STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

STEVENS COUNTY
MORRIS, MINNESOTA

YEAR ENDED DECEMBER 31, 2009

Description of the Office of the State Auditor

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

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

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

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

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

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

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STEVENS COUNTY
MORRIS, MINNESOTA

Year Ended December 31, 2009

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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Introductory Section

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STEVENS COUNTY
MORRIS, MINNESOTA

ORGANIZATION
DECEMBER 31, 2009

			Term Expires
Elected			
Commissioners			
Board Member	Paul Watzke	District 1	January 2013
Board Member	Herb Kloos	District 2	January 2011
Board Member	Ron Staples	District 3	January 2013
Chair	Larry Sayre	District 4	January 2013
Board Member	Don Munsterman	District 5	January 2011
Attorney	Charles Glasrud		January 2011
Auditor/Treasurer	Neil Wiese		January 2011
County Recorder	Virginia Mahoney		January 2011
Registrar of Titles	Virginia Mahoney		January 2011
County Sheriff	Randy Willis		January 2011
Appointed			
Assessor	Judy Thorstad		December 2012
County Coordinator	Jim Thoreen		Indefinite
Coroner	Michael Busian, M.D.		Indefinite
Highway Engineer	Brian Giese		Indefinite
Veterans Service Officer	Hugh Reimers		Indefinite
Human Services Director	Joanie Murphy		Indefinite

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Stevens County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Stevens County, Minnesota, as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Stevens County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Stevens County as of and for the year ended December 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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 and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2010, 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* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 17, 2010

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2009

Assets		
Cash and pooled investments	$	8,712,669
Taxes receivable		
Current - net		16,528
Prior - net		9,952
Special assessments receivable		
Current - net		5,713
Delinquent - net		5,240
Deferred - net		217,478
Accounts receivable - net		281,515
Accrued interest receivable		46,717
Due from other governments		3,711,784
Inventories		191,724
Capital assets		
Non-depreciable		5,522,398
Depreciable - net of accumulated depreciation		23,206,542
Total Assets	**$**	**41,928,260**
Liabilities		
Accounts payable	$	226,405
Salaries payable		48,997
Contracts payable		913,734
Due to other governments		47,639
Permit deposits		1,800
Unearned revenue		38,200
Long-term liabilities		
Due within one year		209,184
Due in more than one year		2,529,480
Total Liabilities	**$**	**4,015,439**
Net Assets		
Invested in capital assets - net of related debt	$	26,436,709
Restricted for		
General government		1,744,049
Public safety		110,446
Highways and streets		773,486
Held in trust for other purposes		174
Unrestricted		8,847,957
Total Net Assets	**$**	**37,912,821**

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

STEVENS COUNTY
MORRIS, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Primary government		
Governmental activities		
General government	$ 2,307,449	$ 347,846
Public safety	1,397,889	37,090
Highways and streets	2,989,988	340,554
Sanitation	234,927	85,915
Human services	2,514,775	153,398
Health	117,824	-
Culture and recreation	187,758	-
Conservation of natural resources	383,617	1,700
Economic development	103,830	-
Total governmental activities	**$ 10,238,057**	**$ 966,503**
Business-type activities		
Ambulance	1,454,434	1,396,286
Total Primary Government	**$ 11,692,491**	**$ 2,362,789**

General Revenues
Property taxes
Grants and contributions not restricted to specific programs
Payments in lieu of tax
Investment income
Miscellaneous
Extraordinary item
Transfers

Total general revenues, extraordinary item, and transfers

Change in net assets

Net Assets - Beginning

Net Assets - Ending

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

EXHIBIT 2

Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Business-Type Activities	Total
$ 117,485	$ -	$ (1,842,118)	$ -	$ (1,842,118)
171,627	-	(1,189,172)	-	(1,189,172)
2,406,738	1,014,352	771,656	-	771,656
55,475	-	(93,537)	-	(93,537)
1,236,593	-	(1,124,784)	-	(1,124,784)
-	-	(117,824)	-	(117,824)
69,319	-	(118,439)	-	(118,439)
102,463	-	(279,454)	-	(279,454)
-	-	(103,830)	-	(103,830)
$ 4,159,700	**$ 1,014,352**	**$ (4,097,502)**	**$ -**	**$ (4,097,502)**
-	-	-	(58,148)	(58,148)
$ 4,159,700	**$ 1,014,352**	**$ (4,097,502)**	**$ (58,148)**	**$ (4,155,650)**
		$ 4,321,702	$ -	$ 4,321,702
		1,387,889	-	1,387,889
		40,788	-	40,788
		160,771	-	160,771
		2,288	-	2,288
		-	576,101	576,101
		1,110,748	(1,110,748)	-
		$ **7,024,186**	$ **(534,647)**	$ **6,489,539**
		$ 2,926,684	**$ (592,795)**	**$ 2,333,889**
		34,986,137	**592,795**	**35,578,932**
		$ 37,912,821	**$ -**	**$ 37,912,821**

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

STEVENS COUNTY
MORRIS, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	General	Road and Bridge
Assets		
Cash and pooled investments	$ 4,776,733	$ 1,313,601
Petty cash and change funds	6,650	50
Undistributed cash in agency funds	33,711	8,359
Cash with fiscal agent	30,000	-
Taxes receivable		
Current	9,215	2,810
Prior	5,343	1,819
Special assessments		
Current	-	-
Delinquent	-	-
Deferred	-	-
Accounts receivable	248,215	2,433
Accrued interest receivable	46,717	-
Due from other funds	3,794	2,973
Due from other governments	2,328,746	1,221,524
Advance to other funds	87,500	-
Inventories	-	191,724
Total Assets	**$ 7,576,624**	**$ 2,745,293**

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

EXHIBIT 3

Human Services		Ditch		Solid Waste Nonmajor Governmental Fund		Total Governmental Funds	
$	1,769,223	$	289,864	$	466,185	$	8,615,606
	-		-		-		6,700
	13,395		4,001		897		60,363
	-		-		-		30,000
	4,503		-		-		16,528
	2,790		-		-		9,952
	-		5,713		-		5,713
	-		5,240		-		5,240
	-		217,478		-		217,478
	28,480		-		2,387		281,515
	-		-		-		46,717
	-		-		-		6,767
	161,514		-		-		3,711,784
	-		-		-		87,500
	-		-		-		191,724
$	**1,979,905**	**$**	**522,296**	**$**	**469,469**	**$**	**13,293,587**

STEVENS COUNTY
MORRIS, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	General	Road and Bridge
Liabilities and Fund Balances		
Liabilities		
Accounts payable	$ 105,109	$ 40,029
Salaries payable	10,926	33,924
Compensated absences	13,490	-
Contracts payable	847,598	66,136
Due to other funds	1,153	-
Due to other governments	40,660	2,461
Deferred revenue - unavailable	32,274	1,098,313
Deferred revenue - unearned	-	-
Permit deposits	-	1,800
Advance from other funds	-	-
Total Liabilities	**$ 1,051,210**	**$ 1,242,663**
Fund Balances		
Reserved for		
Encumbrances	$ 1,579,775	$ -
Advance to other funds	87,500	-
Inventories	-	191,724
Real estate tax shortfall	84,496	-
State aid highway projects	-	2,023
HAVA	2,540	-
DARE	15,963	-
Missing heirs	174	-
Recorder's compliance fund	53,184	-
Recorder's equipment purchases	24,054	-
Enhanced 911	94,483	-
Unreserved		
Designated for		
Future expenditures	300,000	150,000
Cash flows	2,276,017	1,002,728
Capital improvements	1,807,829	-
Compensated absences	199,399	156,155
Undesignated	-	-
Unreserved, reported in nonmajor		
Special revenue funds	-	-
Total Fund Balances	**$ 6,525,414**	**$ 1,502,630**
Total Liabilities and Fund Balances	**$ 7,576,624**	**$ 2,745,293**

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

EXHIBIT 3
(Continued)

Human Services	Ditch	Solid Waste Nonmajor Governmental Fund	Total Governmental Funds
$ 51,972	$ 29,295	$ -	$ 226,405
4,147	-	-	48,997
-	-	-	13,490
-	-	-	913,734
4,003	1,394	217	6,767
4,518	-	-	47,639
57,440	228,090	1,806	1,417,923
38,200	-	-	38,200
-	-	-	1,800
-	87,500	-	87,500
$ 160,280	**$ 346,279**	**$ 2,023**	**$ 2,802,455**
$ -	$ -	$ -	$ 1,579,775
-	-	-	87,500
-	-	-	191,724
-	-	-	84,496
-	-	-	2,023
-	-	-	2,540
-	-	-	15,963
-	-	-	174
-	-	-	53,184
-	-	-	24,054
-	-	-	94,483
150,000	-	-	600,000
1,247,803	-	-	4,526,548
-	-	-	1,807,829
77,390	-	-	432,944
344,432	176,017	-	520,449
-	-	467,446	467,446
$ 1,819,625	**$ 176,017**	**$ 467,446**	**$ 10,491,132**
$ 1,979,905	**$ 522,296**	**$ 469,469**	**$ 13,293,587**

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STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT 4

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

Fund balance - total governmental funds (Exhibit 3)		**$ 10,491,132**
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		28,728,940
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,417,923
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	$ (2,292,231)	
Compensated absences	(432,943)	(2,725,174)
Net Assets of Governmental Activities (Exhibit 1)		**$ 37,912,821**

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

	General	Road and Bridge
Revenues		
Taxes	$ 2,421,491	$ 728,143
Special assessments	-	-
Licenses and permits	10,742	-
Intergovernmental	1,459,685	3,682,964
Charges for services	231,299	202,177
Fines and forfeits	10,414	-
Investment earnings	173,830	-
Miscellaneous	134,869	138,427
Total Revenues	**$ 4,442,330**	**$ 4,751,711**
Expenditures		
Current		
General government	$ 2,247,733	$ -
Public safety	1,376,021	-
Highways and streets	-	4,670,474
Sanitation	218,329	-
Human services	-	-
Health	117,824	-
Culture and recreation	187,758	-
Conservation of natural resources	283,721	-
Economic development	103,830	-
Intergovernmental		
Highways and streets	210,149	-
Capital outlay	2,510,265	-
Total Expenditures	**$ 7,255,630**	**$ 4,670,474**
Excess of Revenues Over (Under) Expenditures	**$ (2,813,300)**	**$ 81,237**
Other Financing Sources (Uses)		
Transfers in	$ 3,643,922	$ -
Transfers out	-	-
Capital lease issued	2,292,231	-
Total Other Financing Sources (Uses)	**$ 5,936,153**	**$ -**
Change in Fund Balance	**$ 3,122,853**	**$ 81,237**
Fund Balance - January 1	**3,402,561**	**1,368,573**
Increase (decrease) in reserved for inventories	**-**	**52,820**
Fund Balance - December 31	**$ 6,525,414**	**$ 1,502,630**

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

EXHIBIT 5

Human Services	Ditch	Solid Waste Nonmajor Governmental Fund	Total
$ 1,167,041	$ -	$ -	$ 4,316,675
-	152,600	-	152,600
-	-	-	10,742
1,554,311	9,500	-	6,706,460
86,254	-	85,543	605,273
5,358	-	-	15,772
-	5,700	-	179,530
61,786	1,700	-	336,782
$ 2,874,750	**$ 169,500**	**$ 85,543**	**$ 12,323,834**
$ -	$ -	$ -	$ 2,247,733
-	-	-	1,376,021
-	-	-	4,670,474
-	-	9,646	227,975
2,495,605	-	-	2,495,605
-	-	-	117,824
-	-	-	187,758
-	98,425	-	382,146
-	-	-	103,830
-	-	-	210,149
-	-	-	2,510,265
$ 2,495,605	**$ 98,425**	**$ 9,646**	**$ 14,529,780**
$ 379,145	**$ 71,075**	**$ 75,897**	**$ (2,205,946)**
$ -	$ -	$ -	$ 3,643,922
(2,500,000)	-	(33,174)	(2,533,174)
-	-	-	2,292,231
$ (2,500,000)	**$ -**	**$ (33,174)**	**$ 3,402,979**
$ (2,120,855)	**$ 71,075**	**$ 42,723**	**$ 1,197,033**
3,940,480	**104,942**	**424,723**	**9,241,279**
-	**-**	**-**	**52,820**
$ 1,819,625	**$ 176,017**	**$ 467,446**	**$ 10,491,132**

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, 2009

Net change in fund balance - total governmental funds (Exhibit 5)		**$ 1,197,033**
Amounts reported for governmental activities in the statement of activities are different because:		
In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.		
Deferred revenue - December 31	$ 1,417,923	
Deferred revenue - January 1	(1,687,764)	(269,841)
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for general capital assets and infrastructure	$ 5,428,448	
Current year depreciation	(1,148,685)	4,279,763
Capital leases issued provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		
Capital lease issued		(2,292,231)
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 the governmental funds.		
Change in compensated absences	$ (40,860)	
Change in inventories	52,820	11,960
Change in Net Assets of Governmental Activities (Exhibit 2)		**$ 2,926,684**

PROPRIETARY FUND

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STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT 7

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
AMBULANCE ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

Operating Revenues		
Charges for services	$	1,378,952
Miscellaneous		17,334
Total Operating Revenues	**$**	**1,396,286**
Operating Expenses		
Personal services	$	525,916
Ambulance operations		369,058
Emergency medical services training		17,830
Bad debts		469,907
Depreciation		71,723
Total Operating Expenses	**$**	**1,454,434**
Operating Income (Loss)	**$**	**(58,148)**
Extraordinary Item		
Gain on sale of ambulance service		576,101
Transfers Out		(1,110,748)
Change in Net Assets	**$**	**(592,795)**
Net Assets - January 1		**592,795**
Net Assets - December 31	**$**	**-**

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

STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT 8

STATEMENT OF CASH FLOWS
AMBULANCE ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009
Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities		
Receipts from customers and users	$	843,787
Payments to suppliers		(262,082)
Payments to employees		(524,711)
Net cash provided by (used in) operating activities	**$**	**56,994**
Cash Flows from Noncapital Financing Activities		
Transfer to other fund	$	(934,477)
Proceeds from sale of ambulance service		810,000
Net cash provided by (used in) noncapital financing activities	**$**	**(124,477)**
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets	**$**	**(17,465)**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**(84,948)**
Cash and Cash Equivalents at January 1		**84,948**
Cash and Cash Equivalents at December 31	**$**	**-**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**(58,148)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	$	71,723
Bad debts expense		469,907
(Increase) decrease in accounts receivable		(559,005)
(Increase) decrease in due from other governments		3,178
(Increase) decrease in due from other funds		3,328
Increase (decrease) in accounts payable		53,453
Increase (decrease) in salaries payable		608
Increase (decrease) in compensated absences - current		6,096
Increase (decrease) in due to other funds		112
Increase (decrease) in due to other governments		71,241
Increase (decrease) in compensated absences - long-term		(5,499)
Total adjustments	**$**	**115,142**
Net Cash Provided by (Used in) Operating Activities	**$**	**56,994**

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

FIDUCIARY FUNDS

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STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT 9

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2009

		Agency Funds
Assets		
Cash and pooled investments	**$**	**650,747**
Liabilities		
Due to other governments	$	629,894
Advance taxes		20,853
Total Liabilities	**$**	**650,747**

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

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2009. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so. 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.C. The County also participates in jointly-governed organizations and a related organization described in Note 7.D. and Note 7.E., respectively.

B. Basic Financial Statements

1. Government-Wide Statements

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

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements

      1. Government-Wide Statements (Continued)

counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities and business-type 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, proprietary, and fiduciary--are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. The remaining governmental fund, the Solid Waste Special Revenue Fund, is reported as a nonmajor fund.

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements

      2. Fund Financial Statements (Continued)

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

The County reports the following major governmental funds:

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

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

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

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

The County reports the following major enterprise fund:

The Ambulance Enterprise Fund is used to account for the operations of the County ambulance service. Financing is provided by user service charges and a County subsidy. The Ambulance Enterprise Fund was closed effective December 31, 2009.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2009, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2009 were $179,530.

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 operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

3. Receivables and Payables

Activities 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).

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

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

4. Inventories

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

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the 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.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Capital Assets (Continued)

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets 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:

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

6. Compensated Absences

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

1. Summary of Significant Accounting Policies

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

7. Deferred Revenue

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

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, the face amount of the debt issued is reported as an other financing source.

9. Fund Equity

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

10. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

Ditch Fund Deficits

Of 30 drainage systems, 5 have incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund balances of the Ditch Special Revenue Fund as of December 31, 2009.

Account balances	$	233,980
Account deficits		(57,963)
Fund Balance	$	176,017

For internal purposes, the County accounts for its ditches on the accrual basis. Under the full accrual basis where revenues are recognized when earned, the Ditch Special Revenue Fund reports a positive fund balance of $404,107, with only one ditch reporting a deficit.

B. Excess of Expenditures Over Budget

The General Fund had expenditures in excess of budget for the year ended December 31, 2009. Final budget was $4,611,406, which was less than actual expenditures of $7,255,630 by $2,644,224.

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:

Cash and pooled investments		
Governmental activities	$	8,712,669
Fiduciary funds - agency funds		650,747
Total Cash and Investments	$	9,363,416

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 County 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, 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, 2009, 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;

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.

The County does not have additional policies for the investment risks, described below, beyond complying with the requirements of Minnesota statutes.

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.

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, 2009, $1,248,677 of marketable certificates of deposit, $3,377,119 of repurchase agreements, and $2,485,498 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.

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, 2009, and information relating to potential investment risks:

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Over 5 Percent of Portfolio	Interest Rate Risk: Maturity Date	Carrying (Fair) Value
U.S. government agency securities					
Federal National Mortgage Association	AAA	Moody's		07/01/2011	$ 75,551
Federal National Mortgage Association	AAA	Moody's		02/21/2023	502,314
Federal National Mortgage Association	AAA	Moody's		11/19/2024	254,070
Total Federal National Mortgage Association			9.1%		$ 831,935
Federal Home Loan Mortgage Corporation	AAA	Moody's		05/01/2014	$ 58,217
Federal Home Loan Mortgage Corporation	AAA	Moody's		09/01/2018	68,177
Federal Home Loan Mortgage Corporation	AAA	Moody's		05/12/2020	761,213
Total Federal Home Loan Mortgage Corporation			9.7%		$ 887,607
Federal Home Loan Bank	AAA	Moody's		10/22/2012	$ 221,551
Federal Home Loan Bank	AAA	Moody's		10/15/2014	501,094
Total Federal Home Loan Bank			7.9%		$ 722,645
Small Business Administration Loan Pool	N/R	N/A		09/25/2012	$ 23,912
Small Business Administration Loan Pool	N/R	N/A		06/25/2020	66,478
Small Business Administration Loan Pool	N/R	N/A		07/25/2020	31,172
Small Business Administration Loan Pool	N/R	N/A		11/25/2021	27,952
Small Business Administration Loan Pool	N/R	N/A		07/25/2023	54,100
Small Business Administration Loan Pool	N/R	N/A		07/25/2023	20,021
Small Business Administration Loan Pool	N/R	N/A		04/25/2024	7,005
Small Business Administration Loan Pool	N/R	N/A		04/25/2024	83,334
Small Business Administration Loan Pool	N/R	N/A		10/25/2024	72,881
Small Business Administration Loan Pool	N/R	N/A		11/25/2025	61,039
Small Business Administration Collateralized Mortgage Obligation	N/R	N/A		02/10/2018	293,250
Total Small Business Administration			8.1%		$ 741,144
United States Department of Agriculture Loan Pool	N/R	N/A	<5.0%	04/01/2011	$ 160,442

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Over 5 Percent of Portfolio	Interest Rate Risk: Maturity Date	Carrying (Fair) Value
Municipal bonds					
Virginia State Housing Development Authority					
Rental Housing Bonds	Aa1	Moody's	<5.0%	03/01/2029	$ 254,720
Investment pools/mutual funds					
MAGIC Fund	N/A	N/A	N/A		$ 26
Negotiable certificates of deposit	N/A	N/A	N/A		$ 2,135,682
Repurchase agreements	N/A	N/A	N/A		$ 3,377,119
Total investments					$ 9,111,320
Deposits					245,396
Change funds					6,700
Total Cash and Investments					$ 9,363,416

N/A - Not Applicable
N/R - Not Rated

2. Receivables

Receivables as of December 31, 2009, for the County's governmental activities and business-type activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	$ 26,480	$ -
Special assessments	228,431	94,426
Accounts	281,515	-
Interest	46,717	-
Due from other governments	3,711,784	-
Total Governmental Activities	$ 4,294,927	$ 94,426

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

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

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 883,026	$ -	$ -	$ 883,026
Construction in progress	565,075	4,105,947	31,650	4,639,372
Total capital assets not depreciated	$ 1,448,101	$ 4,105,947	$ 31,650	$ 5,522,398
Capital assets depreciated				
Improvements other than buildings	$ 142,212	$ -	$ -	$ 142,212
Building improvements	14,945	-	-	14,945
Buildings	2,910,331	-	-	2,910,331
Machinery, furniture, and equipment	4,206,330	131,987	193,388	4,144,929
Infrastructure	32,194,556	1,222,164	-	33,416,720
Total capital assets depreciated	$ 39,468,374	$ 1,354,151	$ 193,388	$ 40,629,137
Less: accumulated depreciation for				
Improvements other than buildings	$ 45,831	$ 7,111	$ -	$ 52,942
Building improvements	1,660	1,198	-	2,858
Buildings	1,904,333	59,406	-	1,963,739
Machinery, furniture, and equipment	2,787,236	336,135	193,388	2,929,983
Infrastructure	11,728,238	744,835	-	12,473,073
Total accumulated depreciation	$ 16,467,298	$ 1,148,685	$ 193,388	$ 17,422,595
Total capital assets depreciated, net	$ 23,001,076	$ 205,466	$ -	$ 23,206,542
Governmental Activities Capital Assets, Net	$ 24,449,177	$ 4,311,413	$ 31,650	$ 28,728,940

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 6,000	$ -	$ 6,000	$ -
Capital assets depreciated				
Land improvements	$ 10,042	$ 18,250	$ 28,292	$ -
Buildings	145,660	-	145,660	-
Machinery, furniture, and equipment	615,417	93,652	709,069	-
Total capital assets depreciated	$ 771,119	$ 111,902	$ 883,021	$ -
Less: accumulated depreciation for				
Land improvements	$ 10,042	$ 912	$ 10,954	$ -
Buildings	99,045	5,827	104,872	-
Machinery, furniture, and equipment	385,990	64,984	450,974	-
Total accumulated depreciation	$ 495,077	$ 71,723	$ 566,800	$ -
Total capital assets depreciated, net	$ 276,042	$ 40,179	$ 316,221	$ -
Business-Type Activities Capital Assets, Net	$ 282,042	$ 40,179	$ 322,221	$ -

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

Governmental Activities	
General government	$ 128,730
Public safety	52,802
Highways and streets, including depreciation of infrastructure assets	941,601
Human services	19,096
Sanitation	6,456
Total Depreciation Expense - Governmental Activities	$ 1,148,685
Business-Type Activities	
Ambulance	$ 71,723

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Human Services	$ 3,794
Road and Bridge	General	$ 1,153
	Human Services	209
	Ditch	1,394
	Solid Waste	217
Total due to Road and Bridge Fund		$ 2,973
Total Due To/From Other Funds		$ 6,767

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

2. Advance From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch	$ 87,500

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.

3. Detailed Notes on All Funds

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

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2009, consisted of the following:

Transfer to General Fund from Solid Waste Special Revenue Fund	$	33,174	Provide funding for recycling activities
Transfer to General Fund from Human Services Special Revenue Fund		2,500,000	Provide funding for courthouse construction
Transfer to General Fund from Ambulance Enterprise Fund		1,110,748	To close remaining balances in the Ambulance Fund to the General Fund
Total Transfers Between Funds	$	3,643,922	

C. Liabilities

1. Payables

Payables at December 31, 2009, were as follows:

		Governmental Activities
Accounts	$	226,405
Salaries		48,997
Contracts		913,734
Due to other governments		47,639
Permit deposits		1,800
Total Payables	$	1,238,575

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Deferred Revenue

Deferred revenue as of December 31, 2009, for the County's governmental funds are as follows:

	Deferred Unavailable	Deferred Unearned
Governmental funds		
Taxes and special assessments	$ 248,986	$ -
State-aid highway allotments	1,082,800	-
Charges for services	7,930	-
Grants	56,389	38,200
Interest	21,818	-
Total Governmental Funds	$ 1,417,923	$ 38,200

3. Construction and Other Significant Commitments

The County has active construction projects as of December 31, 2009.

	Spent–to–Date	Remaining Commitment
Governmental Activities		
General government		
Courthouse remodel/construction	$ 1,183,877	$ 6,163,459

4. Capital 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 in order to finance the construction/remodel of the courthouse. The proceeds of the sale of these bonds were placed into an escrow account. As the County requests construction reimbursements, the funds will be transferred from escrow to the HRA, which will subsequently transfer 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

3. Detailed Notes on All Funds

C. Liabilities

4. Capital Lease (Continued)

December 31, 2009, the County has made one reimbursement request totaling $2,292,231. The County will recognize a lease obligation only up to the amount of the reimbursement requests instead of the outstanding bond balance. Since a final repayment schedule is not available due to not recognizing the outstanding bond balance, a schedule of future minimum lease obligations is not appropriate.

5. Changes in Long-Term Liabilities

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

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital leases	$ -	$ 2,292,231	$ -	$ 2,292,231	$ -
Compensated absences	399,859	383,916	337,342	446,433	209,184
Total Long-Term Liabilities	$ 399,859	$ 2,676,147	$ 337,342	$ 2,738,664	$ 209,184

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$ 12,893	$ 18,910	$ 31,803	$ -	$ -

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 Public Employees Retirement Fund and the Public Employees Police and Fire Fund, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

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

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

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

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, and all Public Employees Police and Fire Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

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. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.4 percent.

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

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

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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

	2009	2008	2007
Public Employees Retirement Fund	$ 328,820	$ 302,198	$ 264,615
Public Employees Police and Fire Fund	67,134	43,819	39,525

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

B. Defined Contribution Plan

Two employees 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 5.0 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

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, 2009, were:

	Employee	Employer
Contribution amount	$ 5,712	$ 5,712
Percentage of covered payroll	5.0%	5.0%

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. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT), formerly the Minnesota Counties Insurance Trust. 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 $430,000 per claim in 2009 and $450,000 per claim in 2010. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

6. Conduit Debt

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, 2009, the outstanding principal amount was $6,000,000.

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.

B. Claims and Litigation

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 County.

C. 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 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

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

West Central Area Agency on Aging (Continued)

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

Mid-State Community Health Services

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.

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Mid-State Community Health Services (Continued)

Complete financial information can be obtained from:

Mid-State Community Health Services
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 2009 was $115,306 based on a Cost Allocation Plan developed by Fiscal Officer, Karen Folkens.

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

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

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Rainbow Rider Transit Board (Continued)

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.

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.

During 2009, 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

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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.

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.

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Regional Fitness Center (Continued)

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 2009, Stevens County did not contribute any funds to the Regional Fitness Center.

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.

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Pomme de Terre River Association (Continued)

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 2009, 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

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 N.
Glencoe, Minnesota 55336

Central Minnesota Regional Radio 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, and includes 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.

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Central Minnesota Regional Radio Board (Continued)

The purpose of the Central Minnesota Regional Radio 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 Regional Radio Board is vested in the Central Minnesota Regional Radio 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 Regional Radio Board's by-laws.

In the event of dissolution of the Central Minnesota Regional Radio 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 Regional Radio 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 Regional Radio Board
City of St. Cloud
Office of the Mayor
City Hall
400 Second Street South
St. Cloud, Minnesota 56303

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

D. 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.

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.

7. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Stevens County Family Services Collaborative (Continued)

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 2009, the County did not contribute any funds to the Collaborative.

E. 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 2009, Stevens County did not appropriate any funds to the HRA. The County's accountability for the organization does not extend beyond making the appointments.

8. Extraordinary Item - Sale of Ambulance Service

The County entered into an asset purchase agreement effective December 31, 2009, with RWF Enterprises, Inc., for the sale of the Stevens County Ambulance Service. The terms of the agreement are for the County to sell the Ambulance Service to RWF Enterprises for a sum of $810,000. Factoring the current year activity and the year-end balance sheet account balances, Stevens County reports a net extraordinary item gain of $576,101.

REQUIRED SUPPLEMENTARY INFORMATION

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Schedule 1

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

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Revenues				
Taxes	$ 2,639,735	$ 2,639,735	$ 2,421,491	$ (218,244)
Licenses and permits	15,500	15,500	10,742	(4,758)
Intergovernmental	883,823	883,823	1,459,685	575,862
Charges for services	300,500	300,500	231,299	(69,201)
Fines and forfeits	15,500	15,500	10,414	(5,086)
Investment earnings	375,400	375,400	173,830	(201,570)
Miscellaneous	191,650	191,650	134,869	(56,781)
Total Revenues	**$ 4,422,108**	**$ 4,422,108**	**$ 4,442,330**	**$ 20,222**
Expenditures				
Current				
General government				
Commissioners	$ 273,735	$ 273,735	$ 270,920	$ 2,815
Law library	13,000	13,000	9,272	3,728
County coordinator	98,857	98,857	78,817	20,040
County auditor/treasurer	337,290	337,290	385,215	(47,925)
County assessor	207,843	207,843	209,656	(1,813)
Elections	945	945	5,896	(4,951)
Accounting and auditing	60,000	60,000	70,398	(10,398)
Data processing	225,104	225,104	218,310	6,794
Attorney	197,745	197,745	189,901	7,844
Recorder	255,047	255,047	251,244	3,803
Planning and zoning	75,112	75,112	68,283	6,829
Buildings and plant	371,078	371,078	345,091	25,987
Veterans service officer	35,434	35,434	65,882	(30,448)
Unallocated	151,500	151,500	78,848	72,652
Total general government	**$ 2,302,690**	**$ 2,302,690**	**$ 2,247,733**	**$ 54,957**
Public safety				
Sheriff	$ 1,257,334	$ 1,257,334	$ 1,155,449	$ 101,885
Boat and water safety	-	-	380	(380)
Safety coordinator	34,446	34,446	32,779	1,667
Coroner	25,000	25,000	34,108	(9,108)
E-911 system	43,500	43,500	21,057	22,443
Probation and parole	96,011	96,011	80,141	15,870
Civil defense	64,946	64,946	52,107	12,839
Total public safety	**$ 1,521,237**	**$ 1,521,237**	**$ 1,376,021**	**$ 145,216**

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

STEVENS COUNTY
MORRIS, MINNESOTA

Schedule 1
(Continued)

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

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Expenditures				
Current (Continued)				
Sanitation				
Recycling	$ 114,294	$ 114,294	$ 140,115	$ (25,821)
Hazardous waste	72,394	72,394	78,214	(5,820)
Total sanitation	**$ 186,688**	**$ 186,688**	**$ 218,329**	**$ (31,641)**
Health				
Nursing service	**$ 115,306**	**$ 115,306**	**$ 117,824**	**$ (2,518)**
Culture and recreation				
Historical society	$ 65,000	$ 65,000	$ 65,000	$ -
Regional library	53,439	53,439	53,439	-
Snowmobile trails	-	-	69,319	(69,319)
Total culture and recreation	**$ 118,439**	**$ 118,439**	**$ 187,758**	**$ (69,319)**
Conservation of natural resources				
County extension	$ 138,437	$ 138,437	$ 125,164	$ 13,273
Soil and water conservation	111,825	111,825	111,825	-
Agricultural inspections	9,534	9,534	8,565	969
Agricultural society/County fair	37,750	37,750	37,750	-
Predator control	1,500	1,500	417	1,083
Total conservation of natural resources	**$ 299,046**	**$ 299,046**	**$ 283,721**	**$ 15,325**
Economic development				
Housing and redevelopment	$ -	$ -	$ 35,830	$ (35,830)
Industrial development	68,000	68,000	68,000	-
Total economic development	**$ 68,000**	**$ 68,000**	**$ 103,830**	**$ (35,830)**
Intergovernmental				
Highways and streets	**$ -**	**$ -**	**$ 210,149**	**$ (210,149)**
Capital outlay				
General government	**$ -**	**$ -**	**$ 2,510,265**	**$ (2,510,265)**
Total Expenditures	**$ 4,611,406**	**$ 4,611,406**	**$ 7,255,630**	**$ (2,644,224)**

STEVENS COUNTY
MORRIS, MINNESOTA

Schedule 1
(Continued)

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Excess of Revenues Over (Under) Expenditures	**$ (189,298)**	**$ (189,298)**	**$ (2,813,300)**	**$ (2,624,002)**
Other Financing Sources (Uses)				
Transfers in	$ 33,174	$ 33,174	$ 3,643,922	$ 3,610,748
Proceeds from capital lease	-	-	2,292,231	2,292,231
Total Other Financing Sources (Uses)	**$ 33,174**	**$ 33,174**	**$ 5,936,153**	**$ 5,902,979**
Net Change in Fund Balance	**$ (156,124)**	**$ (156,124)**	**$ 3,122,853**	**$ 3,278,977**
Fund Balance - January 1	**3,402,561**	**3,402,561**	**3,402,561**	**-**
Fund Balance - December 31	**$ 3,246,437**	**$ 3,246,437**	**$ 6,525,414**	**$ 3,278,977**

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

STEVENS COUNTY
MORRIS, MINNESOTA

Schedule 2

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 793,607	$ 793,607	$ 728,143	$ (65,464)
Intergovernmental	3,942,293	3,942,293	3,682,964	(259,329)
Charges for services	133,500	133,500	202,177	68,677
Miscellaneous	128,500	128,500	138,427	9,927
Total Revenues	**$ 4,997,900**	**$ 4,997,900**	**$ 4,751,711**	**$ (246,189)**
Expenditures				
Current				
Highways and streets				
Administration	$ 256,650	$ 256,650	$ 252,449	$ 4,201
Maintenance	1,207,500	1,207,500	772,230	435,270
Construction	3,037,675	3,037,675	3,004,516	33,159
Equipment maintenance and shop	515,900	515,900	623,203	(107,303)
Materials and services for resale	15,175	15,175	18,076	(2,901)
Total Expenditures	**$ 5,032,900**	**$ 5,032,900**	**$ 4,670,474**	**$ 362,426**
Excess of Revenues Over (Under) Expenditures	**$ (35,000)**	**$ (35,000)**	**$ 81,237**	**$ 116,237**
Fund Balance - January 1	**1,368,573**	**1,368,573**	**1,368,573**	**-**
Increase (decrease) in reserved for inventories	**-**	**-**	**52,820**	**52,820**
Fund Balance - December 31	**$ 1,333,573**	**$ 1,333,573**	**$ 1,502,630**	**$ 169,057**

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

Schedule 3

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,289,823	$ 1,289,823	$ 1,167,041	$ (122,782)
Intergovernmental	1,374,257	1,374,257	1,554,311	180,054
Charges for services	54,758	54,758	86,254	31,496
Fines and forfeits	-	-	5,358	5,358
Miscellaneous	47,000	47,000	61,786	14,786
Total Revenues	**$ 2,765,838**	**$ 2,765,838**	**$ 2,874,750**	**$ 108,912**
Expenditures				
Current				
Human services				
Income maintenance	$ 591,796	$ 591,796	$ 535,249	$ 56,547
Social services	2,174,042	2,174,042	1,960,356	213,686
Total Expenditures	**$ 2,765,838**	**$ 2,765,838**	**$ 2,495,605**	**$ 270,233**
Excess of Revenues Over (Under) Expenditures	**$ -**	**$ -**	**$ 379,145**	**$ 379,145**
Other Financing Sources (Uses)				
Transfers out	-	-	(2,500,000)	(2,500,000)
Change in Fund Balance	**$ -**	**$ -**	**$ (2,120,855)**	**$ (2,120,855)**
Fund Balance - January 1	**3,940,480**	**3,940,480**	**3,940,480**	**-**
Fund Balance - December 31	**$ 3,940,480**	**$ 3,940,480**	**$ 1,819,625**	**$ (2,120,855)**

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

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

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Ditch Special Revenue Fund. All annual appropriations lapse at fiscal year-end. The County adopted only a tax levy for 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. During the year, the Board made no budgetary amendments.

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The General Fund had expenditures in excess of budget for the year ended December 31, 2009. Final budget was $4,611,406, which was less than expenditures of $7,255,630 by $2,644,224.

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SUPPLEMENTARY INFORMATION

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STEVENS COUNTY
MORRIS, MINNESOTA

NONMAJOR GOVERNMENTAL FUND

SPECIAL REVENUE FUND

Solid Waste - To account for the financial transactions relating to accessing, operating, and monitoring solid waste disposal sites and facilities. Financing is provided by annual special assessments.

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STEVENS COUNTY
MORRIS, MINNESOTA

Schedule 4

BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Charges for services	$ 84,595	$ 84,595	$ 85,543	$ 948
Miscellaneous	7,200	7,200	-	(7,200)
Total Revenues	**$ 91,795**	**$ 91,795**	**$ 85,543**	**$ (6,252)**
Expenditures				
Current				
Sanitation				
Solid waste	11,000	11,000	9,646	1,354
Excess of Revenues Over (Under) Expenditures	**$ 80,795**	**$ 80,795**	**$ 75,897**	**$ (4,898)**
Other Financing Sources (Uses)				
Transfers out	(80,795)	(80,795)	(33,174)	47,621
Net Change in Fund Balance	**$ -**	**$ -**	**$ 42,723**	**$ 42,723**
Fund Balance - January 1	**424,723**	**424,723**	**424,723**	**-**
Fund Balance - December 31	**$ 424,723**	**$ 424,723**	**$ 467,446**	**$ 42,723**

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FIDUCIARY FUNDS

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STEVENS COUNTY
MORRIS, MINNESOTA

Statement 1

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

	Balance January 1	Additions	Deductions	Balance December 31
MID-STATE COMMUNITY HEALTH SERVICE				
Assets				
Cash and pooled investments	$ 146,181	$ 184,787	$ 242,633	$ 88,335
Liabilities				
Due to other governments	$ 146,181	$ 184,787	$ 242,633	$ 88,335
SCHOOL DISTRICTS				
Assets				
Cash and pooled investments	$ -	$ 3,709,796	$ 3,709,796	$ -
Liabilities				
Due to other governments	$ -	$ 3,709,796	$ 3,709,796	$ -
STATE REVENUE				
Assets				
Cash and pooled investments	$ 21,408	$ 943,058	$ 941,666	$ 22,800
Liabilities				
Due to other governments	$ 21,408	$ 943,058	$ 941,666	$ 22,800

STEVENS COUNTY
MORRIS, MINNESOTA

Statement 1
(Continued)

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

	Balance January 1	Additions	Deductions	Balance December 31
STEVENS COUNTY FAMILY SERVICES COLLABORATIVE				
Assets				
Cash and pooled investments	**$ 104,146**	**$ 59,038**	**$ 32,284**	**$ 130,900**
Liabilities				
Due to other governments	**$ 104,146**	**$ 59,038**	**$ 32,284**	**$ 130,900**
STEVENS TRAVERSE GRANT PUBLIC HEALTH NURSING SERVICE				
Assets				
Cash and pooled investments	**$ 437,404**	**$ 4,739,878**	**$ 4,856,796**	**$ 320,486**
Liabilities				
Due to other governments	**$ 437,404**	**$ 4,739,878**	**$ 4,856,796**	**$ 320,486**
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	**$ 55,966**	**$ 7,134,883**	**$ 7,109,429**	**$ 81,420**
Liabilities				
Due to other governments	$ 44,724	$ 7,114,030	$ 7,098,187	$ 60,567
Advance taxes	11,242	20,853	11,242	20,853
Total Liabilities	**$ 55,966**	**$ 7,134,883**	**$ 7,109,429**	**$ 81,420**

STEVENS COUNTY
MORRIS, MINNESOTA

Statement 1
(Continued)

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

	Balance January 1	Additions	Deductions	Balance December 31
TOWNS AND CITIES				
Assets				
Cash and pooled investments	$ -	$ 2,575,846	$ 2,575,846	$ -
Liabilities				
Due to other governments	$ -	$ 2,575,846	$ 2,575,846	$ -
WATERSHED				
Assets				
Cash and pooled investments	$ -	$ 92,288	$ 92,288	$ -
Liabilities				
Due to other governments	$ -	$ 92,288	$ 92,288	$ -
WEST CENTRAL SPECIAL WEAPONS AND TACTICS TEAM				
Assets				
Cash and pooled investments	$ -	$ 12,512	$ 5,706	$ 6,806
Liabilities				
Due to other governments	$ -	$ 12,512	$ 5,706	$ 6,806

STEVENS COUNTY
MORRIS, MINNESOTA

Statement 1
(Continued)

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

	Balance January 1	Additions	Deductions	Balance December 31
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	**$ 765,105**	**$ 19,452,086**	**$ 19,566,444**	**$ 650,747**
Liabilities				
Due to other governments	$ 753,863	$ 19,431,233	$ 19,555,202	$ 629,894
Advance taxes	11,242	20,853	11,242	20,853
Total Liabilities	**$ 765,105**	**$ 19,452,086**	**$ 19,566,444**	**$ 650,747**

OTHER SCHEDULES

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STEVENS COUNTY
MORRIS, MINNESOTA

Schedule 5

SCHEDULE OF DEPOSITS AND INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Number	Interest Rate (%)	Maturity Dates	Fair Value
Cash and Pooled Investments				
Interest-bearing checking	One	0.05	Continuous	$ 130,900
Repurchase agreements	Two	Variable	Continuous	3,377,119
Certificates of deposit	Twenty	0.60 to 4.30	January 25, 2010 to June 3, 2011	2,135,682
Minnesota Association of Governments Investing for Counties (MAGIC) Fund	One	Variable	Continuous	26
Federal Home Loan Mortgage Corporation	Three	4.00 to 5.30	May 1, 2014 to May 12, 2020	887,607
Federal Home Loan Bank	Two	2.00 to 5.00	October 22, 2012 to October 15, 2014	722,645
Federal National Mortgage Association	Three	4.50 to 5.25	July 1, 2011 to November 19, 2024	831,935
Small Business Administration	Ten	Variable	September 25, 2012 to November 25, 2025	447,894
Collateralized Mortgage Obligation	One	5.90	February 10, 2018	293,250
Municipal Bond	One	6.75	March 1, 2029	254,720
Farm Service Agency	One	5.75	April 1, 2011 to March 2, 2012	160,442
Total cash and pooled investments				**$ 9,242,220**
Designated Investments				
Fish and Wildlife certificate of deposit	One	1.45	December 3, 2010	84,496
Total Deposits and Investments				**$ 9,326,716**

STEVENS COUNTY
MORRIS, MINNESOTA

BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2009

	Assets					
		Undistributed	Special Assessments Receivable			
	Cash	Cash	Current	Delinquent	Deferred	Total
County Ditches						
1	$ 27,361	$ 28	$ 171	$ -	$ 6,000	$ 33,560
2	12,363	177	132	-	3,390	16,062
3	10,299	110	-	-	2,000	12,409
4	2,443	-	-	-	10,173	12,616
5	7,988	-	-	-	2,500	10,488
6	3,342	-	-	-	3,500	6,842
7	4,860	-	19	-	500	5,379
8	4,255	52	-	-	500	4,807
10	15,795	194	-	-	2,501	18,490
11	444	174	-	-	19,897	20,515
12	1,916	-	-	-	250	2,166
13	12,186	-	-	-	4,000	16,186
14	370	80	-	-	2,052	2,502
15	36,785	354	-	-	20,002	57,141
16	6,152	-	-	-	3,000	9,152
17	10,600	-	-	-	3,000	13,600
18	28,034	-	-	-	10,252	38,286
20	3,295	-	-	-	1,000	4,295
21	13,604	1,705	5,240	5,240	53,916	79,705
22	6,071	-	-	-	1,000	7,071
25	13,625	-	-	-	5,298	18,923
27	4,915	-	-	-	500	5,415
29	8,608	-	-	-	1,000	9,608
30	16,913	44	87	-	2,000	19,044
31	8,197	801	-	-	2,055	11,053
38	4,531	239	-	-	500	5,270
43	5,830	-	-	-	500	6,330
Judicial Ditches						
2	5,801	39	-	-	1,001	6,841
9	10,768	4	64	-	55,191	66,027
10/11	2,513	-	-	-	-	2,513
Total	**$ 289,864**	**$ 4,001**	**$ 5,713**	**$ 5,240**	**$ 217,478**	**$ 522,296**

Schedule 6

Accounts Payable	Due to Other Funds	Deferred Revenue	Advance from Other Funds	Total	Fund Balance Unreserved Undesignated	Total Liabilities and Fund Balance
Liabilities						
$ 30	$ -	$ 6,000	$ -	$ 6,030	$ 27,530	$ 33,560
18	90	3,523	-	3,631	12,431	16,062
6	-	2,000	-	2,006	10,403	12,409
8	90	10,173	35,000	45,271	(32,655)	12,616
3	-	2,500	-	2,503	7,985	10,488
3	-	3,500	-	3,503	3,339	6,842
2	-	500	-	502	4,877	5,379
2	-	500	-	502	4,305	4,807
8	-	2,500	-	2,508	15,982	18,490
7	-	19,897	7,000	26,904	(6,389)	20,515
1	-	250	-	251	1,915	2,166
2	-	4,000	-	4,002	12,184	16,186
1	-	2,052	500	2,553	(51)	2,502
29,123	883	20,002	-	50,008	7,133	57,141
3	-	3,000	-	3,003	6,149	9,152
3	-	3,000	-	3,003	10,597	13,600
22	331	10,252	-	10,605	27,681	38,286
2	-	1,000	-	1,002	3,293	4,295
14	-	64,396	25,000	89,410	(9,705)	79,705
2	-	1,000	-	1,002	6,069	7,071
16	-	5,299	-	5,315	13,608	18,923
1	-	500	-	501	4,914	5,415
2	-	1,000	-	1,002	8,606	9,608
8	-	2,000	-	2,008	17,036	19,044
6	-	2,055	-	2,061	8,992	11,053
1	-	500	-	501	4,769	5,270
1	-	500	-	501	5,829	6,330
-	-	1,001	-	1,001	5,840	6,841
-	-	55,190	20,000	75,190	(9,163)	66,027
-	-	-	-	-	2,513	2,513
$ 29,295	**$ 1,394**	**$ 228,090**	**$ 87,500**	**$ 346,279**	**$ 176,017**	**$ 522,296**

STEVENS COUNTY
MORRIS, MINNESOTA

Schedule 7

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

	Governmental Funds
Shared Revenue	
State	
Highway users tax	$ 2,616,302
County program aid	974,059
PERA rate reimbursement	21,742
Police aid	40,507
Market value credit	341,805
Disparity reduction aid	50,283
Total Shared Revenue	**$ 4,044,698**
Reimbursement for Services	
State	
Minnesota Department of Human Services	**$ 220,386**
Payments	
Local	
Payments in lieu of taxes	**$ 40,788**
Grants	
State	
Minnesota Department/Board of	
Public Safety	$ 82,281
Natural Resources	69,319
Human Services	533,884
Corrections	17,746
Water and Soil Resources	65,212
Transportation	80,169
Pollution Control Agency	55,475
Peace Officer Standards and Training Board	3,568
Veterans Affairs Board	27,000
Total State	**$ 934,654**
Federal	
Department of	
Agriculture	$ 49,907
Transportation	955,011
Health and Human Services	422,613
Homeland Security	38,403
Total Federal	**$ 1,465,934**
Total State and Federal Grants	**$ 2,400,588**
Total Intergovernmental Revenue	**$ 6,706,460**

**Management and
Compliance Section**

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Schedule 8

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

I. SUMMARY OF AUDITOR'S RESULTS

A. Our report expresses unqualified opinions on the basic financial statements of Stevens County.

B. Deficiencies in internal control were disclosed by the audit of financial statements of Stevens County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards.*" One of the significant deficiencies is a material weakness.

C. No instances of noncompliance material to the financial statements of Stevens County were disclosed during the audit.

D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."

E. The Auditor's Report on Compliance for the major federal award program for Stevens County expresses an unqualified opinion.

F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

G. The major program is:

Highway Planning and Construction	CFDA #20.205

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

I. Stevens County was not determined to be a low-risk auditee.

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

Due to the limited number of office personnel within Stevens County, segregation of accounting functions necessary to ensure adequate internal accounting control is not possible. 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.

Without proper segregation of duties, errors or irregularities may not be detected timely.

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

Client's Response:

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. We have formed a committee to look for areas that we can improve on in regards to these issues.

06-1 Preparation of Financial Statements

Stevens County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal control over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

Stevens County has established controls and procedures for the recording, processing, and summarizing of its accounting data used in the preparation of its financial statements.

As is the case with many small and medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This condition was caused by the County's decision that it is more cost effective to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise to prepare the financial statements internally. As a result of this condition, the County lacks internal control over the preparation and reporting of financial statements in accordance with GAAP.

We recommend Stevens County obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If Stevens County still intends to have staff from the Office of the State Auditor assist in preparation, then at a minimum, it must identify and train individuals to obtain the expertise that can sufficiently review, understand, and approve the County's financial statements, including notes.

Client's Response:

With the transfer of an employee from the IT Department to the Auditor/Treasurer staff, the Auditor/Treasurer has started to obtain the necessary training needed to prepare the financial statements. However, due to the ever increasing demands of the election laws and conducting elections every other year, it will take multiple years to complete the training and implementation of these changes as long as the staff numbers in the Auditor/Treasurer Department are not decreased.

06-2 Audit Adjustments

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. Statement on Auditing Standards No. 115 defines 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 Stevens County's financial statements will not be prevented, or detected and corrected, on a timely basis.

During our audit, we identified material adjustments in the General Fund.

- Adjustments were made in the General Fund to record additional contracts payable in the amount of $823,370 and to reclassify $1,579,775 of undesignated fund balance to reserved for encumbrances for contracts relating to the courthouse remodeling project.

- Also, in the General Fund, an adjustment was made to reflect a receivable from the Housing and Redevelopment Authority to reflect proceeds from the capital lease in the amount of $2,292,231 for construction expenditures relating to the courthouse remodeling project.

- We also identified material adjustments in the Ambulance Enterprise Fund to correctly reflect the $810,000 sale of the ambulance operations. Adjustments were made to recognize a gain on the sale in the amount of $576,101, reduce net receivables in the amount of $86,779, reduce liabilities in the amount of $175,101, and reduce the net capital assets in the amount of $322,221 for transactions included as a part of the sale.

- Audit adjustments were also necessary to adjust modified accrual financial statements to the full accrual basis for the government-wide financial statements.

Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements. However, the inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements would not be fairly presented.

We recommend that the County establish internal controls necessary to determine that all adjusting entries are made to ensure the County's annual financial statements are reported in accordance with GAAP.

<u>Client's Response</u>:

These issues are mainly due to lack of staff training and time that we are addressing with the addition of a new staff and also to the renovation of the Courthouse and sale of the Ambulance Service that are unusual events that we have not had to deal with before as they are once in a lifetime events. We were aware of most of the events but could not address them due to this lack of training and time to do so.

08-1 Documenting and Monitoring Internal Controls

County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided. Although the County may informally assess risks and adjust internal control procedures to address those risks, there are no formal procedures or documentation of those procedures in place.

At a minimum, the following significant internal control areas should be documented:

- cash and investment activities;
- capital assets (capitalization process and related depreciation);
- major funding sources (taxes, intergovernmental revenues, charges for services, and miscellaneous items);
- expenditure/expense processing;
- payroll; and
- inventories.

We recommend that County management document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize the risks. We also recommend that a formal plan be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

The County has formed a committee that has met with a representative of the State Auditor's Office in order to become informed and to assess and address these issues. The committee is starting with the payroll area and has moved the County to a positive pay system. We will continue to meet and address these issues according to our perceived priorities.

PREVIOUSLY REPORTED ITEM RESOLVED

Monitoring of Compensatory Balances (07-1)

At December 31, 2008, payroll records showed two of the six full-time employees in the Ambulance Department had compensatory balances in excess of the maximum 40-hour balance permitted in Section 10.13 of the General Unit Labor Agreement.

Resolution

The ambulance service was sold on December 31, 2009. With the sale of the ambulance service, those employees were paid severance and any accumulated compensatory balances. No other departments had compensatory balances in excess of the maximum allowed at December 31, 2009.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-1 Publishing Board Minutes and Claims Paid

According to Minn. Stat. § 375.12, County Board minutes are to be published within 30 days of the meeting and that this publication is to include an individualized, itemized list of County Board-approved payments over $300. The threshold amount for claims that need to be published increased from $300 to $2,000 in 2009. A statement showing the total number of claims that do not exceed the threshold amount and their dollar amounts must be stated. The County can publish summaries as allowed by Minn. Stat. § 331A.01. This section does not change the requirement that payments be published monthly as discussed in Minn. Stat. § 375.12. Also, this section requires that the full data be available at a specified County location or by standard or electronic mail.

When the County published the Board minutes, only a summary of fund payments was published.

The County Board should comply with the above-noted statutes and publish the County Board minutes with vendor payments.

Client's Response:

In response to Minn. Stat. § 375.12 regarding the monthly publication of vendor payments, the County Board representatives present at the exit interview were informed of the threshold for publishing being raised from $300 to $2,000 and will review the publishing of this information after looking at the cost of doing so. The County has not published this information due to the significant cost and continues to make the information physically available at the County Courthouse.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

05-1 Ditch Fund Balance Deficits

Five of the 30 individual ditch systems had deficit unreserved, undesignated fund balances at December 31, 2009, totaling $57,963, the largest being $32,655, which is a significant improvement over previous years. In fact, if we consider deferred levies collectible in 2009, Stevens County has levied amounts sufficient to cover the individual ditch systems deficits, with the exception of County Ditch 4.

As allowed by Minn. Stat. § 103E.735, subd. 1, a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or $40,000, whichever is larger.

We recommend that the County Board continue its efforts to eliminate the individual ditch system fund balance deficits by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1.

Client's Response:

Stevens County's Administration and Ditch Authority plans to address the County Ditch 4 issue by a spread levy in 2011. This should bring all ditch systems into a positive balance when accounted for on a full accrual basis.

PREVIOUSLY REPORTED ITEMS RESOLVED

Health Care Savings Plan (08-2)

The labor agreement between Stevens County and the General Unit of the American Federation of State, County, and Municipal Employees, Council #65, provides that "after 100 days of sick leave accumulation, ½ of each day earned shall be credited to sick leave accrual and the equivalent of ½ day's pay shall be credited to the employee's Health Care Savings Plan as administered by the Minnesota State Retirement System." Although the County has qualifying employees, no contributions have been made by Stevens County to a health care savings plan for those employees.

Resolution

Stevens County now makes quarterly contributions to a health care savings plan for those employees who qualify for the plan.

Ambulance Receivables (08-3)

Stevens County had no formal policy in place for the Ambulance Enterprise Fund that detailed the monitoring of outstanding receivables, including a timetable with steps to be taken to collect outstanding receivables; guidance on how to determine that a particular receivable is uncollectible; the process and documentation needed for obtaining appropriate approval for write-off; and the entries needed for recording the write-off of receivables on the receivable system and the financial system.

Resolution

The ambulance service was sold on December 31, 2009. An agreement between the County and the purchaser provides that aged receivables are included with the sale and become the property of the purchaser. Only receivables for services provided the last 150 days before the sale remain property of the County. The purchaser has agreed to remit receivables to the County for its portion of outstanding receivables for a collection fee.

Difficulties Encountered While Performing the Audit (08-4)

The Office of the State Auditor (OSA) encountered delays in obtaining the necessary information for the audit, making it difficult to complete the audit in an efficient, effective, and timely manner.

Resolution

The OSA encountered no significant delays in obtaining necessary information for the 2009 audit.

C. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

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

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance reserved, unreserved, designated, and undesignated are being replaced by nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - represents amounts that cannot be spent because they are either not in spendable form (ex. inventory and prepaids) or legally or contractually required to be maintained intact (ex. corpus of a permanent fund).

- *Restricted* - amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government’s highest level of decision-making authority.

- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.

- *Unassigned* - spendable amounts not contained in the other classifications.

Governmental Fund Type Definitions

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

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

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

Board of County Commissioners
Stevens County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Stevens County as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 17, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Stevens County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been 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, 06-1, and 08-1 to be significant deficiencies.

<u>Compliance and Other Matters</u>

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*.

<u>Minnesota Legal Compliance</u>

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because Stevens County has no tax increment financing districts.

The results of our tests indicate that, for the items tested, Stevens County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 04-1.

Also included in the Schedule of Findings and Questioned Costs is a management practices comment and an other item for consideration. We believe this recommendation and other information to be of benefit to Stevens County, and they are reported for that purpose.

Stevens County's written responses to internal control, legal compliance, and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

June 17, 2010

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

Board of County Commissioners
Stevens County

Compliance

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

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

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

Internal Control Over Compliance

Management of Stevens County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Stevens County as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 17, 2010. Our audit was performed for the purpose of forming opinions on Stevens County's financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Rebecca Otto *
*REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger
GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 17, 2010

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STEVENS COUNTY
MORRIS, MINNESOTA

Schedule 9

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number		Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Human Services			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster			
State Administrative Matching Grants for SNAP	10.561	$	47,975
State Administrative Matching Grants for SNAP -- ARRA	10.561		1,224
Total U.S. Department of Agriculture		**$**	**49,199**
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction	20.205	**$**	**955,011**
U.S. Election Assistance Commission			
Passed Through Minnesota Secretary of State			
Help America Vote Act Requirements Payments	90.401	**$**	**5,813**
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	$	1,589
Temporary Assistance for Needy Families (TANF)	93.558		52,124
Child Support Enforcement Cluster			
Child Support Enforcement	93.563		78,687
Child Support Enforcement -- ARRA	93.563		15,737
Refugee and Entrant Assistance - State-Administered Programs	93.566		141
Refugee and Entrant Assistance - Discretionary Grants	93.576		841
Child Care and Development Cluster			
Child Care and Development Block Grant	93.575		654
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		7,266
Child Welfare Services - State Grants	93.645		2,912
Foster Care Title IV-E	93.658		34,501
Social Services Block Grant	93.667		82,946
Chafee Foster Care Independence Program	93.674		6,004
Medical Assistance Program	93.778		135,702
Block Grants for Community Mental Health Services	93.958		1,041
Total U.S. Department of Health and Human Services		**$**	**420,145**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

STEVENS COUNTY
MORRIS, MINNESOTA

Schedule 9
(Continued)

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	$ 20,198
Hazard Mitigation Grant	97.039	180
Emergency Management Performance Grants	97.042	13,625
Passed Through Minnesota Department of Public Safety and West Central Minnesota EMS Corporation		
Homeland Security Grant Program	97.067	4,400
Total U.S. Department of Homeland Security		**$ 38,403**
Total Federal Awards		**$ 1,468,571**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

STEVENS COUNTY
MORRIS, MINNESOTA

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

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by 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, 2009. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Because the schedule presents only a selected portion of the operations of Stevens County, it is not intended to and does not present the financial position, changes in net assets, or cash flows 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. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	$ 1,465,934
Grants received in 2006, recognized in 2009	
Help America Vote Act Requirements Payments	5,813
Grants received more than 60 days after year-end deferred in 2009	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program - ARRA	4,200
Grants deferred in 2008, recognized as revenue in 2009	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	(708)
Temporary Assistance for Needy Families	(213)
Foster Care Title IV-E	(18)
Medical Assistance Program	(6,437)
Expenditures Per Schedule of Expenditures of Federal Awards	$ 1,468,571

5. Subrecipients

   Stevens County did not pass any federal awards through to subrecipients in 2009.

6. American Recovery and Reinvestment Act

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