	\$ 118,169	\$ 118,169	\$ -
Culture and recreation				
Historical society	\$ 59,400	\$ 59,400	\$ 59,400	\$ -
Regional library	53,439	53,439	53,439	-
Snowmobile trails	-	-	70,962	(70,962)
Total culture and recreation	\$ 112,839	\$ 112,839	\$ 183,801	\$ (70,962)
Conservation of natural resources				
Extension	\$ 137,583	\$ 137,583	\$ 131,910	\$ 5,673
Agricultural society/County fair	34,175	34,175	34,298	(123)
Predator control	1,000	1,000	706	294
Soil and water conservation	110,000	110,000	116,304	(6,304)
Total conservation of natural resources	\$ 282,758	\$ 282,758	\$ 283,218	\$ (460)
Economic development				
Economic development	\$ 64,850	\$ 64,850	\$ 64,850	\$ -
Intergovernmental				
Highways and streets	\$ 243,500	\$ 243,500	\$ 256,873	\$ (13,373)
Debt service				
Principal	\$ -	\$ -	\$ 30,052	\$ (30,052)
Interest	\$ -	\$ -	\$ 5,799	\$ (5,799)
Total Expenditures	\$ 5,205,807	\$ 5,205,807	\$ 5,919,665	\$ (713,858)
Excess of Revenues Over (Under)				
Expenditures	\$ (97,072)	\$ (97,072)	\$ 12,515	\$ 109,587

**STEVENS COUNTY
MORRIS, 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>		
Other Financing Sources (Uses)				
Transfers in	\$ 101,355	\$ 101,355	\$ 101,355	\$ -
Proceeds from capital lease	-	-	119,675	119,675
Total Other Financing Sources (Uses)	\$ 101,355	\$ 101,355	\$ 221,030	\$ 119,675
Net Change in Fund Balance	\$ 4,283	\$ 4,283	\$ 233,545	\$ 229,262
Fund Balance - January 1	3,274,477	3,274,477	3,274,477	-
Fund Balance - December 31	\$ 3,278,760	\$ 3,278,760	\$ 3,508,022	\$ 229,262

**STEVENS COUNTY
MORRIS, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE 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>		
Revenues				
Taxes	\$ 1,054,439	\$ 1,054,439	\$ 1,031,401	\$ (23,038)
Intergovernmental	2,609,011	2,609,011	3,002,617	393,606
Charges for services	291,200	291,200	254,805	(36,395)
Miscellaneous	82,650	82,650	157,723	75,073
Total Revenues	\$ 4,037,300	\$ 4,037,300	\$ 4,446,546	\$ 409,246
Expenditures				
Current				
Highways and streets				
Administration	\$ 265,750	\$ 265,750	\$ 231,235	\$ 34,515
Construction	1,806,100	1,806,100	1,869,749	(63,649)
Maintenance	1,133,550	1,133,550	1,392,782	(259,232)
Equipment maintenance and shop	758,450	758,450	738,139	20,311
Materials and services for resale	3,450	3,450	17,701	(14,251)
Total Expenditures	\$ 3,967,300	\$ 3,967,300	\$ 4,249,606	\$ (282,306)
Net Change in Fund Balance	\$ 70,000	\$ 70,000	\$ 196,940	\$ 126,940
Fund Balance - January 1	1,675,234	1,675,234	1,675,234	-
Increase (decrease) in inventories	-	-	(94,379)	(94,379)
Fund Balance - December 31	\$ 1,745,234	\$ 1,745,234	\$ 1,777,795	\$ 32,561

**STEVENS COUNTY
MORRIS, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN 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>		
Revenues				
Taxes	\$ 966,143	\$ 966,143	\$ 946,972	\$ (19,171)
Intergovernmental	1,088,297	1,088,297	1,330,213	241,916
Charges for services	69,675	69,675	137,816	68,141
Miscellaneous	46,307	46,307	140,123	93,816
Total Revenues	\$ 2,170,422	\$ 2,170,422	\$ 2,555,124	\$ 384,702
Expenditures				
Current				
Human services				
Income maintenance	\$ 516,856	\$ 516,856	\$ 527,921	\$ (11,065)
Social services	1,973,566	1,973,566	2,058,866	(85,300)
Total Expenditures	\$ 2,490,422	\$ 2,490,422	\$ 2,586,787	\$ (96,365)
Net Change in Fund Balance	\$ (320,000)	\$ (320,000)	\$ (31,663)	\$ 288,337
Fund Balance - January 1	2,300,832	2,300,832	2,300,832	-
Fund Balance - December 31	\$ 1,980,832	\$ 1,980,832	\$ 2,269,169	\$ 288,337

**STEVENS COUNTY
MORRIS, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE 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>		
Revenues				
Special assessments	\$ 193,174	\$ 193,174	\$ 199,603	\$ 6,429
Expenditures				
Current				
Sanitation				
Solid waste	\$ 6,000	\$ 6,000	\$ 24,059	\$ (18,059)
Hazardous waste	67,020	67,020	73,668	(6,648)
Total Expenditures	\$ 73,020	\$ 73,020	\$ 97,727	\$ (24,707)
Excess of Revenues Over (Under) Expenditures	\$ 120,154	\$ 120,154	\$ 101,876	\$ (18,278)
Other Financing Sources (Uses)				
Transfers out	(101,355)	(101,355)	(101,355)	-
Net Change in Fund Balance	\$ 18,799	\$ 18,799	\$ 521	\$ (18,278)
Fund Balance - January 1	349,852	349,852	349,852	-
Fund Balance - December 31	\$ 368,651	\$ 368,651	\$ 350,373	\$ (18,278)

**STEVENS COUNTY
MORRIS, 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 special revenue funds, except the Ditch Special Revenue Fund.

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

The appropriated budget is prepared by fund, function, and department. The County's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level.

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 applicable special revenue funds.

2. Budget Basis of Accounting

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

3. Excess of Expenditures Over Budget

The following is a summary of the major funds with expenditures in excess of budgeted expenditures for the year ended December 31, 2012.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 5,919,665	\$ 5,205,807	\$ 713,858
Special Revenue Funds			
Road and Bridge	4,249,606	3,967,300	282,306
Human Services	2,586,787	2,490,422	96,365
Solid Waste	97,727	73,020	24,707

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SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUNDS

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**STEVENS COUNTY
MORRIS, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE 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>		
Revenues				
Taxes	\$ 584,934	\$ 584,934	\$ 570,800	\$ (14,134)
Expenditures				
Debt service				
Principal	\$ 265,000	\$ 265,000	\$ 265,000	\$ -
Interest	319,934	319,934	319,920	14
Total Expenditures	\$ 584,934	\$ 584,934	\$ 584,920	\$ 14
Net Change in Fund Balance	\$ -	\$ -	\$ (14,120)	\$ (14,120)
Fund Balance - January 1	158,328	158,328	158,328	-
Fund Balance - December 31	\$ 158,328	\$ 158,328	\$ 144,208	\$ (14,120)

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FIDUCIARY FUNDS

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**STEVENS COUNTY
MORRIS, MINNESOTA**

AGENCY FUNDS

The Housing and Redevelopment Authority Fund is used to account for the collection and disbursements of the Housing Development Authority.

The School Districts Fund is used to account for the collection and payment of funds due to school districts.

The Social Welfare Fund is used to account for the collection and disbursement of funds held on the behalf of individuals in the Social Welfare program.

The State Revenue Fund is used to account for the state's share of collections and the payment of those collections to the state.

The Stevens County Family Services Collaborative Fund is used to account for the collection and disbursement of funds used for prevention and early intervention services primarily provided by the schools and Public Health.

The Stevens Traverse Grant Public Health Nursing Service Fund is used to account for the receipt and payment of federal, state, and local grants and membership contributions for the Public Health Nursing Service Fund.

The Taxes and Penalties Fund is used to account for the collection and payment to the various taxing districts of taxes and penalties collected.

The Towns and Cities Fund is used to account for the collection and payment of funds due to towns and cities and special taxing districts.

The Watershed Fund is used to account for the collection and payments of funds due to the Watershed districts.

The West Central Special Weapons and Tactics Team Fund is used to account for the collection and payment of funds due to the West Central SWAT team.

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**STEVENS COUNTY
MORRIS, 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
<u>HOUSING AND REDEVELOPMENT AUTHORITY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 286,630	\$ 281,120	\$ 5,510
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 286,630	\$ 281,120	\$ 5,510
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 4,116,196	\$ 4,116,196	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 4,116,196	\$ 4,116,196	\$ -
 <u>SOCIAL WELFARE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 253,115	\$ 233,958	\$ 19,157
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 253,115	\$ 233,958	\$ 19,157

**STEVENS COUNTY
MORRIS, MINNESOTA**

***EXHIBIT C-1
(Continued)***

**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
<u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 33,130</u>	<u>\$ 1,135,060</u>	<u>\$ 1,148,143</u>	<u>\$ 20,047</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 33,130</u>	<u>\$ 1,135,060</u>	<u>\$ 1,148,143</u>	<u>\$ 20,047</u>
 <u>STEVENS COUNTY FAMILY SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 70,199</u>	<u>\$ 41,195</u>	<u>\$ 56,273</u>	<u>\$ 55,121</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 70,199</u>	<u>\$ 41,195</u>	<u>\$ 56,273</u>	<u>\$ 55,121</u>
 <u>STEVENS TRAVERSE GRANT PUBLIC HEALTH NURSING SERVICE</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 394,985</u>	<u>\$ 2,569,327</u>	<u>\$ 2,464,355</u>	<u>\$ 499,957</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 394,985</u>	<u>\$ 2,569,327</u>	<u>\$ 2,464,355</u>	<u>\$ 499,957</u>

**STEVENS COUNTY
MORRIS, MINNESOTA**

***EXHIBIT C-1
(Continued)***

**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
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 104,690</u>	<u>\$ 14,797,683</u>	<u>\$ 14,818,277</u>	<u>\$ 84,096</u>
<u>Liabilities</u>				
Due to other governments	\$ 75,047	\$ 14,783,591	\$ 14,788,634	\$ 70,004
Advance taxes	<u>29,643</u>	<u>14,092</u>	<u>29,643</u>	<u>14,092</u>
Total Liabilities	<u>\$ 104,690</u>	<u>\$ 14,797,683</u>	<u>\$ 14,818,277</u>	<u>\$ 84,096</u>
 <u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ -</u>	<u>\$ 3,182,968</u>	<u>\$ 3,182,968</u>	<u>\$ -</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ -</u>	<u>\$ 3,182,968</u>	<u>\$ 3,182,968</u>	<u>\$ -</u>
 <u>WATERSHED</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ -</u>	<u>\$ 129,217</u>	<u>\$ 129,217</u>	<u>\$ -</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ -</u>	<u>\$ 129,217</u>	<u>\$ 129,217</u>	<u>\$ -</u>

**STEVENS COUNTY
MORRIS, MINNESOTA**

**EXHIBIT C-1
(Continued)**

**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
<u>WEST CENTRAL SPECIAL WEAPONS AND TACTICS TEAM</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 4,784	\$ 19,899	\$ 16,315	\$ 8,368
<u>Liabilities</u>				
Due to other funds	\$ 1,827	\$ -	\$ 1,827	\$ -
Due to other governments	2,957	19,899	14,488	8,368
Total Liabilities	\$ 4,784	\$ 19,899	\$ 16,315	\$ 8,368
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 607,788	\$ 26,531,290	\$ 26,446,822	\$ 692,256
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 253,115	\$ 233,958	\$ 19,157
Advance taxes	29,643	14,092	29,643	14,092
Due to other funds	1,827	-	1,827	-
Due to other governments	576,318	26,264,083	26,181,394	659,007
Total Liabilities	\$ 607,788	\$ 26,531,290	\$ 26,446,822	\$ 692,256

OTHER SCHEDULES

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**STEVENS COUNTY
MORRIS, MINNESOTA**

EXHIBIT D-1

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

Shared Revenue

State

Highway users tax	\$ 2,801,341
County program aid	772,281
PERA rate reimbursement	21,742
Disparity reduction aid	50,261
Police aid	38,835
Enhanced 911	80,848
Market value credit	91,214

Total shared revenue **\$ 3,856,522**

Reimbursement for Services

Minnesota Department of Human Services **\$ 164,634**

Payments

Local

Payments in lieu of taxes	\$ 70,787
Local grants	133,596

Total payments **\$ 204,383**

Grants

State

Minnesota Department/Board of	
Corrections	\$ 16,312
Human Services	461,254
Natural Resources	70,962
Public Safety	275,717
Transportation	274,477
Veterans Affairs	2,298
Water and Soil Resources	60,823
Pollution Control Agency	55,950
Peace Officer Standards and Training Board	2,657

Total state **\$ 1,220,450**

Federal

Department of	
Agriculture	\$ 37,037
Election Assistance Commission	3,714
Health and Human Services	512,546
Homeland Security	51,356

Total federal **\$ 604,653**

Total state and federal grants **\$ 1,825,103**

Total Intergovernmental Revenue **\$ 6,050,642**

**STEVENS COUNTY
MORRIS, MINNESOTA**

EXHIBIT D-2

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ 37,037
U.S. Election Assistance Commission		
Passed Through Minnesota Secretary of State Help America Vote Act Requirements Payments	90.401	\$ 3,714
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 4,756
Temporary Assistance for Needy Families (TANF) Cluster Temporary Assistance for Needy Families	93.558	48,673
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs - ARRA	93.714	2,979
Child Support Enforcement	93.563	105,722
Refugee and Entrant Assistance - State-Administered Programs	93.566	64
Child Care and Development Block Grant	93.575	4,891
Community-Based Child Abuse Prevention Grants	93.590	9,000
Stephanie Tubbs Jones Child Welfare Services Program	93.645	4,161
Foster Care - Title IV-E	93.658	25,405
Social Services Block Grant	93.667	82,923
Chafee Foster Care Independence Program	93.674	2,395
Children's Health Insurance Program	93.767	13
Medical Assistance Program	93.778	159,164
Block Grants for Community Mental Health Services	93.958	55,538
Total U.S. Department of Health and Human Services		\$ 505,684
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	\$ 30,317
Emergency Operations Center	97.052	21,039
Total U.S. Department of Homeland Security		\$ 51,356
Total Federal Awards		\$ 597,791

**STEVENS COUNTY
MORRIS, MINNESOTA**

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

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Stevens 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 Stevens 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 Stevens County, it is not intended to and does not present the financial position or changes in the net position of Stevens 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 Cluster	\$	51,652
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5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$	604,653
Grants deferred in 2011, recognized as revenue in 2012		
Medical Assistance Program		<u>(6,862)</u>
Expenditures per Schedule of Expenditures of Federal Awards	\$	<u>597,791</u>

**STEVENS COUNTY
MORRIS, MINNESOTA**

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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**STEVENS COUNTY
MORRIS, 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? **Yes**
- 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 programs are:

Child Support Enforcement	CFDA #93.563
Social Services Block Grant	CFDA #93.667
Medical Assistance Program	CFDA #93.778

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

Stevens County qualified as a low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-4 Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect County assets, proper segregation of the record keeping, custody, and authorization functions should be in place, and where management decides segregation of duties may not be cost effective, compensating controls should be in place.

Condition: Due to the limited number of personnel within several Stevens County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. The smaller fee offices generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Context: This is not unusual in operations the size of Stevens County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements 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 Stevens County's elected officials and management be mindful that limited staffing increases the risks in safeguarding the County's assets and the proper recording of its financial activity and, where possible, implement oversight procedures to ensure that internal control policies and procedures are being followed by staff.

Client's Response:

The County's management is aware of the situation and continues to monitor it to ensure that internal control policies and procedures are being followed. A committee looks for areas that we can improve on in regards to these issues.

06-2 Audit Adjustments

Criteria: 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 of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control 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.

Condition: During our audit, we identified material adjustments that resulted in significant changes to the County's financial statements. The County provides a general ledger, which includes certain accruals and other supporting schedules necessary for preparing fund level and government-wide financial statements.

Context: The inability to make all necessary accrual adjustments or to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: The following audit adjustments were necessary:

General Fund

- Increased due from other governments by \$95,709, intergovernmental state grant revenue by \$28,911, and local grant revenue by \$66,798 for grant funding received related to equipment purchases during 2012; and
- reclassified intergovernmental revenue from state grants to local grants of \$66,798 for monies received from Grant County related to the purchase of a dispatch system.

Human Services Special Revenue Fund

- Reclassified intergovernmental revenue of \$267,574 to more detailed revenue codes.

Solid Waste Special Revenue Fund

- Reclassified \$14,479 from assigned fund balance to committed fund balance for amounts committed for future expenditures by the County Board.

Governmental Activities

- Increased capital leases payable by \$6,880,833 to record the January 1, 2012, lease balance associated with the courthouse remodel of 2010;
- increased revenue by \$764,246 for receivables that were deferred at the modified accrual fund level but earned on the full accrual basis;
- decreased revenue by \$893,969 for revenues earned and recognized during 2011; and
- reclassified unrestricted net position of \$32,942,306 to restricted net position for other purposes of \$84,496, restricted for public safety of \$57,822, restricted for human services of \$7,692, restricted for conservation of \$230,723, restricted for debt service of \$12,559, restricted for highways and streets of \$581,135, and net position net investment in capital assets of \$31,967,879.

Cause: Procedures were not in place to consider the full extent of all entries needed for financial reporting.

Recommendation: We recommend County staff review trial balances and journal entries in detail and establish internal controls necessary to determine that all adjusting entries are made to ensure the County's financial statements are reported in accordance with generally accepted accounting principles.

Client's Response:

General Fund--The office that originated these grants is being informed that they need to provide complete details when obtaining the grants so that the Auditor/Treasurer Office may make the entries properly. These findings occurred due to the funding being receipted in the following year and the expenditures occurring in the audit year, because portions of the funding came from other counties, and also because the ownership of the equipment purchased was not determined until well into the following year and after the audit was occurring. A new form to help clarify grant details will be implemented to help ensure proper classification of these types of transactions, however, the complete details must still be provided to the Auditor/Treasurer Office in order to have these entries properly classified.

Human Services Special Revenue Fund--IFS mapping system is being reviewed and will be updated for the next audit year to address this issue.

Governmental Activities--Because of a change in audit crews, we were not aware that certain financial statement items would be needed in a different format. The changes, additions, and updates necessary within the IFS accounting system are numerous and significant in substance. With the limited staff and training available, it could not be fully implemented before the audit was completed and may take more than one year to be entirely completed. With guidance from the state auditors, the Auditor/Treasurer Office is in the process of implementing all financial statements needed for cash, modified and full accrual accounting.

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. Additionally, Stevens County's credit card policy requires such documentation, 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: During control testing, we reviewed eight credit card claims. Two of the credit card claims tested did not include itemized receipts for a total of four meals, of which three of the meals were over the maximum allowed by County travel policy.

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 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 requiring all staff to 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 staff approving credit card claims adhere to Minn. Stat. § 471.38, subd. 1, and to the County's credit card and travel 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:

Department Heads have been sent a memo reminding them that if they are using credit cards then they have an obligation to review the billings and make sure that all original invoices are attached and that all guidelines are being followed. Also, the Auditor/Treasurer Office will continue to review credit card billings in order to ensure that these guidelines are being followed.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

11-1 Supervisory Review Over Eligibility - Intake Function

Program: U.S. Department of Health and Human Services' Medical Assistance Program (MA) (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. These controls should include a review process for case files to ensure the intake function related to eligibility requirements is met.

Condition: The state maintains the MAXIS computer system, which is used by the County to support the eligibility determination process. During our testing of controls over MA case files, we noted no documented review process of case files. Stevens County currently does not have an Income Maintenance Supervisor to review case files.

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 contracts with the County to perform the intake function (meeting with clients to determine income and categorical eligibility for assistance).

Effect: The lack of periodic review by program supervisors of case files increases the risk that a client will receive benefits for which they are not eligible.

Cause: The County does not have a procedure in place to ensure that case files are reviewed.

Recommendation: We recommend Stevens County establish a process for reviewing a sample of case files periodically by a program supervisor or other person with knowledge of the program to ensure that all the required information affecting eligibility is obtained, correctly entered into MAXIS, and is retained in the manual case file. We further recommend that those reviews be documented.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Income Maintenance Supervisor hired

Corrective Action Planned:

Income Maintenance Supervisor hired to complete case reviews.

Anticipated Completion Date:

Immediately

ITEMS ARISING THIS YEAR

12-2 Eligibility Testing

Program: U.S. Department of Health and Human Services' Medical Assistance Program (MA) (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 MAXIS computer system, which is used by the County to support the eligibility determination process. Not all documentation was available to support participant eligibility, and some information was input into MAXIS incorrectly. The following instances were noted in our sample of 40 cases tested:

- Five cases did not have verification of asset requirements. For four of these cases, the most recent bank account balance for each case was not updated in MAXIS. One case included five bank statements in the file, but no accounts were listed in MAXIS.

- Four cases did not have verification of income. For two of the cases, it was unclear how income was calculated as the documentation did not tie to amounts listed in MAXIS. In one case, there was no support in the file to verify income amounts listed on the application. In another case, the amount reported for an individual's pension income was not accurately updated in MAXIS to amounts shown on the PERA statement provided with the application.
- Two cases did not have verification of citizenship. Two individuals who were receiving benefits did not have a birth certificate copy on record to document their U.S. citizenship.
- One case did not have an application for the renewal period where the individual was considered eligible for 2012. The most recent application was dated June 2011.

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:

Income Maintenance Supervisor hired

Corrective Action Planned:

Income Maintenance Supervisor hired to monitor eligibility.

Anticipated Completion Date:

Immediately

12-3 Social Services DHS 2556 Reporting

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

Pass-Through Agency: Minnesota Department of Human Services

Criteria: The Minnesota Department of Human Services (DHS) provides guidance on the completion of the Social Services DHS 2556 report through various bulletins.

Condition: During our testing of the DHS 2556 quarterly reports, we noted payroll and related expenditures were overstated by \$14,021 when compared to the Account Activity Report for the quarter ending September 30, 2012.

Questioned Costs: None.

Context: The amount of federal administrative reimbursements through DHS for several programs is determined based on the reporting done through the quarterly Social Services DHS 2556 reports.

Effect: Incorrect reporting results in receiving an incorrect amount of administrative federal aid.

Cause: The error resulted from recording an incorrect amount on the DHS 2556 quarterly report. This error was not detected during the review process.

Recommendation: We recommend Stevens County carefully review the information reported on the DHS 2556 quarterly reports to ensure that the amounts reported are accurate.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

David Burns

Corrective Action Planned:

Plan on taking more time to complete the report and double check results.

Anticipated Completion Date:

Immediately

PREVIOUSLY REPORTED ITEM RESOLVED

**Supervisory Review Over Reporting - Medical Assistance (CFDA No. 93.778)
(11-1)**

The Human Services Director stated that she reviewed the quarterly DHS 2550 and 2556 reports; however, documentation of this review was not available.

Resolution

Supervisory review of DHS 2550 and 2556 reports is now documented.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-1 Publishing Board Minutes and Claims Paid

Criteria: Minnesota Statutes § 375.12 requires that County Board minutes be published within 30 days of the meeting and include an individualized, itemized list of County Board-approved payments over \$2,000. For claims \$2,000 or less, the total number of claims and total amount shall be stated. The County can publish summaries of the minutes, meeting the requirement of Minn. Stat. § 331A.01. However, the County must still publish claims as required by Minn. Stat. § 375.12.

Condition: Stevens County does not publish an itemized list of County Board-approved payments over \$2,000 with the total number of claims and total amount for payments under \$2,000 as provided by Minn. Stat. § 375.12. The publication provides only a summary by fund of the County Board-approved payments.

Context: The County is concerned that publishing an itemized list of County Board-approved payments over \$2,000 would add substantial cost and serve little public interest. They have encouraged the Association of Minnesota Counties to pursue a change of the statutes.

Effect: Noncompliance with Minn. Stat. § 375.12.

Cause: The County Board does not wish to incur the additional cost of publication and continues to make the information physically available at the County Courthouse.

Recommendation: We recommend the County comply with the above-noted statute and publish an itemized list of County Board-approved payments over \$2,000 with the total number of claims and total amount for payments under \$2,000. We further recommend the County include in the list the name of the vendor for which the County purchased goods or services instead of the name of the credit card company.

Client's Response:

In response to Minn. Stat. § 375.17 regarding the monthly publication of vendor payments, the County Board continues to choose not to publish this information due to the cost but continues to make the information physically available at the County Courthouse.

ITEM ARISING THIS YEAR

12-4

Signed Broker Statements

Criteria: Minnesota Statute § 118A.04, subd. 9, states:

(a) For the purpose of this section and section 118A.05, the term "broker" means a broker-dealer, broker, or agent of a government entity, who transfers, purchases, sells, or obtains securities for, or on behalf of, a government entity.

(b) Prior to completing an initial transaction with a broker, a government entity shall provide annually to the broker a written statement of investment restrictions which shall include a provision that all future investments are to be made in accordance with Minnesota Statutes governing the investment of public funds.

(c) A broker must acknowledge annually receipt of the statement of investment restrictions in writing and agree to handle the government entity's account in accordance with these restrictions. A government entity may not enter into a transaction with a broker until the broker has provided this written agreement to the government entity.

Condition: Stevens County has repurchase agreement sweep accounts with Bremer Bank and Bank of the West. Under these account agreements, the banks choose and transfer securities to the County's account. However, neither bank has signed a broker certification form as required by Minn. Stat. § 118A.04.

Context: The County has \$930,750 invested under repurchase agreements with Bank of the West and \$1,056,762 with Bremer Bank.

Effect: The County is not in compliance with Minn. Stat. § 118A.04.

Cause: The County was unaware of the requirement.

Recommendation: We recommend that the County require every entity acting as a broker sign a broker certification form.

Client's Response:

The certification forms are being or have been obtained from the banks.

B. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

12-5 Custodial Credit Risk Policy

Criteria: Public entities should include in their investment policy guidance as to the acceptable level of investment risks, including the acceptable level of custodial credit risk.

Condition: The County has investment custodial credit risk through two bank sweep account repurchase agreements. Under both agreements, the County's securities are held by the bank counterparty.

Context: These bank sweep repurchase agreement accounts are with Bremer Bank and Bank of the West and subject the County's investments to custodial credit risk in the amounts of \$1,056,762 and \$930,750, respectively.

Effect: Increased risk that the County's investments would not be recovered in the case that the counter-party defaults.

Cause: The County's investment policy was drafted in 1995 and states that: "Safety of principal is the first priority in all Stevens County investments." However, it does not have any specific guidance on the level of custodial credit risk to which County investments should be subject.

Recommendation: We recommend that the County address the acceptable level of custodial credit risk for County investments in its investment policy.

Client's Response:

The County Board will address this issue in its investment policy after having it explained to the Board by the OSA representative.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE 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
Stevens 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 Stevens 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 September 13, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Stevens 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph 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 may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 06-2 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-4 and 12-1 to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

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 Stevens County does not have any tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Stevens County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as items 04-1 and 12-4. 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

Also included in the Schedule of Findings and Questioned Costs is a management practices comment. We believe this recommendation to be of benefit to the County, and it is reported for that purpose.

Stevens County's responses to the internal control, legal compliance, and management practices 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

September 13, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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REBECCA OTTO
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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
Stevens County

Report on Compliance for Each Major Federal Program

We have audited Stevens 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 each of the County's major federal programs for the year ended December 31, 2012. Stevens County's major federal programs are 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 each of Stevens County's major federal programs 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 Stevens 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 each 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, Stevens County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 12-2 and 12-3. Our opinion on each major federal program is not modified with respect to these matters.

Stevens County's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. Stevens County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of Stevens 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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each 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 certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 11-1, 12-2, and 12-3, that we consider to be significant deficiencies.

Stevens County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. Stevens County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

September 13, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR