STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

BIG STONE COUNTY
ORTONVILLE, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2011

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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.auditor.state.mn.us

BIG STONE COUNTY
ORTONVILLE, MINNESOTA

For the Year Ended December 31, 2011

Audit Practice Division
Office of the State Auditor
State of Minnesota

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BIG STONE COUNTY
ORTONVILLE, MINNESOTA

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ORTONVILLE, MINNESOTA

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Introductory Section

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BIG STONE COUNTY
ORTONVILLE, MINNESOTA

ORGANIZATION
DECEMBER 31, 2011

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

*Chair 2011
**Chair 2012

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Big Stone County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Big Stone County, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Big Stone 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, each major fund, and the aggregate remaining fund information of Big Stone County as of December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, during the year ended December 31, 2011, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Big Stone County's basic financial statements taken as a whole. The supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 11, 2012, on our consideration of Big Stone County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

May 11, 2012

MANAGEMENT’S DISCUSSION AND ANALYSIS

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BIG STONE COUNTY
ORTONVILLE, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011
(Unaudited)

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of the County's financial activities for the fiscal year ended December 31, 2011. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are $30,489,855, of which $22,777,169 is invested in capital assets, net of related debt, and $2,139,791 is restricted to specific purposes. The $5,572,895 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

- The County's net assets increased by $1,042,983 for the year ended December 31, 2011.

- The net cost of governmental activities for the current fiscal year was $3,703,478. The net cost was funded by general revenues and other items totaling $4,746,461.

- The fund balances of the governmental funds increased by $595,182.

For the year ended December 31, 2011, the unrestricted fund balance of the General Fund was $1,559,072, or 48.2 percent, of the total General Fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all assets and liabilities of the County using the accrual basis of accounting, with the difference being reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. You will also need to consider other nonfinancial factors, such as changes in the County's property tax base and the condition of County roads and other capital assets, to assess the overall health of the County.

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

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

Fund Financial Statements

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using modified accrual accounting. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. The County's assets exceeded liabilities by $30,489,855 at the close of 2011. The largest portion of the net assets (74.7 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure such as roads and bridges), less any related outstanding debt used to acquire those assets. However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

Big Stone County
Net Assets
(in thousands)

	Governmental Activities	
	2011	2010
Assets		
Current and other assets	$ 8,911	$ 8,184
Capital assets	23,617	23,268
Total Assets	$ 32,528	$ 31,452
Liabilities		
Long-term liabilities	$ 1,848	$ 1,770
Other liabilities	191	235
Total Liabilities	$ 2,039	$ 2,005
Net Assets		
Invested in capital assets	$ 22,777	$ 22,388
Restricted	2,139	2,286
Unrestricted	5,573	4,773
Total Net Assets	$ 30,489	$ 29,447

Unrestricted net assets--the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--are 18.3 percent of the net assets.

Governmental Activities

The County's activities increased net assets by 4.3 percent ($30,489,855 for 2011 compared to $29,446,872 for 2010). Key elements of this increase in net assets are as follows:

Big Stone County
Changes in Net Assets
(in thousands)

	Governmental Activities 2011	Governmental Activities 2010
Revenues		
Program revenues		
Charges for services	$ 1,019	$ 1,014
Operating grants and contributions	4,705	4,484
Capital grants and contributions	-	15
General revenues		
Property taxes	3,715	3,301
Other	1,031	1,040
Total Revenues	$ 10,470	$ 9,854
Expenses		
General government	$ 1,639	$ 1,694
Public safety	1,010	1,155
Highways	3,724	3,520
Sanitation	181	199
Human services	2,281	2,465
Health	80	80
Culture and recreation	145	182
Conservation of natural resources	300	313
Economic development	33	33
Interest	35	34
Total Expenses	$ 9,428	$ 9,675
Change in Net Assets	$ 1,042	$ 179
Net Assets - January 1	29,447	29,268
Net Assets - December 31	$ 30,489	$ 29,447

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of $6,488,186, an increase of $595,182 in comparison with the prior year. Of the combined ending fund balances, $5,750,571 represents unrestricted fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is restricted to indicate that it is not available for new spending because it has already been restricted for various reasons either by state law, grant agreements, or bond covenants.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unrestricted fund balance of $1,559,072. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total expenditures. The General Fund's unrestricted fund balance represents 48.2 percent of total General Fund expenditures. During 2011, the ending fund balance increased by $493,493.

The Highway Special Revenue Fund had an unrestricted fund balance of $1,661,008 at fiscal year-end, representing 41.6 percent of its annual expenditures. The ending fund balance decreased $54,422 during 2011.

The Family Services Special Revenue Fund had an unrestricted fund balance of $2,365,884 at fiscal year-end, representing 104.2 percent of its annual expenditures. The ending fund balance increased $81,509 during 2011.

The Ditch Special Revenue Fund had a restricted fund balance of $78,242 at fiscal year-end, representing 91.3 percent of its annual expenditures. The ending fund balance decreased $11,763 during 2011.

The Debt Service Fund had a restricted fund balance of $86,365 at fiscal year-end, representing 121.2 percent of its annual expenditures. The ending fund balance increased $86,365 during 2011.

Governmental Activities

The County's total revenues were $10,470,993. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2011.

Table 1
Total County Revenues

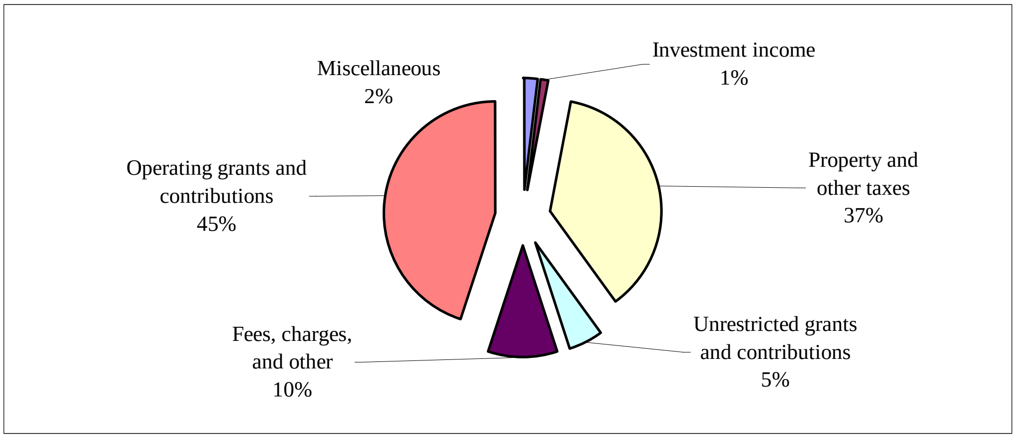

Table 2 presents the cost and revenue of each program, as well as the County's general revenues and special and extraordinary items.

Total revenues for the County were $10,470,993, while total expenses were $9,428,010. This reflects a $1,042,983 increase in net assets for the year ended December 31, 2011.

Table 2

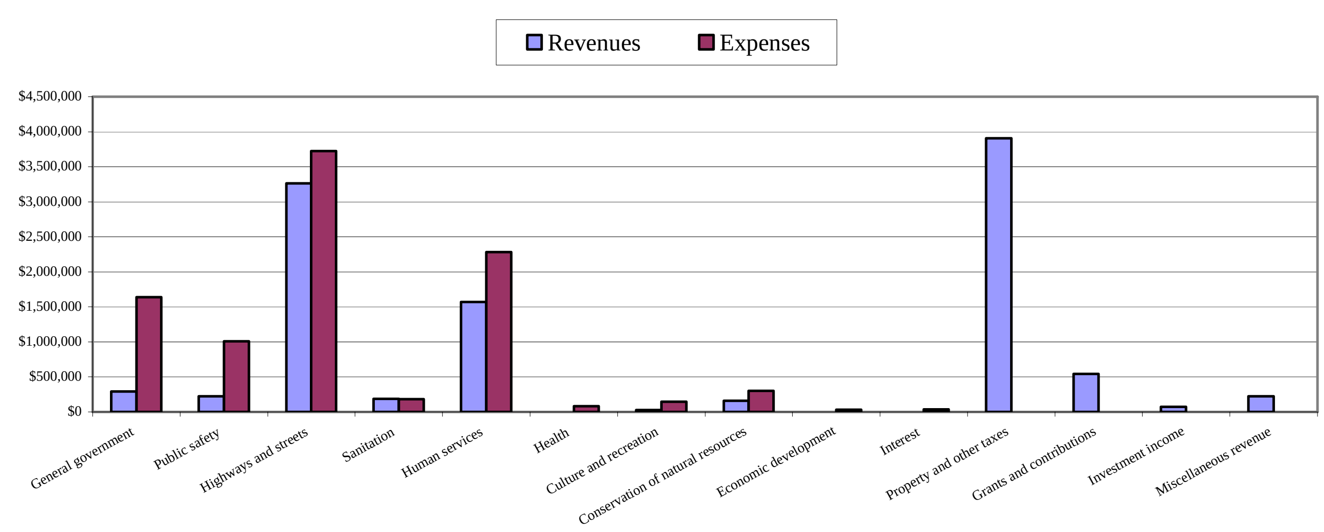

Table 3
Governmental Activities

	Total Cost of Services 2011	Net Cost of Services 2011
Highways and streets	$ 3,723,689	$ 459,677
Human services	2,281,411	711,086
General government	1,639,185	1,348,118
Public safety	1,010,005	785,782
All others	773,720	398,815
Totals	$ 9,428,010	$ 3,703,478

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) were $33,180 under the final budget amounts.

Resources available for appropriation were $459,113 above the final budgeted amount. An insurance dividend, proceeds from tax forfeited property, and increased PILT payments due to an updated appraisal were received and not budgeted for. Also, excess revenues resulted because the formula used to distribute property taxes between funds was not updated after TNT to match the approved budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2011, totaled $23,617,215 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, infrastructure, and intangibles. The investment in capital assets increased $349,443, or 1.50 percent, from the previous year.

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

	2011	2010
Land	$ 699	$ 699
Infrastructure	19,682	19,305
Buildings	1,631	1,700
Improvements other than buildings	158	170
Machinery and equipment	1,430	1,377
Intangibles	17	17
Total	$ 23,617	$ 23,268

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

Long-Term Debt

At the end of the current fiscal year, the County had total outstanding debt of $975,000 which was backed by the full faith and credit of the government.

Table 5
Outstanding Debt

	2011	2010
General obligation bonds - drainage	$ 15,000	$ 30,000
General obligation bonds - capital improvement	960,000	1,000,000
Total	$ 975,000	$ 1,030,000

The County's debt related to general obligation bonds decreased by $55,000 (5.3 percent) during the fiscal year.

Minnesota statutes limit the amount of debt a county may levy to 3.00 percent of its total market value. At the end of 2011, the County's outstanding debt was 0.10 percent of its total estimated market value.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County's elected and appointed officials considered many factors when setting the 2012 budget, tax rates, and fees that will be charged for the year.

- The average unemployment rate for Big Stone County for 2011 was 5.717 percent. This compares favorably with the state unemployment rate of 6.550 percent and shows a decrease from the County's 5.975 percent rate of one year ago. This could impact the level of services requested by County residents.

- The County's General Fund expenditures for 2012 are budgeted to increase 2.62 percent ($89,936) over the 2011 original budget. The 2011 anticipated revenues, other than tax levy, state aid, and special assessments, are budgeted to increase 0.03 percent ($265) over the 2011 original budget.

- The property tax levy for the County increased 8.97 percent ($379,059) from 2011, and the net tax levy (the amount spread to taxpayers) increased 9.56 percent from 2011. This does not reflect the state's elimination of the homestead credit.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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BIG STONE COUNTY
ORTONVILLE, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011

Assets		
Cash and pooled investments	$	4,837,260
Investments		1,254,855
Receivables - net		2,615,022
Inventories		184,424
Deferred charges		19,842
Capital assets		
Non-depreciable		716,431
Depreciable - net of accumulated depreciation		22,900,784
Total Assets	**$**	**32,528,618**
Liabilities		
Accounts payable and other current liabilities	$	178,306
Accrued interest payable		13,021
Long-term liabilities		
Due within one year		132,884
Due in more than one year		1,714,552
Total Liabilities	**$**	**2,038,763**
Net Assets		
Invested in capital assets - net of related debt	$	22,777,169
Restricted for		
Public safety		66,741
Highways and streets		1,777,667
Conservation of natural resources		147,944
Other purposes		147,439
Unrestricted		5,572,895
Total Net Assets	**$**	**30,489,855**

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

BIG STONE COUNTY
ORTONVILLE, MINNESOTA

EXHIBIT 2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

		Program Revenues		
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Functions/Programs				
Governmental activities				
General government	$ 1,639,185	$ 184,479	$ 106,588	$ (1,348,118)
Public safety	1,010,005	57,019	167,204	(785,782)
Highways and streets	3,723,689	238,009	3,026,003	(459,677)
Sanitation	180,904	128,076	58,350	5,522
Human services	2,281,411	311,120	1,259,205	(711,086)
Health	80,439	1,280	-	(79,159)
Culture and recreation	145,112	8,158	20,744	(116,210)
Conservation of natural resources	299,873	91,554	66,743	(141,576)
Economic development	32,541	-	-	(32,541)
Interest	34,851	-	-	(34,851)
Total Governmental Activities	**$ 9,428,010**	**$ 1,019,695**	**$ 4,704,837**	**$ (3,703,478)**

General Revenues	
Property taxes	$ 3,715,148
Gravel taxes	73,195
Mortgage registry and deed tax	3,637
Payments in lieu of tax	115,863
Grants and contributions not restricted to specific programs	544,537
Unrestricted investment income	72,425
Miscellaneous	221,656
Total general revenues	**$ 4,746,461**
Change in net assets	**$ 1,042,983**
Net Assets - Beginning	**29,446,872**
Net Assets - Ending	**$ 30,489,855**

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

BIG STONE COUNTY
ORTONVILLE, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General		Highway	
Assets				
Cash and pooled investments	$	1,692,206	$	449,772
Undistributed cash in agency funds		78,708		86,915
Petty cash and change funds		1,820		75
Investments		-		1,222,700
Taxes receivable				
Prior		47,407		16,676
Special assessments receivable				
Prior		13,597		-
Noncurrent		-		-
Accounts receivable		1,253		303
Accrued interest receivable		22,589		3,575
Loans receivable		100,000		-
Due from other governments		56,853		2,051,435
Advance to other funds		124,400		-
Inventories		-		184,424
Total Assets	**$**	**2,138,833**	**$**	**4,015,875**
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$	8,862	$	1,006
Salaries payable		37,496		20,771
Due to other governments		30,527		1,917
Advance from other funds		-		-
Deferred revenue - unavailable		72,125		2,027,498
Total Liabilities	**$**	**149,010**	**$**	**2,051,192**
Fund Balances				
Nonspendable	$	191,067	$	184,424
Restricted		239,684		119,251
Committed		549,960		94,584
Assigned		14,703		1,566,424
Unassigned		994,409		-
Total Fund Balances	**$**	**1,989,823**	**$**	**1,964,683**
Total Liabilities and Fund Balances	**$**	**2,138,833**	**$**	**4,015,875**

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

EXHIBIT 3

Family Services		Ditch		Debt Service		Total	
$	2,254,352	$	167,394	$	86,365	$	4,650,089
	13,964		3,389		-		182,976
	2,300		-		-		4,195
	-		32,155		-		1,254,855
	16,114		-		1,049		81,246
	-		1,615		-		15,212
	-		104,696		-		104,696
	29,483		-		-		31,039
	-		-		-		26,164
	-		-		-		100,000
	146,401		1,976		-		2,256,665
	-		-		-		124,400
	-		-		-		184,424
$	**2,462,614**	**$**	**311,225**	**$**	**87,414**	**$**	**9,015,961**
$	53,802	$	300	$	-	$	63,970
	20,427		-		-		78,694
	3,198		-		-		35,642
	-		124,400		-		124,400
	16,114		108,283		1,049		2,225,069
$	**93,541**	**$**	**232,983**	**$**	**1,049**	**$**	**2,527,775**
$	-	$	-	$	-	$	375,491
	3,189		78,242		86,365		526,731
	150,000		-		-		794,544
	2,215,884		-		-		3,797,011
	-		-		-		994,409
$	**2,369,073**	**$**	**78,242**	**$**	**86,365**	**$**	**6,488,186**
$	**2,462,614**	**$**	**311,225**	**$**	**87,414**	**$**	**9,015,961**

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BIG STONE COUNTY
ORTONVILLE, MINNESOTA

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES DECEMBER 31, 2011

Fund balance - total governmental funds (Exhibit 3)		**$ 6,488,186**
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.		23,617,215
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,225,069
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	$ (975,000)	
Unamortized discount on general obligation bonds	10,001	
Unamortized bond issuance costs	19,842	
Compensated absences	(527,348)	
Net OPEB obligation	(355,089)	
Accrued interest payable	(13,021)	(1,840,615)
Net Assets of Governmental Activities (Exhibit 1)		**$ 30,489,855**

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

BIG STONE COUNTY
ORTONVILLE, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	General	Highway
Revenues		
Taxes	$ 2,205,631	$ 806,358
Special assessments	120,074	-
Licenses and permits	19,131	-
Intergovernmental	846,175	3,006,193
Charges for services	187,544	189,247
Gifts and contributions	5,000	-
Investment earnings	69,272	8,564
Miscellaneous	270,941	48,762
Total Revenues	**$ 3,723,768**	**$ 4,059,124**
Expenditures		
Current		
General government	$ 1,551,697	$ -
Public safety	1,024,696	-
Highways and streets	-	3,833,558
Sanitation	179,325	-
Human services	-	-
Health	39,134	-
Culture and recreation	130,904	-
Conservation of natural resources	231,873	-
Economic development	32,541	-
Intergovernmental	41,305	161,681
Debt service		
Principal	-	-
Interest	-	-
Administrative (fiscal) fees	-	-
Total Expenditures	**$ 3,231,475**	**$ 3,995,239**
Excess of Revenues Over (Under) Expenditures	**$ 492,293**	**$ 63,885**
Other Financing Sources (Uses)		
Transfers in	$ -	$ -
Transfers out	-	(71,260)
Proceeds from the sale of assets	1,200	-
Total Other Financing Sources (Uses)	**$ 1,200**	**$ (71,260)**
Net Change in Fund Balance	**$ 493,493**	**$ (7,375)**
Fund Balance - January 1	**1,496,330**	**2,019,105**
Increase (decrease) in inventories	**-**	**(47,047)**
Fund Balance - December 31	**$ 1,989,823**	**$ 1,964,683**

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

EXHIBIT 5

Family Services	Ditch	Debt Service	Total
$ 665,686	$ -	$ 80,690	$ 3,758,365
-	73,772	-	193,846
-	-	-	19,131
1,374,282	-	5,675	5,232,325
244,732	-	-	621,523
-	-	-	5,000
-	122	-	77,958
66,388	-	-	386,091
$ 2,351,088	**$ 73,894**	**$ 86,365**	**$ 10,294,239**
$ -	$ -	$ -	$ 1,551,697
-	-	-	1,024,696
-	-	-	3,833,558
-	-	-	179,325
2,269,579	-	-	2,269,579
-	-	-	39,134
-	-	-	130,904
-	68,958	-	300,831
-	-	-	32,541
-	-	-	202,986
-	15,000	40,000	55,000
-	1,252	30,710	31,962
-	447	550	997
$ 2,269,579	**$ 85,657**	**$ 71,260**	**$ 9,653,210**
$ 81,509	**$ (11,763)**	**$ 15,105**	**$ 641,029**
$ -	$ -	$ 71,260	$ 71,260
-	-	-	(71,260)
-	-	-	1,200
$ -	**$ -**	**$ 71,260**	**$ 1,200**
$ 81,509	**$ (11,763)**	**$ 86,365**	**$ 642,229**
2,287,564	**90,005**	**-**	**5,893,004**
-	**-**	**-**	**(47,047)**
$ 2,369,073	**$ 78,242**	**$ 86,365**	**$ 6,488,186**

BIG STONE COUNTY
ORTONVILLE, MINNESOTA

EXHIBIT 6

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2011

Net change in fund balance - total governmental funds (Exhibit 5)		**$ 642,229**
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	$ 2,225,069	
Deferred revenue - January 1	(2,048,024)	177,045
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. The difference is the net book value of the assets disposed of.		
Expenditures for general capital assets and infrastructure	$ 2,121,669	
Net book value of assets disposed of	(99,365)	
Current year depreciation and depletion	(1,672,861)	349,443
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Principal repayments		
General obligation bonds		55,000
Amortization of discount on bonds and issuance costs		(2,486)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in accrued interest payable	$ 594	
Change in compensated absences	(22,522)	
Change in net OPEB liability	(109,273)	
Change in inventories	(47,047)	(178,248)
Change in Net Assets of Governmental Activities (Exhibit 2)		**$ 1,042,983**

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

FIDUCIARY FUNDS

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BIG STONE COUNTY
ORTONVILLE, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2011

Assets		
Cash and pooled investments	**$**	**290,811**
Liabilities		
Accounts payable	$	1,230
Due to other governments		289,581
Total Liabilities	**$**	**290,811**

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, 2011. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Big Stone County was established February 20, 1862, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. § 373.01. As required by accounting principles generally accepted in the United States of America, these financial statements present Big Stone County. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Auditor serves as the clerk of the Board of Commissioners, but has no vote.

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about Big Stone County. These statements include the financial activities of the overall County government,

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. The County reports all of its governmental funds as major funds.

The County reports the following major governmental funds:

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

- The Family Services Special Revenue Fund accounts for restricted revenue resources from the federal, state, and other oversight agencies, as well as committed property tax revenues used for economic assistance and community social services programs.

- The Ditch Special Revenue Fund accounts for special assessments revenues levied against benefited property restricted to finance the cost of constructing and maintaining an agricultural drainage ditch system.

- The Debt Service Fund is used to account for the financial resources restricted for payment of long-term debt principal, interest, and related costs.

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Big Stone County considers all revenues as available if collected within 60 days after the end of the

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

current period. Property taxes are recognized as revenues in the year for which they are levied provided they are also available. Shared revenues are generally recognized in the period the appropriation goes into effect and the revenues are available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net 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, 2011, 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 2011 were $62,649.

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

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

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in applicable governmental funds to indicate that they are not in spendable form.

All receivables are shown net of an allowance for uncollectibles.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15 or November 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

4. Inventories and Prepaid Items

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

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

1. Summary of Significant Accounting Policies

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

5. Restricted Assets

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of $5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

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

1. Summary of Significant Accounting Policies

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

7. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide financial statements. The government-wide statement of net assets reports both current and noncurrent portions of compensated absences using full accrual accounting. The current portion consists of an amount based on a trend analysis of current usage of vacation and vested sick leave. The noncurrent portion consists of the remaining amount of vacation and total vested sick leave.

8. Deferred Revenue

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

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

9. Long-Term Obligations (Continued)

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

10. Classification of Net Assets

Net assets in the government-wide financial statements are classified in the following categories:

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

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

Unrestricted net assets - the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

11. Classification of Fund Balances

In 2011, the County implemented the requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement requires retroactive restatement of fund balance for the reclassifications made to conform to this statement. Total fund balance did not change. Fund balance is

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

11. Classification of Fund Balances (Continued)

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

Nonspendable - the nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Restricted - the fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

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

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

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

11. Classification of Fund Balances (Continued)

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

12. Minimum Fund Balance

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

13. Use of Estimates

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

1. Summary of Significant Accounting Policies

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

14. Reclassifications

Several account balances were reclassified as of and for the year ended December 31, 2010, as previously reported due to implementation of GASB 54. These reclassifications were required for comparability to the financial statements as of and for the year ended December 31, 2011. Although comparative statements for 2010 are not presented here, these reclassifications must be considered when comparing the financial statements of this report with those of prior reports.

E. Potential Impact of New Accounting Standards on Current Period Financial Statements

The GASB has approved GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Application of GASB Statement 63 may restate portions of these financial statements.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets		
Governmental activities		
Cash and pooled investments	$	4,837,260
Investments		1,254,855
Statement of fiduciary net assets		
Cash and pooled investments		290,811
Total Cash and Investments	$	6,382,926

2. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments (Continued)

         a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has adopted a policy for custodial credit risk by obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2011, the County's deposits in banks were entirely covered by federal depository insurance or by collateral in accordance with Minnesota statutes.

2. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments (Continued)

         b. Investments

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

(1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;

(2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

(3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

(4) bankers' acceptances of United States banks;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

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

2. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments

         b. Investments (Continued)

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. On December 31, 2011, the County's investments were not exposed to custodial credit risk.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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

The following table presents the County's cash and deposit balances at December 31, 2011. The County has no investments subject to investment risks.

Checking	$	883,495
Savings		2,504,177
Certificates of deposit		2,991,059
Petty cash		4,195
Total Cash and Investments	$	6,382,926

2. Receivables

Receivables as of December 31, 2011, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

		Total Receivables		Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities				
Taxes	$	81,246	$	-
Special assessments		119,908		104,696
Accounts receivable		31,039		-
Loan receivable		100,000		66,667
Interest		26,164		-
Due from other governments		2,256,665		-
Total Governmental Activities	$	2,615,022	$	171,363

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 297,590	$ -	$ -	$ 297,590
Gravel pits	354,163	-	-	354,163
Right-of-way	47,695	-	-	47,695
Intangible assets	16,983	-	-	16,983
Total capital assets not depreciated	$ 716,431	$ -	$ -	$ 716,431
Capital assets depreciated				
Buildings	$ 3,610,308	$ -	$ -	$ 3,610,308
Land improvements	245,352	-	-	245,352
Machinery and equipment	4,429,377	376,550	258,790	4,547,137
Infrastructure	37,838,274	1,745,119	-	39,583,393
Total capital assets depreciated	$ 46,123,311	$ 2,121,669	$ 258,790	$ 47,986,190
Less: accumulated depreciation for				
Buildings	$ 1,910,260	$ 68,853	$ -	$ 1,979,113
Land improvements	75,951	11,289	-	87,240
Machinery and equipment	3,052,561	224,541	159,425	3,117,677
Infrastructure	18,533,198	1,368,178	-	19,901,376
Total accumulated depreciation	$ 23,571,970	$ 1,672,861	$ 159,425	$ 25,085,406
Total capital assets depreciated, net	$ 22,551,341	$ 448,808	$ 99,365	$ 22,900,784
Governmental Activities Capital Assets, Net	$ 23,267,772	$ 448,808	$ 99,365	$ 23,617,215

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

Governmental Activities	
General government	$ 106,834
Public safety	30,151
Highways and streets, including depreciation of infrastructure assets	1,519,227
Sanitation	428
Human services	2,013
Culture and recreation	14,208
Total Depreciation Expense - Governmental Activities	$ 1,672,861

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities	
Highways and streets	$ -

B. Interfund Receivables, Payables, and Transfers

1. The composition of interfund balances as of December 31, 2011, is as follows:

Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch Special Revenue	$ 124,400

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

2. Transfers

Interfund transfers for the year ended December 31, 2011, consisted of the following:

Transfer to Debt Service Fund from Highway Special Revenue Fund	$ 71,260	Provide funding to meet debt payment obligations.

2. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2011, were as follows:

Accounts payable	$	63,970
Salaries payable		78,694
Due to other governments		35,642
Total Payables	$	178,306

2. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
General obligation bonds					
1996 G.O. Drainage Bonds	2012	$15,000	4.0 - 5.6	$ 235,000	$ 15,000
2009 G.O. Capital Improvement Bonds	2025	$40,000 - $85,000	1.5 - 4.0	1,000,000	960,000
Total General Obligation Bonds				$ 1,235,000	$ 975,000
Less: unamortized discounts					(10,001)
Total General Obligation Bonds, Net					$ 964,999

Debt Issued

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

2. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Debt Service Requirements

Debt payments on the drainage bonds are made from the Ditch Special Revenue Fund. Debt service requirements at December 31, 2011, were as follows:

Year Ending December 31	General Obligation Bonds Principal	Interest
2012	$ 15,000	$ 420

Debt payments on the capital improvement bonds are made from the Debt Service Fund. Debt service requirements at December 31, 2011, were as follows:

Year Ending December 31	General Obligation Bonds Principal	Interest
2012	$ 55,000	$ 29,998
2013	55,000	29,035
2014	60,000	27,885
2015	60,000	26,535
2016	60,000	25,035
2017 - 2021	345,000	94,899
2022 - 2025	325,000	26,606
Total	$ 960,000	$ 259,993

2. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds					
Drainage	$ 30,000	$ -	$ 15,000	$ 15,000	$ 15,000
Capital improvement	1,000,000	-	40,000	960,000	55,000
Less: unamortized discount	(10,834)	-	(833)	(10,001)	-
Total bonds payable	$ 1,019,166	$ -	$ 54,167	$ 964,999	$ 70,000
Compensated absences	504,826	22,522	-	527,348	62,884
Other postemployment benefits	245,816	109,273	-	355,089	-
Governmental Activities Long-Term Liabilities	$ 1,769,808	$ 131,795	$ 54,167	$ 1,847,436	$ 132,884

D. Fund Balance

Fund Balances	General	Highway	Family Services	Ditch	Debt Service	Total
Nonspendable						
Advances	$ 124,400	$ -	$ -	$ -	$ -	$ 124,400
Loan receivable	66,667	-	-	-	-	66,667
Inventory	-	184,424	-	-	-	184,424
Restricted for						
Law library	2,617	-	-	-	-	2,617
Recorder's Technology Fund	49,383	-	-	-	-	49,383
Recorder's Compliance Fund	71,483	-	-	-	-	71,483
Enhanced 911	49,558	-	-	-	-	49,558
Sheriff's contingency	4,950	-	-	-	-	4,950
Gravel pit restoration	-	119,251	-	-	-	119,251
Gun permit fees	7,233	-	-	-	-	7,233
Solid waste	13,810	-	-	-	-	13,810
Election equipment grant	6,957	-	-	-	-	6,957
Unspent grant monies	28,693	-	3,189	-	-	31,882
Sheriff’s equipment	5,000	-	-	-	-	5,000
Ditch	-	-	-	78,242	-	78,242
Debt Service	-	-	-	-	86,365	86,365
Committed to						
Capital projects	87,626	-	-	-	-	87,626
Building maintenance	400,252	-	-	-	-	400,252
MSI equipment and building repair	62,082	-	-	-	-	62,082
County road projects	-	94,584	-	-	-	94,584
Out-of-home placements	-	-	150,000	-	-	150,000

2. Detailed Notes on All Funds

D. Fund Balance (Continued)

Fund Balances	General	Highway	Family Services	Ditch	Debt Service	Total
Assigned to		-				
Elections	11,703	-	-	-	-	11,703
Library capital	3,000	-	-	-	-	3,000
Highway	-	1,566,424	-	-	-	1,566,424
Family Services	-	-	2,215,884	-	-	2,215,884
Unassigned	994,409	-	-	-	-	994,409
Total Fund Balances	$ 1,989,823	$ 1,964,683	$ 2,369,073	$ 78,242	$ 86,365	$ 6,488,186

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description

All full-time and certain part-time employees of Big Stone County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund and the Public Employees Police and Fire Fund, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan, and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

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

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description (Continued)

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

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

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund and the Public Employees Police and Fire Fund. That report may be obtained on the internet at www.mnpera.org; 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.

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent.

The County is required to contribute the following percentages of annual covered payroll in 2011:

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

The County's contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	2011	2010	2009
General Employees Retirement Fund	$ 173,687	$ 176,040	$ 162,132
Public Employees Police and Fire Fund	40,970	37,548	33,599

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

B. Defined Contribution Plan

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

3. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by Big Stone County during the year ended December 31, 2011, were:

	Employee	Employer
Contribution amount	$ 3,499	$ 3,499
Percentage of covered payroll	5.0%	5.0%

Required contribution rates were 5.0 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

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

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Plan Description (Continued)

January 1, 1991, the premium for the individual health insurance coverage or the Medicare supplement and the County's Group Medicare Part D coverage will be paid by Big Stone County until the death of the retiree.

Any eligible employee hired after January 1, 1991, shall be eligible for one year of employer retiree insurance contributions for each five years of service with the County to a maximum of three years of contributions.

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Big Stone County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. The County has no implicit rate subsidy. The County had 9 elected officials and 24 employees eligible for this benefit in 2011. The cost from this program totaled $184,012 ($33,446 for elected officials and $150,566 for employees) in 2011.

Annual OPEB Cost and Net OPEB Obligation

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

ARC	$	297,124
Interest on net OPEB obligation		9,833
Adjustment to ARC		(13,672)
Annual OPEB cost (expense)	$	293,285
Contributions made during the year		(184,012)
Increase in net OPEB obligation	$	109,273
Net OPEB Obligation - Beginning of Year		245,816
Net OPEB Obligation - End of Year	$	355,089

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2009, 2010, and 2011, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2009	$ 297,124	$ 169,897	57.2%	$ 127,227
December 31, 2010	295,137	176,548	59.8	245,816
December 31, 2011	293,285	184,012	62.7	355,089

Funded Status and Funding Progress

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

Actuarial Methods and Assumptions

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

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point.

The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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

The annual health care cost trend is nine percent initially, reduced by decrements to an ultimate rate of five percent over 8 years. Both rates included a three percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2011, was 27 years.

4. Summary of Significant Contingency and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For all other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

4. Summary of Significant Contingency and Other Items

A. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $450,000 per claim in 2011 and $460,000 in 2012. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

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

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

C. Joint Ventures

Countryside Public Health Service

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

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

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

Financing is provided by state and federal grants, appropriations from member counties, and charges for services. Big Stone County's contribution for 2011 was $41,305.

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

Southwestern Minnesota Adult Mental Health Consortium Board

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

4. Summary of Significant Contingency and Other Items

C. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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

The following is a summary of the Board's annual financial report for the year ended December 31, 2009 (the most recent information available):

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

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

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

PrimeWest Health

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

4. Summary of Significant Contingency and Other Items

C. Joint Ventures

PrimeWest Health (Continued)

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

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

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

Pomme de Terre River Association

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

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

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

4. Summary of Significant Contingency and Other Items

C. Joint Ventures (Continued)

Central Minnesota Regional Radio Board

The Central Minnesota Regional Radio Board Joint Powers Board was established June 5, 2007, between Big Stone County, the City of St. Cloud, and 11 other counties under authority of Minn. Stat. §§ 471.59 and 403.39. The purpose of the agreement is to formulate a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

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

During 2011, Big Stone County contributed $1,842 to the Joint Powers Board. Complete financial information for the Central Minnesota Regional Radio Board Joint Powers Board can be obtained from the City of St. Cloud at 400 - 2nd Street South, St. Cloud, Minnesota 56301.

Supporting Hands Nurse Family Partnership

The Supporting Hands Nurse Family Partnership was established in July 2007 by a joint powers agreement among Big Stone County and 11 other counties under the authority of Minn. Stat. §§ 471.59 and 145A.17. Big Stone County is part of the Countryside Public Health Service and is required to have this joint agreement. The purpose of this agreement is to organize, govern, plan, and administer a multi-county based Nurse Family Partnership Program specifically within the jurisdictional boundaries of the counties involved. A new agreement was signed in December 2010 to include an additional three counties.

4. Summary of Significant Contingency and Other Items

C. Joint Ventures

Supporting Hands Nurse Family Partnership (Continued)

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2011, Big Stone County did not make a contribution to the Partnership, as a contribution was made by the Countryside Public Health Service.

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

Pioneerland Regional Library System

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

D. Jointly-Governed Organizations

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

Minnesota River Basin Joint Powers Board

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

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

4. Summary of Significant Contingency and Other Items

D. Jointly-Governed Organizations

Minnesota River Basin Joint Powers Board (Continued)

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 2011, Big Stone County contributed $625 to the Joint Powers Board.

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

West Central S.W.A.T. Team

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

E. Related Organization - Upper Minnesota River Watershed District

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

F. Agricultural Best Management Loan Program

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

REQUIRED SUPPLEMENTARY INFORMATION

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BIG STONE COUNTY
ORTONVILLE, MINNESOTA

EXHIBIT A-1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 2,093,095	$ 2,093,095	$ 2,205,631	$ 112,536
Special assessments	115,500	115,500	120,074	4,574
Licenses and permits	16,850	16,850	19,131	2,281
Intergovernmental	699,809	699,809	846,175	146,366
Charges for services	167,200	167,200	187,544	20,344
Gifts and contributions	-	-	5,000	5,000
Investment earnings	70,800	70,800	69,272	(1,528)
Miscellaneous	101,401	101,401	270,941	169,540
Total Revenues	**$ 3,264,655**	**$ 3,264,655**	**$ 3,723,768**	**$ 459,113**
Expenditures				
Current				
General government				
Commissioners	$ 138,693	$ 138,693	$ 133,038	$ 5,655
Law library	6,400	6,400	6,845	(445)
Auditor	189,084	189,084	186,349	2,735
Treasurer	88,354	88,354	86,246	2,108
Accounting and auditing	39,360	39,360	33,564	5,796
Information technology	82,344	82,344	95,258	(12,914)
Human resources	50,641	50,641	57,647	(7,006)
Safety	-	-	272	(272)
General administration	181,976	181,976	199,437	(17,461)
Elections	15,000	15,000	4,169	10,831
Attorney	75,046	75,046	73,466	1,580
Recorder	160,131	160,131	159,855	276
Assessor	249,574	249,574	218,967	30,607
Planning and zoning	53,002	53,002	80,258	(27,256)
Buildings and plant	143,647	143,647	149,644	(5,997)
Veterans service officer	66,092	66,092	66,682	(590)
Total general government	**$ 1,539,344**	**$ 1,539,344**	**$ 1,551,697**	**$ (12,353)**
Public safety				
Sheriff	$ 847,591	$ 847,591	$ 766,061	$ 81,530
Boat and water safety	2,467	2,467	2,636	(169)
Coroner	3,000	3,000	3,483	(483)
Probation	51,000	51,000	42,791	8,209
Emergency management	32,662	32,662	54,682	(22,020)
Flood account	-	-	6,235	(6,235)
E-911 system	116,800	116,800	148,808	(32,008)
Total public safety	**$ 1,053,520**	**$ 1,053,520**	**$ 1,024,696**	**$ 28,824**

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

BIG STONE COUNTY
ORTONVILLE, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	**$ 176,790**	**$ 176,790**	**$ 179,325**	**$ (2,535)**
Health				
Public health	**$ 38,180**	**$ 38,180**	**$ 39,134**	**$ (954)**
Culture and recreation				
Culture and recreation	$ 106,245	$ 106,245	$ 88,716	$ 17,529
Historical society	21,300	21,300	21,084	216
Toqua Park	21,861	21,861	21,104	757
Total culture and recreation	**$ 149,406**	**$ 149,406**	**$ 130,904**	**$ 18,502**
Conservation of natural resources				
Extension	$ 108,601	$ 108,601	$ 102,428	$ 6,173
Conservation	76,208	76,208	76,490	(282)
Feedlot management	21,009	21,009	16,603	4,406
Water planning	27,751	27,751	36,352	(8,601)
Total conservation of natural resources	**$ 233,569**	**$ 233,569**	**$ 231,873**	**$ 1,696**
Economic development				
Other	**$ 32,541**	**$ 32,541**	**$ 32,541**	**$ -**
Intergovernmental				
Health	**$ 41,305**	**$ 41,305**	**$ 41,305**	**$ -**
Total Expenditures	**$ 3,264,655**	**$ 3,264,655**	**$ 3,231,475**	**$ 33,180**
Excess of Revenues Over (Under) Expenditures	**$ -**	**$ -**	**$ 492,293**	**$ 492,293**
Other Financing Sources (Uses)				
Proceeds from the sale of assets	-	-	1,200	1,200
Net Change in Fund Balance	**$ -**	**$ -**	**$ 493,493**	**$ 493,493**
Fund Balance - January 1	**1,496,330**	**1,496,330**	**1,496,330**	**-**
Fund Balance - December 31	**$ 1,496,330**	**$ 1,496,330**	**$ 1,989,823**	**$ 493,493**

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

BIG STONE COUNTY
ORTONVILLE, MINNESOTA

EXHIBIT A-2

BUDGETARY COMPARISON SCHEDULE
HIGHWAY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 733,321	$ 733,321	$ 806,358	$ 73,037
Intergovernmental	2,267,685	2,927,685	3,006,193	78,508
Charges for services	163,000	163,000	189,247	26,247
Investment earnings	16,000	16,000	8,564	(7,436)
Miscellaneous	30,300	30,300	48,762	18,462
Total Revenues	**$ 3,210,306**	**$ 3,870,306**	**$ 4,059,124**	**$ 188,818**
Expenditures				
Current				
Highways and streets				
Administration	$ 340,090	$ 340,090	$ 342,337	$ (2,247)
Other - highways and streets	18,150	18,150	8,578	9,572
Construction	1,320,960	1,980,960	1,712,746	268,214
Maintenance	641,971	641,971	847,106	(205,135)
Equipment and maintenance shops	654,575	654,575	718,898	(64,323)
Material and services for resale	13,950	13,950	203,893	(189,943)
Total highways and streets	**$ 2,989,696**	**$ 3,649,696**	**$ 3,833,558**	**$ (183,862)**
Intergovernmental				
Highways and streets	150,000	150,000	161,681	(11,681)
Total Expenditures	**$ 3,139,696**	**$ 3,799,696**	**$ 3,995,239**	**$ (195,543)**
Excess of Revenues Over (Under) Expenditures	**$ 70,610**	**$ 70,610**	**$ 63,885**	**$ (6,725)**
Other Financing Sources (Uses)				
Transfers out	$ (70,710)	$ (70,710)	$ (71,260)	$ (550)
Proceeds from sale of assets	100	100	-	(100)
Total Other Financing Sources (Uses)	**$ (70,610)**	**$ (70,610)**	**$ (71,260)**	**$ (650)**
Net Change in Fund Balance	**$ -**	**$ -**	**$ (7,375)**	**$ (7,375)**
Fund Balance - January 1	**2,019,105**	**2,019,105**	**2,019,105**	**-**
Increase (decrease) in inventories	**-**	**-**	**(47,047)**	**(47,047)**
Fund Balance - December 31	**$ 2,019,105**	**$ 2,019,105**	**$ 1,964,683**	**$ (54,422)**

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

BIG STONE COUNTY
ORTONVILLE, MINNESOTA

EXHIBIT A-3

BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 750,896	$ 750,896	$ 665,686	$ (85,210)
Intergovernmental	1,396,129	1,396,129	1,374,282	(21,847)
Charges for services	223,840	223,840	244,732	20,892
Miscellaneous	25,522	25,522	66,388	40,866
Total Revenues	**$ 2,396,387**	**$ 2,396,387**	**$ 2,351,088**	**$ (45,299)**
Expenditures				
Current				
Human services				
Income maintenance	$ 584,736	$ 584,736	$ 622,282	$ (37,546)
Social services	1,880,606	1,880,606	1,647,297	233,309
Total Expenditures	**$ 2,465,342**	**$ 2,465,342**	**$ 2,269,579**	**$ 195,763**
Net Change in Fund Balance	**$ (68,955)**	**$ (68,955)**	**$ 81,509**	**$ 150,464**
Fund Balance - January 1	**2,287,564**	**2,287,564**	**2,287,564**	**-**
Fund Balance - December 31	**$ 2,218,609**	**$ 2,218,609**	**$ 2,369,073**	**$ 150,464**

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

BIG STONE COUNTY
ORTONVILLE, MINNESOTA

EXHIBIT A-4

BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Special assessments	$ 80,800	$ 80,800	$ 73,772	$ (7,028)
Investment earnings	-	-	122	122
Total Revenues	**$ 80,800**	**$ 80,800**	**$ 73,894**	**$ (6,906)**
Expenditures				
Current				
Conservation of natural resources				
Other	$ 26,088	$ 26,088	$ 68,958	$ (42,870)
Debt service				
Principal	15,000	15,000	15,000	-
Interest	1,253	1,253	1,252	1
Administrative (fiscal) fees	450	450	447	3
Total Expenditures	**$ 42,791**	**$ 42,791**	**$ 85,657**	**$ (42,866)**
Net Change in Fund Balance	**$ 38,009**	**$ 38,009**	**$ (11,763)**	**$ (49,772)**
Fund Balance - January 1	**90,005**	**90,005**	**90,005**	**-**
Fund Balance - December 31	**$ 128,014**	**$ 128,014**	**$ 78,242**	**$ (49,772)**

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

BIG STONE COUNTY
ORTONVILLE, MINNESOTA

EXHIBIT A-5

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2011

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

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011

1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Budget Amendments

The expenditures budget in the Highway Special Revenue Fund was amended as follows:

Original Budget	Increase (Decrease)	Final Budget
$ 3,139,696	$ 660,000	$ 3,799,696

The County Board revised the County's Highway Special Revenue Fund budget as there were greater than anticipated revenues and costs for a highway project.

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

Fund	Expenditures	Budget	Excess
Special Revenue Funds			
Highway	$ 3,995,239	$ 3,799,696	$ 195,543
Ditch	85,657	42,791	42,866

5. Other Postemployment Benefits Funding Status

   Beginning in 2009, Big Stone County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* Since the County has no irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets is zero. Currently, only one actuarial valuation is available. Future reports will provide additional trend analysis to meet the three valuation funding status requirement as the information becomes available.

SUPPLEMENTARY INFORMATION

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BIG STONE COUNTY
ORTONVILLE, MINNESOTA

EXHIBIT B-1

BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 89,248	$ 89,248	$ 80,690	$ (8,558)
Intergovernmental	-	-	5,675	5,675
Total Revenues	**$ 89,248**	**$ 89,248**	**$ 86,365**	**$ (2,883)**
Expenditures				
Debt service				
Principal	$ 40,000	$ 40,000	$ 40,000	$ -
Interest	30,710	30,710	30,710	-
Administrative (fiscal) fees	-	-	550	(550)
Total Expenditures	**$ 70,710**	**$ 70,710**	**$ 71,260**	**$ (550)**
Excess of Revenues Over(Under) Expenditures	**$ 18,538**	**$ 18,538**	**$ 15,105**	**$ (3,433)**
Other Financing Sources (Uses)				
Transfers in	70,710	70,710	71,260	550
Net Change in Fund Balance	**$ 89,248**	**$ 89,248**	**$ 86,365**	**$ (2,883)**
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	**$ 89,248**	**$ 89,248**	**$ 86,365**	**$ (2,883)**

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AGENCY FUNDS

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

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

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

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

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BIG STONE COUNTY
ORTONVILLE, MINNESOTA

EXHIBIT C-1

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Balance January 1	Additions	Deductions	Balance December 31
FAMILY SERVICES COLLABORATIVE				
Assets				
Cash and pooled investments	$ 97,398	$ 83,261	$ 68,858	$ 111,801
Liabilities				
Due to other governments	$ 97,398	$ 83,261	$ 68,858	$ 111,801
SOCIAL WELFARE				
Assets				
Cash and pooled investments	$ 6,776	$ 44,068	$ 49,614	$ 1,230
Liabilities				
Accounts payable	$ 6,776	$ 44,068	$ 49,614	$ 1,230
STATE				
Assets				
Cash and pooled investments	$ 16,819	$ 422,287	$ 419,224	$ 19,882
Liabilities				
Due to other governments	$ 16,819	$ 422,287	$ 419,224	$ 19,882

BIG STONE COUNTY
ORTONVILLE, MINNESOTA

EXHIBIT C-1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Balance January 1	Additions	Deductions	Balance December 31
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	**$ 120,194**	**$ 11,501,161**	**$ 11,463,457**	**$ 157,898**
Liabilities				
Due to other governments	**$ 120,194**	**$ 11,501,161**	**$ 11,463,457**	**$ 157,898**
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	**$ 241,187**	**$ 12,050,777**	**$ 12,001,153**	**$ 290,811**
Liabilities				
Accounts payable	$ 6,776	$ 44,068	$ 49,614	$ 1,230
Due to other governments	234,411	12,006,709	11,951,539	289,581
Total Liabilities	**$ 241,187**	**$ 12,050,777**	**$ 12,001,153**	**$ 290,811**

SCHEDULES

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BIG STONE COUNTY
ORTONVILLE, MINNESOTA

EXHIBIT D-1

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2011

Shared Revenue		
State		
Highway users tax	$	2,706,497
County program aid		264,116
PERA rate reimbursement		11,447
Disparity reduction aid		88,931
Police aid		31,043
Enhanced 911		76,403
Market value credit		180,043
Total shared revenue	**$**	**3,358,480**
Reimbursement for Services		
Minnesota Department of Human Services	**$**	**336,452**
Payments		
Local		
Payments in lieu of taxes	$	115,863
Local contributions		243,259
Total payments	**$**	**359,122**
Grants		
State		
Minnesota Department/Board of		
Public Safety	$	6,027
Corrections		9,654
Human Services		398,291
Natural Resources		26,154
Water and Soil Resources		129,905
Veterans Affairs		10,000
Peace Officer Standards and Training Board		2,272
Pollution Control Agency		55,950
Total state	**$**	**638,253**
Federal		
Department of		
Agriculture	$	60,671
Commerce		9,467
Health and Human Services		444,456
Homeland Security		25,424
Total federal	**$**	**540,018**
Total state and federal grants	**$**	**1,178,271**
Total Intergovernmental Revenue	**$**	**5,232,325**

BIG STONE COUNTY
ORTONVILLE, MINNESOTA

EXHIBIT D-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	**$ 60,671**
U.S. Department of Commerce		
Passed Through Central Minnesota Regional Radio Board		
Public Safety Interoperable Communications Grant Program	11.555	**$ 9,467**
U.S. Election Assistance Commission		
Passed Through Minnesota Secretary of State		
Help America Vote Act Requirements Payments	90.401	**$ 3,920**
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	$ 3,807
Temporary Assistance for Needy Families (TANF) Cluster		
Temporary Assistance for Needy Families (TANF)	93.558	49,086
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	93.714	1,562
Child Support Enforcement	93.563	78,995
Child Care and Development Block Grant	93.575	2,097
Stephanie Tubbs Jones Child Welfare Services Program	93.645	3,000
Foster Care - Title IV-E	93.658	39,848
Social Services Block Grant	93.667	57,077
Chafee Foster Care Independence Program	93.674	1,138
Children's Health Insurance Program	93.767	40
Medical Assistance Program	93.778	206,361
Block Grants for Community Mental Health Services	93.958	1,445
Total U.S. Department of Health and Human Services		**$ 444,456**
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	$ 184,578
Emergency Management Performance Grants	97.042	7,659
Passed Through West Central Minnesota Emergency Medical Services Regulatory Board		
Homeland Security Grant Program	97.067	17,765
Total U.S. Department of Homeland Security		**$ 210,002**
Total Federal Awards		**$ 728,516**

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

BIG STONE COUNTY
ORTONVILLE, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

1. Reporting Entity

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

2. Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Big Stone County under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Because the schedule presents only a selected portion of the operations of Big Stone County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Big Stone County.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	$ 540,018
Disaster Grants - Public Assistance (Presidentially Declared Disasters) monies spent in 2011 but not recognized as revenues as the monies were not available and were deferred (CFDA #97.036)	184,578
Help America Vote Act Requirements Payments grant monies unspent in previous years and expended in 2011 (CFDA #90.401)	3,920
Expenditures per Schedule of Expenditures of Federal Awards	$ 728,516

5. Subrecipients

During 2011, the County did not pass any federal money to subrecipients.

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.

Management and Compliance Section

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BIG STONE COUNTY
ORTONVILLE, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unqualified.**

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

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

The major program was:

Medical Assistance Program	CFDA #93.778

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

County qualified as low-risk auditee? **Yes.**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

97-1 Segregation of Duties

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

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

Context: Due to the limited number of office personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Big Stone County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

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

Cause: The County does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

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

Client's Response:

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

ITEM ARISING THIS YEAR

11-1 Tax Levy Allocation

Criteria: A good system of internal control includes review procedures by someone other than those who prepare the information. The monitoring should be documented to show the results of the review, changes required, and who performed the work.

Condition: The total amount of taxes levied for Big Stone County in 2011 matched the board authorized total of $4,228,000, but allocation by fund differed for three funds.

Context: County management is responsible for monitoring its internal controls. Monitoring involves assessing the quality of performance over time. Monitoring should occur during normal operations and includes reviews, comparisons, reconciliations, and other actions employees take in performing their duties. Not monitoring the tax levy allocation increases the likelihood that errors will not be prevented, or detected and corrected, on a timely basis.

Effect: The Board of Commissioners approved a tax levy allocation of $2,441,881 for the General Fund; however, $2,519,469 was allocated for 2011, exceeding the board approved amount by $77,588. For the Highway Special Revenue Fund, $850,000 was allocated, exceeding the board approved amount of $817,656 by $32,244. In addition, the Board approved a $879,215 allocation for the Family Services Special Revenue Fund while the actual allocation was $769,283, short of the approved amount by $109,932.

Cause: The County does not have controls in place to review the input levy other than the County Auditor, who is responsible for entering the levy.

Recommendation: We recommend the County implement internal control procedures which include review of levy input by someone other than the one who entered the information to ensure taxes levied are allocated between the funds as directed by Board resolution.

Client's Response:

The responsibility of entering the levy has been reassigned to allow review of the input by the County Auditor to ensure the taxes levied are allocated as directed by the Board.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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

Board of County Commissioners
Big Stone County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Big Stone County as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated May 11, 2012. 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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 97-1 and 11-1, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, 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 Political Subdivisions* 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 the County has no tax increment financing districts.

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

Big Stone County's written responses to the internal control 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, audit committee, management, others within Big Stone County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

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

May 11, 2012

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Big Stone County

Compliance

We have audited Big Stone County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2011. Big Stone County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Big Stone County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

Internal Control Over Compliance

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 11, 2012