STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

STEVENS COUNTY
MORRIS, MINNESOTA

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.

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STEVENS COUNTY
MORRIS, MINNESOTA

Year Ended December 31, 2011

Audit Practice Division
Office of the State Auditor
State of Minnesota

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STEVENS COUNTY
MORRIS, MINNESOTA

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STEVENS COUNTY
MORRIS, MINNESOTA

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Introductory Section

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STEVENS COUNTY
MORRIS, MINNESOTA

ORGANIZATION
DECEMBER 31, 2011

			Term Expires
Elected			
Commissioners			
Board Member	Paul Watzke	District 1	January 2013
Board Member	Jeanne Ennen	District 2	January 2015
Chair	Ron Staples	District 3	January 2013
Board Member	Larry Sayre	District 4	January 2013
Board Member	Phil Gausman	District 5	January 2015
Attorney	Aaron Jordan		January 2015
Auditor/Treasurer	Neil Wiese		January 2015
County Recorder	Virginia Mahoney		January 2015
Registrar of Titles	Virginia Mahoney		January 2015
County Sheriff	Randy Willis		January 2015
Appointed			
Assessor	Judy Thorstad		December 2012
County Coordinator	Brian Giese		Indefinite
Coroner	Michael Busian, M.D.		Indefinite
Highway Engineer	Brian Giese		Indefinite
Human Services Director	Joanie Murphy		Indefinite
Veterans Service Officer	Hugh Reimers		Indefinite

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Stevens County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Stevens 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 Stevens County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 Stevens 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.D.8., Stevens County has implemented Governmental Accounting Standards Board's (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 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Stevens County's basic financial statements as a whole. The supplementary information, 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 July 20, 2012, on our consideration of Stevens County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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

July 20, 2012

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011

Assets		
Cash and pooled investments	$	7,539,816
Taxes receivable		
Current - net		24,041
Prior - net		13,840
Special assessments receivable		
Current - net		2,871
Delinquent - net		15,793
Deferred - net		273,523
Accounts receivable - net		29,462
Accrued interest receivable		26,048
Due from other governments		954,902
Inventories		322,880
Capital assets		
Non-depreciable		1,075,576
Depreciable - net of accumulated depreciation		36,480,621
Total Assets	**$**	**46,759,373**
Liabilities		
Accounts payable	$	180,245
Salaries payable		105,180
Due to other governments		118,771
Permit deposits		2,900
Unearned revenue		23,804
Long-term liabilities		
Due within one year		468,542
Due in more than one year		6,863,869
Total Liabilities	**$**	**7,763,311**
Net Assets		
Invested in capital assets - net of related debt	$	30,675,364
Restricted for		
General government		236,610
Public safety		324,744
Highways and streets		524,723
Conservation of natural resources		230,257
Human services		5,459
Held in trust for other purposes		892
Unrestricted		6,998,013
Total Net Assets	**$**	**38,996,062**

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

STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT 2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Expenses	Program Revenues: Fees, Charges, Fines, and Other	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Functions/Programs					
Primary government					
Governmental activities					
General government	$ 2,653,824	$ 632,315	$ 60,355	$ -	$ (1,961,154)
Public safety	2,453,275	77,239	322,653	382,996	(1,670,387)
Highways and streets	3,528,900	493,022	2,732,783	-	(303,095)
Sanitation	289,792	156,404	-	-	(133,388)
Human services	2,505,619	180,611	1,119,123	-	(1,205,885)
Health	126,866	-	13,000	-	(113,866)
Culture and recreation	148,312	-	70,934	-	(77,378)
Conservation of natural resources	488,218	92	265,309	-	(222,817)
Economic development	242,932	-	-	-	(242,932)
Interest	323,909	-	-	-	(323,909)
Total Governmental Activities	**$ 12,761,647**	**$ 1,539,683**	**$ 4,584,157**	**$ 382,996**	**$ (6,254,811)**

General Revenues	
Property taxes	$ 5,311,767
Grants and contributions not restricted to specific programs	1,072,764
Payments in lieu of tax	70,343
Investment income	209,980
Gain on sale of capital assets	133,175
Total general revenues	**$ 6,798,029**
Change in net assets	**$ 543,218**
Net Assets - Beginning	**38,452,844**
Net Assets - Ending	**$ 38,996,062**

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

STEVENS COUNTY
MORRIS, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General		Road and Bridge	
Assets				
Cash and pooled investments	$	3,022,303	$	1,357,064
Petty cash and change funds		5,450		50
Undistributed cash in agency funds		45,068		11,557
Cash with fiscal agent		40,000		-
Taxes receivable				
Current		13,540		3,893
Prior		7,822		2,378
Special assessments				
Current		-		-
Delinquent		-		-
Deferred		-		-
Accounts receivable		445		38
Accrued interest receivable		26,048		-
Due from other funds		4,321		1,781
Due from other governments		184,823		608,688
Advance to other funds		155,000		-
Inventories		-		322,880
Total Assets	**$**	**3,504,820**	**$**	**2,308,329**

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

Human Services	Ditch	Nonmajor Governmental Funds	Total
$ 2,252,587	$ 271,921	$ 510,058	$ 7,413,933
-	-	-	5,500
15,420	3,042	5,296	80,383
-	-	-	40,000
5,193	-	1,415	24,041
3,640	-	-	13,840
-	2,871	-	2,871
-	15,793	-	15,793
-	273,523	-	273,523
26,631	-	2,348	29,462
-	-	-	26,048
-	-	-	6,102
159,564	-	-	953,075
-	-	-	155,000
-	-	-	322,880
$ 2,463,035	**$ 567,150**	**$ 519,117**	**$ 9,362,451**

STEVENS COUNTY
MORRIS, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General	Road and Bridge
Liabilities and Fund Balances		
Liabilities		
Accounts payable	$ 55,517	$ 59,638
Salaries payable	41,628	36,807
Due to other funds	1,177	-
Due to other governments	108,996	1,618
Deferred revenue - unavailable	23,025	532,132
Deferred revenue - unearned	-	-
Permit deposits	-	2,900
Advance from other funds	-	-
Total Liabilities	**$ 230,343**	**$ 633,095**
Fund Balances		
Nonspendable		
Inventories	$ -	$ 322,880
Advance to other funds	155,000	-
Restricted for		
Law library	2,023	-
Recorder's equipment purchases	87,278	-
Real estate tax shortfall	84,496	-
Enhanced 911	222,723	-
Recorder's compliance fund	30,520	-
DARE	12,548	-
Public safety equipment purchase	57,822	-
Ditch maintenance and construction	-	-
Attorney's forfeited property	11,789	-
Handgun permits	11,793	-
Social service youth	5,459	-
Veteran's van	20,504	-
Sheriff's forfeited property	19,858	-
Missing heirs	892	-
Committed to		
Future expenditures	1,800	-
Sheriff's contingency	9,412	-
Assigned to		
Highways and streets	-	1,352,354
Human services	-	-
Debt service	-	-
Sanitation	-	-
Unassigned	2,540,560	-
Total Fund Balances	**$ 3,274,477**	**$ 1,675,234**
Total Liabilities and Fund Balances	**$ 3,504,820**	**$ 2,308,329**

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

EXHIBIT 3
(Continued)

Human Services	Ditch	Nonmajor Governmental Funds	Total
$ 56,395	$ 200	$ 8,495	$ 180,245
26,745	-	-	105,180
2,781	180	137	4,275
8,157	-	-	118,771
44,321	292,186	2,305	893,969
23,804	-	-	23,804
-	-	-	2,900
-	155,000	-	155,000
$ 162,203	**$ 447,566**	**$ 10,937**	**$ 1,484,144**
$ -	$ -	$ -	$ 322,880
-	-	-	155,000
-	-	-	2,023
-	-	-	87,278
-	-	-	84,496
-	-	-	222,723
-	-	-	30,520
-	-	-	12,548
-	-	-	57,822
-	230,257	-	230,257
-	-	-	11,789
-	-	-	11,793
-	-	-	5,459
-	-	-	20,504
-	-	-	19,858
-	-	-	892
320,000	-	-	321,800
-	-	-	9,412
-	-	-	1,352,354
1,980,832	-	-	1,980,832
-	-	158,328	158,328
-	-	349,852	349,852
-	(110,673)	-	2,429,887
$ 2,300,832	**$ 119,584**	**$ 508,180**	**$ 7,878,307**
$ 2,463,035	**$ 567,150**	**$ 519,117**	**$ 9,362,451**

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STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT 4

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

Fund balance - total governmental funds (Exhibit 3)		**$ 7,878,307**
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.		37,556,197
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		893,969
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Capital leases	$ (6,880,833)	
Compensated absences	(451,578)	(7,332,411)
Net Assets of Governmental Activities (Exhibit 1)		**$ 38,996,062**

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

STEVENS COUNTY
MORRIS, MINNESOTA

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

	General	Road and Bridge
Revenues		
Taxes	$ 3,078,012	$ 827,243
Special assessments	-	-
Licenses and permits	7,870	-
Intergovernmental	1,872,203	2,863,458
Charges for services	340,825	335,353
Fines and forfeits	-	-
Gifts and contributions	4,581	-
Investment earnings	216,093	-
Miscellaneous	348,695	156,252
Total Revenues	**$ 5,868,279**	**$ 4,182,306**
Expenditures		
Current		
General government	$ 2,257,380	$ -
Public safety	2,286,810	-
Highways and streets	-	4,527,757
Sanitation	151,645	-
Human services	-	-
Health	115,306	-
Culture and recreation	148,312	-
Conservation of natural resources	279,267	-
Economic development	242,932	-
Intergovernmental		
Highways and streets	243,369	-
Capital outlay	395,064	-
Debt service		
Interest	-	-
Total Expenditures	**$ 6,120,085**	**$ 4,527,757**
Excess of Revenues Over (Under) Expenditures	**$ (251,806)**	**$ (345,451)**
Other Financing Sources (Uses)		
Transfers in	$ 89,888	$ -
Transfers out	-	-
Capital lease issued	537	-
Total Other Financing Sources (Uses)	**$ 90,425**	**$ -**
Change in Fund Balance	**$ (161,381)**	**$ (345,451)**
Fund Balance - January 1	**3,435,858**	**1,809,462**
Increase (decrease) in inventories	**-**	**211,223**
Fund Balance - December 31	**$ 3,274,477**	**$ 1,675,234**

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

EXHIBIT 5

	Human Services		Ditch		Nonmajor Governmental Funds		Total
$	1,103,917	$	-	$	299,981	$	5,309,153
	-		156,582		-		156,582
	-		-		-		7,870
	1,354,166		17,221		-		6,107,048
	103,684		-		86,717		866,579
	3,514		-		-		3,514
	-		-		-		4,581
	-		3,397		-		219,490
	72,069		-		251,456		828,472
$	**2,637,350**	**$**	**177,200**	**$**	**638,154**	**$**	**13,503,289**
$	-	$	-	$	-	$	2,257,380
	-		-		-		2,286,810
	-		-		-		4,527,757
	-		-		133,664		285,309
	2,495,869		-		-		2,495,869
	-		-		-		115,306
	-		-		-		148,312
	-		206,728		-		485,995
	-		-		-		242,932
	-		-		-		243,369
	-		-		-		395,064
	-		-		323,909		323,909
$	**2,495,869**	**$**	**206,728**	**$**	**457,573**	**$**	**13,808,012**
$	**141,481**	**$**	**(29,528)**	**$**	**180,581**	**$**	**(304,723)**
$	-	$	-	$	-	$	89,888
	-		-		(89,888)		(89,888)
	-		-		-		537
$	**-**	**$**	**-**	**$**	**(89,888)**	**$**	**537**
$	**141,481**	**$**	**(29,528)**	**$**	**90,693**	**$**	**(304,186)**
	2,159,351		**149,112**		**417,487**		**7,971,270**
	-		**-**		**-**		**211,223**
$	**2,300,832**	**$**	**119,584**	**$**	**508,180**	**$**	**7,878,307**

STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT 6

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

Net change in fund balance - total governmental funds (Exhibit 5)		**$ (304,186)**
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	$ 893,969	
Deferred revenue - January 1	(1,055,568)	(161,599)
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, the net book value of assets disposed of is expensed, while not reported in the fund statements.		
Expenditures for general capital assets and infrastructure	$ 2,534,333	
Net book value of assets disposed of	(65,525)	
Current year depreciation	(1,685,237)	783,571
Capital leases issued provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		
Capital lease issued		(537)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Change in compensated absences	$ 14,746	
Change in inventories	211,223	225,969
Change in Net Assets of Governmental Activities (Exhibit 2)		**$ 543,218**

FIDUCIARY FUNDS

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STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2011

		Agency Funds
Assets		
Cash and pooled investments	**$**	**607,788**
Liabilities		
Due to other governments	$	576,318
Due to other funds		1,827
Advance taxes		29,643
Total Liabilities	**$**	**607,788**

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 (FASB) 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

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

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements

      1. Government-Wide Statements (Continued)

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

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

      2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements

      2. Fund Financial Statements (Continued)

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

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

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

      Additionally, the County reports the following fund types:

         The Debt Service Fund accounts for the resources accumulated and payments made for the principal and interest on long-term debt of the government.

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

   C. Measurement Focus and Basis of Accounting

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

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first and then unrestricted resources as needed, unless the County Board takes specific action to appropriate those unrestricted resources.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/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 $219,490.

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

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

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

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

No allowance has been made for uncollectible receivables.

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

3. Inventories

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

4. Capital Assets

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. During the current period, the County did not have any capitalized interest.

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

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

5. Compensated Absences

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

6. Deferred Revenue

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

1. Summary of Significant Accounting Policies

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

      7. Long-Term Obligations

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

      8. Classification of Fund Balances

         In 2011, Stevens County implemented the requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund types.

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

            Nonspendable - 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 - 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 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.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

8. Classification of Fund Balances (Continued)

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

Unassigned - 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.

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.

9. Minimum Fund Balance

Stevens County has adopted a minimum fund balance policy to address cash flow or working capital needs for the General Fund, which is heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined the County needs to maintain a minimum unrestricted fund balance in the General Fund and has set the year end minimum fund balance amount for the General Fund at $1,500,000.

1. Summary of Significant Accounting Policies

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

10. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make 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.

11. Reclassifications

Several account balances were reclassified as of and for the year ended December 31, 2010, as previously reported due to implementation of GASB Statement 54. These reclassifications, which did not require a restatement of net assets or fund balance, 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.

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

Ditch Fund Deficits

Of 30 drainage systems, 4 have incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund balances of the Ditch Special Revenue Fund as of December 31, 2011.

Account balances	$ 230,257
Account deficits	(110,673)
Fund Balance	$ 119,584

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

Ditch Fund Deficits (Continued)

For internal purposes, the County accounts for its ditches on the accrual basis. Under the full accrual basis where revenues are recognized when earned, the Ditch Special Revenue Fund reports a positive fund balance of $411,770, with one ditch reporting a deficit.

B. Excess of Expenditures Over Budget

The following is a summary of individual funds that had expenditures in excess of budget for the year ended December 31, 2011.

	Expenditures	Budget	Excess
General Fund	$ 6,120,085	$ 5,133,638	$ 986,447
Special Revenue Funds			
Road and Bridge	4,527,757	4,112,875	414,882
Human Services	2,495,869	2,427,776	68,093
Solid Waste	133,664	73,620	60,044

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Cash and pooled investments	
Governmental activities	$ 7,539,816
Fiduciary funds - agency funds	607,788
Total Cash and Investments	$ 8,147,604

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2011, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

3. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments

         b. Investments (Continued)

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

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

            (4) bankers' acceptances of United States banks;

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

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

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

Interest Rate Risk

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

3. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments

         b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2011, $2,777,894 of repurchase agreements and $3,092,897 of government securities were exposed to custodial credit risk because they were held by the counterparty.

Concentration of Credit Risk

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

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table represents the County's cash and investment balances at December 31, 2011, and information relating to potential investment risks:

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Over 5 Percent of Portfolio	Interest Rate Risk: Maturity Date	Carrying (Fair) Value
U.S. government agency securities					
Federal National Mortgage Association	Aaa	Moody's		06/29/2021	$ 250,655
Federal National Mortgage Association	Aaa	Moody's		06/30/2026	251,620
Federal National Mortgage Association	Aaa	Moody's		08/10/2026	752,258
Federal National Mortgage Association	Aaa	Moody's		08/24/2026	250,720
Federal National Mortgage Association	Aaa	Moody's		08/24/2026	248,600
Federal National Mortgage Association	Aaa	Moody's		09/28/2026	250,080
Federal National Mortgage Association	Aaa	Moody's		10/20/2026	250,458
Federal National Mortgage Association	Aaa	Moody's		12/14/2026	501,310
Total Federal National Mortgage Association			33.9%		$ 2,755,701
Federal Home Loan Mortgage Corporation	Aaa	Moody's		05/01/2014	$ 19,311
Federal Home Loan Mortgage Corporation	Aaa	Moody's		09/01/2018	36,071
Federal Home Loan Mortgage Corporation	Aaa	Moody's		06/28/2021	754,650
Total Federal Home Loan Mortgage Corporation			10.0%		$ 810,032
Federal Home Loan Bank	Aaa	Moody's		11/23/2021	$ 250,035
Federal Home Loan Bank	Aaa	Moody's		08/26/2025	200,792
Total Federal Home Loan Bank			5.5%		$ 450,827
Federal Farm Credit Bank	Aaa	Moody's	<5.0%	04/26/2021	$ 251,880
Small Business Administration Loan Pool	N/R	N/A		09/25/2012	$ 6,133
Small Business Administration Loan Pool	N/R	N/A		06/25/2020	56,226
Small Business Administration Loan Pool	N/R	N/A		07/25/2020	14,579
Small Business Administration Loan Pool	N/R	N/A		11/25/2021	18,317
Small Business Administration Loan Pool	N/R	N/A		07/25/2023	48,193
Small Business Administration Loan Pool	N/R	N/A		07/25/2023	17,247
Small Business Administration Loan Pool	N/R	N/A		04/25/2024	5,433
Small Business Administration Loan Pool	N/R	N/A		04/25/2024	75,148
Small Business Administration Loan Pool	N/R	N/A		10/25/2024	45,013
Small Business Administration Loan Pool	N/R	N/A		11/25/2025	56,292
Total Small Business Administration			7.7%		$ 342,581

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Over 5 Percent of Portfolio	Interest Rate Risk: Maturity Date	Carrying (Fair) Value
Municipal bonds					
Virginia State Housing Development Authority Rental Housing Bonds	Aa1	Moody's		03/01/2029	$ 283,930
Mahtomedi Minnesota School District Bonds	AAA	S&P		02/01/2029	274,538
Total municipal bonds			6.9%		$ 558,468
Investment pools/mutual funds					
MAGIC Fund	N/A	N/A	N/A		$ 26
Repurchase agreements	N/A	N/A	N/A		$ 2,777,894
Total investments					$ 7,947,409
Deposits					194,695
Change funds					5,500
Total Cash and Investments					$ 8,147,604

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

2. Receivables

Receivables as of December 31, 2011, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	$ 37,881	$ -
Special assessments	292,187	39,304
Accounts	29,462	-
Interest	26,048	-
Due from other governments	953,075	-
Total Governmental Activities	$ 1,338,653	$ 39,304

3. 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	$ 1,038,602	$ 69,102	$ 65,525	$ 1,042,179
Construction in progress	10,407,086	98,670	10,472,359	33,397
Total capital assets not depreciated	$ 11,445,688	$ 167,772	$ 10,537,884	$ 1,075,576
Capital assets depreciated				
Improvements other than buildings	$ 142,212	$ -	$ 7,500	$ 134,712
Building improvements	14,945	-	-	14,945
Buildings	2,910,331	10,357,454	175,957	13,091,828
Machinery, furniture, and equipment	4,067,117	935,753	108,654	4,894,216
Infrastructure	36,387,756	1,545,713	-	37,933,469
Total capital assets depreciated	$ 43,522,361	$ 12,838,920	$ 292,111	$ 56,069,170
Less: accumulated depreciation for				
Improvements other than buildings	$ 59,140	$ 10,311	$ 7,500	$ 61,951
Building improvements	4,055	1,198	-	5,253
Buildings	2,023,144	436,759	175,957	2,283,946
Machinery, furniture, and equipment	2,847,212	412,267	108,654	3,150,825
Infrastructure	13,261,872	824,702	-	14,086,574
Total accumulated depreciation	$ 18,195,423	$ 1,685,237	$ 292,111	$ 19,588,549
Total capital assets depreciated, net	$ 25,326,938	$ 11,153,683	$ -	$ 36,480,621
Governmental Activities Capital Assets, Net	$ 36,772,626	$ 11,321,455	$ 10,537,884	$ 37,556,197

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

Governmental Activities	
General government	$ 508,699
Public safety	165,162
Highways and streets, including depreciation of infrastructure assets	987,542
Health	11,560
Human services	4,842
Conservation of natural resources	1,432
Sanitation	6,000
Total Depreciation Expense - Governmental Activities	$ 1,685,237

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Human Services Special Revenue	$ 2,494
	West Central Special Weapons and Tactics Team Agency	1,827
Total due to General Fund		$ 4,321
Road and Bridge Special Revenue	General	$ 1,177
	Human Services Special Revenue	287
	Ditch Special Revenue	180
	Solid Waste Special Revenue	137
Total due to Road and Bridge Special Revenue Fund		$ 1,781
Total Due To/From Other Funds		$ 6,102

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

2. Advance From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch Special Revenue	$ 155,000

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

3. Detailed Notes on All Funds

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

3. Interfund Transfers

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

Transfer to General Fund from Solid Waste Special Revenue Fund	$ 89,888	Provide funding for recycling activities

C. Liabilities

1. Payables

Payables of governmental activities at December 31, 2011, were as follows:

Accounts	$ 180,245
Salaries	105,180
Due to other governments	118,771
Permit deposits	2,900
Total Payables	$ 407,096

2. Deferred Revenue

Deferred revenue as of December 31, 2011, for the County's governmental funds is as follows:

	Deferred Unavailable	Deferred Unearned
Governmental funds		
Taxes and special assessments	$ 319,637	$ -
State-aid highway allotments	524,723	-
Grants	37,848	23,804
Interest	7,523	-
Charges for services	2,894	-
Miscellaneous	1,344	-
Total Governmental Funds	$ 893,969	$ 23,804

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Construction and Other Significant Commitments

The County has an active construction project as of December 31, 2011.

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Public safety		
Dispatch console	$ 327,657	$ 57,822

4. Capital Lease

Stevens County has entered into a lease arrangement with the Housing and Redevelopment Authority of Stevens County (HRA). The HRA agreed to issue $7,685,000 in Public Project Revenue Bonds in order to finance the construction/remodel of the courthouse. The proceeds of the sale of these bonds were placed into an escrow account. As the County requests construction reimbursements, the funds will be transferred from escrow to the HRA, which will subsequently transfer the funds to the County. The County's lease payment is essentially equal to the principal and interest on the bonds for the year. At December 31, 2011, the County has made reimbursement requests totaling $6,880,833. The County recognizes a lease obligation only up to the amount of the reimbursement requests instead of the outstanding bond balance.

Type of Indebtedness	Maturity	Installment Amounts	Interest Rate (%)	Original	Balance
Courthouse lease	2031	$265,000 - $575,000	3.0 to 4.7	$ 6,880,833	$ 6,880,833

3. Detailed Notes on All Funds

C. Liabilities

4. Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2011, were as follows:

Year Ending December 31	Governmental Activities
2012	$ 584,934
2013	586,834
2014	583,509
2015	578,609
2016	577,009
2017 - 2021	2,860,856
2022 - 2026	2,877,719
2027 - 2031	2,921,305
Total future minimum lease payments	$ 11,570,775
Less: amount representing interest	(3,885,775)
Present Value of Minimum Lease Payments	$ 7,685,000
Less:	
Issuance costs paid from escrow	(61,790)
Net discount	(76,850)
Reserve fund in HRA's name	(301,013)
Bond fund in HRA's name	(370,528)
Interest earned on escrow account included in proceeds	6,014
Present Value of Minimum Lease Payments	$ 6,880,833

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

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

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital leases	$ 6,880,296	$ 537	$ -	$ 6,880,833	$ 265,000
Compensated absences	466,324	392,723	407,469	451,578	203,542
Total Long-Term Liabilities	$ 7,346,620	$ 393,260	$ 407,469	$ 7,332,411	$ 468,542

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

4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

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

4. Pension Plans

   A. Defined Benefit Plans

      Plan Description (Continued)

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

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

Funding Policy

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

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

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

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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	$ 317,208	$ 302,075	$ 328,820
Public Employees Police and Fire Fund	54,314	50,556	67,134

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

B. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 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.

4. Pension Plans

B. Defined Contribution Plan (Continued)

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

	Employee	Employer
Contribution amount	$ 6,711	$ 6,711
Percentage of covered payroll	5.0%	5.0%

Required contribution rates were 5.0 percent.

5. Risk Management

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

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

6. Conduit Debt

In 2007, Riverview Dairy of MN, LLP, issued $6,000,000 Solid Waste Disposal Revenue Bonds, Series 2007, to finance solid waste disposal components of the company's addition to its dairy facility. The project is deemed to be in the public interest. Neither the County, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as a liability in the accompanying financial statements. As of December 31, 2011, the outstanding principal amount was $6,000,000.

7. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

B. Claims and Litigation

The County, in connection with the normal conduct of its affairs, is involved in various judgments, claims, and litigations; it is expected that the final settlement of these matters will not materially affect the financial statements of the County.

C. Joint Ventures

West Central Area Agency on Aging

The West Central Area Agency on Aging was established June 2, 1992, by a joint powers agreement among Becker, Clay, Douglas, Grant, Otter Tail, Pope, Stevens, Traverse, and Wilkin Counties. In 2005, the Area Agency on Aging became part of a larger planning and service area covering 21 counties. This is a partnership between the Northwest Regional Development Commission, the 5-county service area of Region 2, and the West Central Area Agency on Aging. The combined area on aging, known as the Land of the Dancing Sky Area on Aging, was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

West Central Area Agency on Aging (Continued)

elderly in the 21-county area. Each county may be assessed a proportional share of the 25 percent of the administrative costs incurred in carrying out this agreement. Each county's proportional share of this 25 percent of the administrative costs will be based upon the number of persons age 60 or older living within that county.

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

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

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

Complete financial information can be obtained from:

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

Horizon Community Health Board

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

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

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Horizon Community Health Board (Continued)

Complete financial information can be obtained from:

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

Stevens Traverse Grant Public Health Nursing Service

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

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

Financing is provided by state grants; appropriations from Stevens, Traverse, and Grant Counties; and charges for services. Stevens County's contribution for 2011 was $115,306 based on a Cost Allocation Plan developed by Director, Sandy Tubbs.

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

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

Rainbow Rider Transit Board

Douglas, Pope, Stevens, and Traverse Counties entered into a joint powers agreement to establish the West Central Multi-County Joint Powers Transit Board effective December 1, 1994, and empowered under Minn. Stat. § 471.59. Effective January 13, 2000, the Board changed its name from West Central Multi-County Joint Powers

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Rainbow Rider Transit Board (Continued)

Transit Board to Rainbow Rider Transit Board. The purpose of the Board is to provide coordinated service delivery and a funding source for public transportation. The Board consists of two members appointed by each member county from its County Board for terms of one year each. Effective January 1, 2011, Grant County became a member county. Effective January 1, 2012, Todd County became a member county.

Complete financial information can be obtained from:

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

Minnesota River Basin Joint Powers Board

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

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

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

During 2011, Stevens County did not contribute any funds to the Joint Powers Board. Complete financial information can be obtained from:

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

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

PrimeWest Central County-Based Purchasing Initiative

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

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

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

Financing is provided by medical assistance and general assistance medical care payments from the Minnesota Department of Human Services, initial start-up loans from the member counties, and by proportional contributions from member counties, if necessary, to cover operational costs.

Complete financial information can be obtained from:

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

Regional Fitness Center

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

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Regional Fitness Center (Continued)

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

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

Financing is provided by the 1998 Minnesota legislative appropriation of $2,500,000 to the University of Minnesota and contributions in the amount of $2,500,000 from the other parties to this agreement. Stevens County's share, $200,000, was paid over a period of five years. Operational and maintenance expenses will be covered by membership fees and other income generated by the Regional Fitness Center. During 2011, Stevens County did not contribute any funds to the Regional Fitness Center.

Complete financial information can be obtained from:

Morris Area Schools
201 South Columbia Avenue
Morris, Minnesota 56267

Pomme de Terre River Association

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

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Pomme de Terre River Association (Continued)

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

During 2011, Stevens County did not contribute any funds to the Joint Powers Board.

Complete financial information can be obtained from:

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

Supporting Hands Nurse Family Partnership Board

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

Complete financial information can be obtained from:

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

Central Minnesota Emergency Services Board

The Central Minnesota Regional Radio Board was established in 2007, under the authority conferred upon the member parties by Minn. Stat. §§ 471.59 and 403.39. As of June 1, 2011, the Central Minnesota Regional Radio Board changed its name to the Central Minnesota Emergency Services Board. Members include the City of St. Cloud

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Central Minnesota Emergency Services Board (Continued)

and the Counties of Benton, Big Stone, Douglas, Grant, Kandiyohi, Meeker, Morrison, Otter Tail, Pope, Sherburne, Stearns, Stevens, Swift, Todd, Traverse, Wadena, Wilkin, and Wright.

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

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

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

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

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

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

D. Jointly-Governed Organizations

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

Western Area City/County Co-op

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

District IV Transportation Planning

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

Stevens County Family Services Collaborative

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

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

7. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Stevens County Family Services Collaborative (Continued)

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

Financing is provided by state and federal grants and contributions from its member parties. Stevens County, in an agent capacity, reports the cash transactions of the Stevens County Family Services Collaborative as an agency fund on its financial statements. During 2011, the County did not contribute any funds to the Collaborative.

E. Related Organization

Stevens County Housing and Redevelopment Authority

The County Board chair appoints a voting majority on the Stevens County Housing and Redevelopment Authority (HRA). In 2011, Stevens County did not appropriate any funds to the HRA. The County's accountability for the organization does not extend beyond making the appointment.

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REQUIRED SUPPLEMENTARY INFORMATION

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STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT A-1

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 3,465,595	$ 3,465,595	$ 3,078,012	$ (387,583)
Licenses and permits	9,900	9,900	7,870	(2,030)
Intergovernmental	1,059,155	1,059,155	1,872,203	813,048
Charges for services	216,200	216,200	340,825	124,625
Gifts and contributions	-	-	4,581	4,581
Investment earnings	150,000	150,000	216,093	66,093
Miscellaneous	177,900	177,900	348,695	170,795
Total Revenues	**$ 5,078,750**	**$ 5,078,750**	**$ 5,868,279**	**$ 789,529**
Expenditures				
Current				
General government				
Commissioners	$ 242,850	$ 242,850	$ 279,366	$ (36,516)
Law library	11,000	11,000	9,529	1,471
County coordinator	103,700	103,700	114,223	(10,523)
County auditor/treasurer	419,137	419,137	390,534	28,603
County assessor	224,855	224,855	254,187	(29,332)
Elections	6,525	6,525	6,063	462
Accounting and auditing	50,000	50,000	77,427	(27,427)
Data processing	269,981	269,981	302,537	(32,556)
Tax forfeiture	-	-	9,324	(9,324)
Attorney	195,023	195,023	218,863	(23,840)
Recorder	228,371	228,371	245,319	(16,948)
Planning and zoning	76,525	76,525	64,144	12,381
Buildings and plant	585,988	585,988	28,315	557,673
Veterans service officer	36,920	36,920	80,889	(43,969)
Unallocated	187,600	187,600	176,660	10,940
Total general government	**$ 2,638,475**	**$ 2,638,475**	**$ 2,257,380**	**$ 381,095**
Public safety				
Sheriff	$ 1,226,310	$ 1,226,310	$ 1,313,238	$ (86,928)
Safety coordinator	33,227	33,227	34,736	(1,509)
Coroner	25,000	25,000	33,667	(8,667)
E-911 system	91,000	91,000	29,650	61,350
Probation and parole	100,922	100,922	40,224	60,698
SWAT	-	-	3,109	(3,109)
Civil defense	74,252	74,252	832,186	(757,934)
Total public safety	**$ 1,550,711**	**$ 1,550,711**	**$ 2,286,810**	**$ (736,099)**

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

STEVENS COUNTY
MORRIS, 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				
Recycling	**$ 144,888**	**$ 144,888**	**$ 151,645**	**$ (6,757)**
Health				
Nursing service	**$ 115,306**	**$ 115,306**	**$ 115,306**	**$ -**
Culture and recreation				
Historical society	$ 59,400	$ 59,400	$ 59,400	$ -
Regional library	53,439	53,439	53,439	-
Snowmobile trails	-	-	35,473	(35,473)
Total culture and recreation	**$ 112,839**	**$ 112,839**	**$ 148,312**	**$ (35,473)**
Conservation of natural resources				
County extension	$ 137,394	$ 137,394	$ 128,470	$ 8,924
Soil and water conservation	110,000	110,000	115,976	(5,976)
Agricultural society/County fair	34,175	34,175	34,175	-
Predator control	1,000	1,000	646	354
Total conservation of natural resources	**$ 282,569**	**$ 282,569**	**$ 279,267**	**$ 3,302**
Economic development				
Housing and redevelopment	$ -	$ -	$ 178,082	$ (178,082)
Industrial development	64,850	64,850	64,850	-
Total economic development	**$ 64,850**	**$ 64,850**	**$ 242,932**	**$ (178,082)**
Intergovernmental				
Highways and streets	**$ 224,000**	**$ 224,000**	**$ 243,369**	**$ (19,369)**
Capital outlay				
General government	**$ -**	**$ -**	**$ 395,064**	**$ (395,064)**
Total Expenditures	**$ 5,133,638**	**$ 5,133,638**	**$ 6,120,085**	**$ (986,447)**
Excess of Revenues Over (Under) Expenditures	**$ (54,888)**	**$ (54,888)**	**$ (251,806)**	**$ (196,918)**

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

STEVENS COUNTY
MORRIS, 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
Other Financing Sources (Uses)				
Transfers in	$ 89,888	$ 89,888	$ 89,888	$ -
Capital lease	-	-	537	537
Total Other Financing Sources (Uses)	**$ 89,888**	**$ 89,888**	**$ 90,425**	**$ 537**
Net Change in Fund Balance	**$ 35,000**	**$ 35,000**	**$ (161,381)**	**$ (196,381)**
Fund Balance - January 1	**3,435,858**	**3,435,858**	**3,435,858**	**-**
Fund Balance - December 31	**$ 3,470,858**	**$ 3,470,858**	**$ 3,274,477**	**$ (196,381)**

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

STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT A-2

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 891,318	$ 891,318	$ 827,243	$ (64,075)
Intergovernmental	2,968,757	2,968,757	2,863,458	(105,299)
Charges for services	226,200	226,200	335,353	109,153
Miscellaneous	26,600	26,600	156,252	129,652
Total Revenues	**$ 4,112,875**	**$ 4,112,875**	**$ 4,182,306**	**$ 69,431**
Expenditures				
Current				
Highways and streets				
Administration	$ 263,125	$ 263,125	$ 263,423	$ (298)
Maintenance	922,875	922,875	1,073,966	(151,091)
Construction	2,257,700	2,257,700	2,364,250	(106,550)
Equipment maintenance and shop	662,275	662,275	815,664	(153,389)
Materials and services for resale	6,900	6,900	10,454	(3,554)
Total Expenditures	**$ 4,112,875**	**$ 4,112,875**	**$ 4,527,757**	**$ (414,882)**
Excess of Revenues Over (Under) Expenditures	**$ -**	**$ -**	**$ (345,451)**	**$ (345,451)**
Fund Balance - January 1	**1,809,462**	**1,809,462**	**1,809,462**	**-**
Increase (decrease) in inventories	**-**	**-**	**211,223**	**211,223**
Fund Balance - December 31	**$ 1,809,462**	**$ 1,809,462**	**$ 1,675,234**	**$ (134,228)**

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

STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT A-3

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

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 1,189,129	$ 1,189,129	$ 1,103,917	$ (85,212)
Intergovernmental	1,137,665	1,137,665	1,354,166	216,501
Charges for services	69,675	69,675	103,684	34,009
Fines and forfeits	-	-	3,514	3,514
Miscellaneous	31,307	31,307	72,069	40,762
Total Revenues	**$ 2,427,776**	**$ 2,427,776**	**$ 2,637,350**	**$ 209,574**
Expenditures				
Current				
Human services				
Income maintenance	$ 496,571	$ 496,571	$ 519,271	$ (22,700)
Social services	1,931,205	1,931,205	1,976,598	(45,393)
Total Expenditures	**$ 2,427,776**	**$ 2,427,776**	**$ 2,495,869**	**$ (68,093)**
Excess of Revenues Over (Under) Expenditures	**$ -**	**$ -**	**$ 141,481**	**$ 141,481**
Fund Balance - January 1	**2,159,351**	**2,159,351**	**2,159,351**	**-**
Fund Balance - December 31	**$ 2,159,351**	**$ 2,159,351**	**$ 2,300,832**	**$ 141,481**

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

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

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Ditch Special Revenue Fund and the HRA Courthouse Lease Debt Service Fund. All annual appropriations lapse at fiscal year-end. The County adopted only a tax levy for the Ditch Special Revenue Fund.

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

The appropriated budget is prepared by fund, function, and department. The County's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, the Board made no budgetary amendments.

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The following is a summary of the major funds with expenditures in excess of budgeted expenditures for the year ended December 31, 2011.

	Expenditures	Final Budget	Excess
General Fund	$ 6,120,085	$ 5,133,638	$ 986,447
Road and Bridge Special Revenue Fund	4,527,757	4,112,875	414,882
Human Services Special Revenue Fund	2,495,869	2,427,776	68,093

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SUPPLEMENTARY INFORMATION

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STEVENS COUNTY
MORRIS, MINNESOTA

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

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

DEBT SERVICE FUND

HRA Courthouse Lease - to account for accumulation of resources and payment of capital lease payments.

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STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT B-1

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	Solid Waste Special Revenue	HRA Courthouse Lease Debt Service	Total (Exhibit 3)
Assets			
Cash and pooled investments	$ 356,515	$ 153,543	$ 510,058
Undistributed cash in agency funds	1,098	4,198	5,296
Taxes receivable			
Current	-	1,415	1,415
Accounts receivable	2,348	-	2,348
Total Assets	**$ 359,961**	**$ 159,156**	**$ 519,117**
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ 8,495	$ -	$ 8,495
Due to other funds	137	-	137
Deferred revenue - unavailable	1,477	828	2,305
Total Liabilities	**$ 10,109**	**$ 828**	**$ 10,937**
Fund Balances			
Assigned to			
Debt service	$ -	$ 158,328	$ 158,328
Sanitation	349,852	-	349,852
Total Fund Balances	**$ 349,852**	**$ 158,328**	**$ 508,180**
Total Liabilities and Fund Balances	**$ 359,961**	**$ 159,156**	**$ 519,117**

STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT B-2

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

	Solid Waste Special Revenue	HRA Courthouse Lease Debt Service	Total (Exhibit 5)
Revenues			
Taxes	$ -	$ 299,981	$ 299,981
Charges for services	86,717	-	86,717
Miscellaneous	69,200	182,256	251,456
Total Revenues	**$ 155,917**	**$ 482,237**	**$ 638,154**
Expenditures			
Current			
Sanitation	$ 133,664	$ -	$ 133,664
Debt service			
Interest	-	323,909	323,909
Total Expenditures	**$ 133,664**	**$ 323,909**	**$ 457,573**
Excess of Revenues Over (Under) Expenditures	**$ 22,253**	**$ 158,328**	**$ 180,581**
Other Financing Sources (Uses)			
Transfers out	(89,888)	-	(89,888)
Net Change in Fund Balance	**$ (67,635)**	**$ 158,328**	**$ 90,693**
Fund Balance - January 1	**417,487**	**-**	**417,487**
Fund Balance - December 31	**$ 349,852**	**$ 158,328**	**$ 508,180**

STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT B-3

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Charges for services	$ 85,500	$ 85,500	$ 86,717	$ 1,217
Miscellaneous	-	-	69,200	69,200
Total Revenues	**$ 85,500**	**$ 85,500**	**$ 155,917**	**$ 70,417**
Expenditures				
Current				
Sanitation				
Solid waste	$ 6,600	$ 6,600	$ 78,171	$ (71,571)
Tipping fees	67,020	67,020	55,493	11,527
Total Expenditures	**$ 73,620**	**$ 73,620**	**$ 133,664**	**$ (60,044)**
Excess of Revenues Over (Under) Expenditures	**$ 11,880**	**$ 11,880**	**$ 22,253**	**$ 10,373**
Other Financing Sources (Uses)				
Transfers out	(89,888)	(89,888)	(89,888)	-
Net Change in Fund Balance	**$ (78,008)**	**$ (78,008)**	**$ (67,635)**	**$ 10,373**
Fund Balance - January 1	**417,487**	**417,487**	**417,487**	**-**
Fund Balance - December 31	**$ 339,479**	**$ 339,479**	**$ 349,852**	**$ 10,373**

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FIDUCIARY FUNDS

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STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT C-1

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

	Balance January 1	Additions	Deductions	Balance December 31
SCHOOL DISTRICTS				
Assets				
Cash and pooled investments	$ -	$ 3,700,801	$ 3,700,801	$ -
Liabilities				
Due to other governments	$ -	$ 3,700,801	$ 3,700,801	$ -
STATE REVENUE				
Assets				
Cash and pooled investments	$ 38,216	$ 980,821	$ 985,907	$ 33,130
Liabilities				
Due to other governments	$ 38,216	$ 980,821	$ 985,907	$ 33,130
STEVENS COUNTY FAMILY SERVICES COLLABORATIVE				
Assets				
Cash and pooled investments	$ 82,476	$ 38,235	$ 50,512	$ 70,199
Liabilities				
Due to other governments	$ 82,476	$ 38,235	$ 50,512	$ 70,199

STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT C-1
(Continued)

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

	Balance January 1	Additions	Deductions	Balance December 31
STEVENS TRAVERSE GRANT PUBLIC HEALTH NURSING SERVICE				
Assets				
Cash and pooled investments	**$ 315,151**	**$ 2,832,874**	**$ 2,753,040**	**$ 394,985**
Liabilities				
Due to other governments	**$ 315,151**	**$ 2,832,874**	**$ 2,753,040**	**$ 394,985**
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	**$ 83,512**	**$ 7,553,575**	**$ 7,532,397**	**$ 104,690**
Liabilities				
Due to other governments	$ 71,720	$ 7,523,932	$ 7,520,605	$ 75,047
Advance taxes	11,792	29,643	11,792	29,643
Total Liabilities	**$ 83,512**	**$ 7,553,575**	**$ 7,532,397**	**$ 104,690**
TOWNS AND CITIES				
Assets				
Cash and pooled investments	**$ -**	**$ 2,821,897**	**$ 2,821,897**	**$ -**
Liabilities				
Due to other governments	**$ -**	**$ 2,821,897**	**$ 2,821,897**	**$ -**

STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT C-1
(Continued)

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

	Balance January 1	Additions	Deductions	Balance December 31
WATERSHED				
Assets				
Cash and pooled investments	**$ -**	**$ 100,099**	**$ 100,099**	**$ -**
Liabilities				
Due to other governments	**$ -**	**$ 100,099**	**$ 100,099**	**$ -**
WEST CENTRAL SPECIAL WEAPONS AND TACTICS TEAM				
Assets				
Cash and pooled investments	**$ 7,064**	**$ 4,133**	**$ 6,413**	**$ 4,784**
Liabilities				
Due to other funds	$ -	$ 1,827	$ -	$ 1,827
Due to other governments	7,064	2,306	6,413	2,957
Total Liabilities	**$ 7,064**	**$ 4,133**	**$ 6,413**	**$ 4,784**
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	**$ 526,419**	**$ 18,032,435**	**$ 17,951,066**	**$ 607,788**
Liabilities				
Due to other governments	$ 514,627	$ 18,000,965	$ 17,939,274	$ 576,318
Due to other funds	-	1,827	-	1,827
Advance taxes	11,792	29,643	11,792	29,643
Total Liabilities	**$ 526,419**	**$ 18,032,435**	**$ 17,951,066**	**$ 607,788**

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SCHEDULES

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STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT D-1

SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2011

	Number	Interest Rate (%)	Maturity Dates	Fair Value
Cash and Pooled Investments				
Interest-bearing checking	One	0.05	Continuous	$ 70,199
Repurchase agreements	Two	Variable	Continuous	2,777,894
Minnesota Association of Governments Investing for Counties (MAGIC) Fund	One	Variable	Continuous	26
Federal Home Loan Mortgage Corporation	Three	2.50 to 4.00	May 1, 2014 to June 28, 2021	810,032
Federal Home Loan Bank	Two	2.00 to 3.50	November 23, 2021 to August 26, 2025	450,827
Federal National Mortgage Association	Eight	1.00 to 3.25	June 29, 2021 to December 14, 2026	2,755,701
Small Business Administration	Ten	Variable	September 25, 2012 to November 25, 2025	342,581
Municipal Bonds	Two	5.45 to 6.75	February 1, 2029 to March 1, 2029	558,468
Federal Farm Credit Bank	One	4.00	April 26, 2021	251,880
Total cash and pooled investments				**$ 8,017,608**
Designated Investments				
Fish and Wildlife certificate of deposit	One	1.00	December 3, 2012	84,496
Total Deposits and Investments				**$ 8,102,104**

STEVENS COUNTY
MORRIS, MINNESOTA

BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2011

	Assets					
		Undistributed	Special Assessments Receivable			
	Cash	Cash	Current	Delinquent	Deferred	Total
County Ditches						
1	$ 11,788	$ 47	$ -	$ -	$ 30,004	$ 41,839
2	7,329	234	129	-	9,789	17,481
3	13,406	13	-	-	4,618	18,037
4	9,775	339	-	-	14,824	24,938
5	12,224	-	-	-	5,000	17,224
6	1,351	419	-	-	5,000	6,770
7	1,832	21	-	-	2,000	3,853
8	481	30	-	-	2,000	2,511
10	11,214	249	-	-	10,299	21,762
11	11,164	14	-	-	11,817	22,995
12	2,281	-	-	-	250	2,531
13	19,614	411	-	-	4,170	24,195
14	3,600	-	-	-	2,224	5,824
15	10,982	173	-	-	25,002	36,157
16	9,176	-	-	-	10,000	19,176
17	14,962	-	-	-	3,000	17,962
18	28,430	197	1	-	12,193	40,821
20	4,652	-	-	-	2,000	6,652
21	9,176	-	2,741	15,793	36,315	64,025
22	7,950	8	-	-	2,000	9,958
25	13,172	90	-	-	12,713	25,975
27	5,845	-	-	-	1,000	6,845
29	9,832	54	-	-	2,000	11,886
30	17,811	19	-	-	5,000	22,830
31	10,983	29	-	-	2,655	13,667
38	5,342	-	-	-	559	5,901
43	6,756	-	-	-	15,000	21,756
Judicial Ditches						
2	4,640	-	-	-	15,001	19,641
9	3,756	695	-	-	27,090	31,541
10/11	2,397	-	-	-	-	2,397
Total	**$ 271,921**	**$ 3,042**	**$ 2,871**	**$ 15,793**	**$ 273,523**	**$ 567,150**

EXHIBIT D-2

Accounts Payable	Due to Other Funds	Deferred Revenue	Advance from Other Funds	Total	Fund Balance Unreserved Undesignated	Total Liabilities and Fund Balance
Liabilities						
$ 30	$ -	$ 30,004	$ 90,000	$ 120,034	$ (78,195)	$ 41,839
18	180	9,918	-	10,116	7,365	17,481
6	-	4,618	-	4,624	13,413	18,037
8	-	14,824	10,000	24,832	106	24,938
3	-	5,000	-	5,003	12,221	17,224
3	-	5,000	-	5,003	1,767	6,770
2	-	2,000	-	2,002	1,851	3,853
2	-	2,000	-	2,002	509	2,511
8	-	10,299	-	10,307	11,455	21,762
7	-	11,817	-	11,824	11,171	22,995
1	-	250	-	251	2,280	2,531
2	-	4,170	-	4,172	20,023	24,195
1	-	2,224	-	2,225	3,599	5,824
28	-	25,002	25,000	50,030	(13,873)	36,157
3	-	10,000	-	10,003	9,173	19,176
3	-	3,000	-	3,003	14,959	17,962
22	-	12,193	-	12,215	28,606	40,821
2	-	2,000	-	2,002	4,650	6,652
14	-	54,849	-	54,863	9,162	64,025
2	-	2,000	-	2,002	7,956	9,958
16	-	12,713	-	12,729	13,246	25,975
1	-	1,000	-	1,001	5,844	6,845
2	-	2,000	-	2,002	9,884	11,886
8	-	5,000	-	5,008	17,822	22,830
6	-	2,655	-	2,661	11,006	13,667
1	-	559	-	560	5,341	5,901
1	-	15,000	15,000	30,001	(8,245)	21,756
-	-	15,001	15,000	30,001	(10,360)	19,641
-	-	27,090	-	27,090	4,451	31,541
-	-	-	-	-	2,397	2,397
$ 200	**$ 180**	**$ 292,186**	**$ 155,000**	**$ 447,566**	**$ 119,584**	**$ 567,150**

STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT D-3

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

Shared Revenue		
State		
Highway users tax	$	2,882,287
County program aid		772,281
PERA rate reimbursement		21,742
Police aid		39,913
Market value credit		228,480
Disparity reduction aid		50,261
Total shared revenue	**$**	**3,994,964**
Reimbursement for Services		
State		
Minnesota Department of Human Services	**$**	**164,940**
Payments		
Local		
Local contributions	$	6,045
Payments in lieu of taxes		70,343
Total payments	**$**	**76,388**
Grants		
State		
Minnesota Department/Board of		
Public Safety	$	255,531
Natural Resources		70,934
Human Services		479,413
Corrections		17,985
Water and Soil Resources		1,504
Pollution Control Agency		55,950
Peace Officer Standards and Training Board		3,030
Veterans Affairs Board		21,400
Total state	**$**	**905,747**
Federal		
Department of		
Agriculture	$	52,743
Commerce		32,731
Transportation		5,000
Health and Human Services		464,896
Homeland Security		405,739
Election Assistance Commission		3,900
Total federal	**$**	**965,009**
Total state and federal grants	**$**	**1,870,756**
Total Intergovernmental Revenue	**$**	**6,107,048**

STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT D-4

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	**$ 52,743**
U.S. Department of Commerce		
Passed Through Minnesota Department of Public Safety and the City of St. Cloud		
Public Safety Interoperable Communications Grant Program	11.555	**$ 32,731**
U.S. Department of Transportation		
Passed Through Minnesota Department of Public Safety		
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	**$ 5,000**
U.S. Election Assistance Commission		
Passed Through Minnesota Secretary of State		
Help America Vote Act Requirements Payments	90.401	**$ 3,900**
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health and West Central Area Agency on Aging		
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	$ 13,000
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	10,531
Temporary Assistance for Needy Families Cluster		
Temporary Assistance for Needy Families	93.558	52,349
Emergency Contingency Fund for Temporary Assistance for Needy Families - ARRA	93.714	716
Child Support Enforcement	93.563	79,274
Child Care and Development Cluster		
Child Care and Development Block Grant	93.575	1,664
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	3,451
Stephanie Tubbs Jones Child Welfare Services Program	93.645	2,433
Foster Care Title IV-E	93.658	28,638
Social Services Block Grant	93.667	83,021
Chafee Foster Care Independence Program	93.674	1,947
Children's Health Insurance Program	93.767	33
Medical Assistance Program	93.778	170,491
Block Grants for Community Mental Health Services	93.958	27,254
Total U.S. Department of Health and Human Services		**$ 474,802**

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

EXHIBIT D-4
(Continued)

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 Homeland Security		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	$ 55,474
Emergency Operations Center	97.052	180,963
Homeland Security Grant Program	97.067	81,837
Passed Through Minnesota Department of Public Safety and the City of St. Cloud		
Homeland Security Grant Program	97.067	37,703
Passed Through Minnesota Department of Public Safety and West Central Minnesota EMS Corporation		
Homeland Security Grant Program	97.067	49,762
Total U.S. Department of Homeland Security		**$ 405,739**
Total Federal Awards		**$ 974,915**

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

STEVENS COUNTY
MORRIS, MINNESOTA

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

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Stevens County under programs of the federal government for the year ended December 31, 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 Stevens County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Stevens County.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	$ 965,009
Grants received more than 60 days after year-end, deferred in 2011	
Medical Assistance Program	10,696
Grants deferred in 2010, recognized as revenue in 2011	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	(664)
Medical Assistance Program	(126)
Expenditures Per Schedule of Expenditures of Federal Awards	$ 974,915

5. Subrecipients

   Stevens County did not pass any federal awards through to subrecipients in 2011.

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.

7. Clusters

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

Temporary Assistance for Needy Families Cluster	$	53,065
Child Care and Development Cluster		5,115

Management and
Compliance Section

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STEVENS COUNTY
MORRIS, 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? **Yes**
- Significant deficiencies identified? **Yes**

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

Federal Awards

Internal control over major programs:
- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

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

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

The major programs are:

Medical Assistance Program	CFDA #93.778
Emergency Operations Center	CFDA #97.052
Homeland Security Grant Program	CFDA #97.067

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-4 Segregation of Duties

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

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

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

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The size of Stevens County and its staffing limits the internal control that management can design and implement into the organization.

Recommendation: We recommend Stevens County's elected officials and management be mindful that limited staffing increases the risks in safeguarding the County's assets and the proper recording of its financial activity and, where possible, implement oversight procedures to ensure that internal control policies and procedures are being followed by staff.

Client's Response:

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

06-2 Audit Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

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

Effect: Audit adjustments were necessary in the General Fund to reclassify $510,270 posted as miscellaneous revenue to intergovernmental revenue for a state grant in the amount of $35,462 and various expenditure accounts totaling $474,808. The adjustments to the expenditure accounts were made to properly reflect reimbursements for expenditures and to reclassify the collection for a 2010 receivable from the HRA originally set up and reversed against an expenditure account in the County's general ledger.

Cause: Year-end entries were not communicated to County personnel responsible for posting collections to the system, so the collection of the HRA receivable was posted to a different account than the reversing entry.

Recommendation: We recommend that the County establish internal controls necessary to ensure all postings made to the general ledger are correct to ensure the County's annual financial statements are reported in accordance with generally accepted accounting principles..

Client's Response:

The $35,462 adjustment was necessary due to an entry that was made to reclassify revenue that was actually a pass-through of grant money and unfortunately was made in reverse of what was intended. The Auditor/Treasurer is now checking all journal entries to prevent this type of error from occurring. The bulk of the remainder of the audit adjustment occurred when modified accrual entries for reversal of prior audit receivables, related to reimbursements for the courthouse remodeling project, were posted as an offset to expenditures, rather than against the actual cash transaction. This type of entry of a significant amount is unusual in nature for a small county government, but we are now aware that such entries may occur and will check for this type of entry in the future.

PREVIOUSLY REPORTED ITEMS RESOLVED

Preparation of Financial Statements (06-1)

The County needed to broaden its participation in the preparation of its financial statements and not rely so extensively on its external auditors for financial reporting.

Resolution

The County provides a general ledger, accruals, and other supporting schedules necessary for preparing fund level and government-wide financial statements. The County has improved its understanding and preparation of underlying accounting data used in the preparation of the financial statements.

Documenting and Monitoring Internal Controls (08-1)

Stevens County maintains narratives to document the controls in place over the significant transaction cycles; however, no formal risk assessment process was in place to determine if the internal controls established by County management are still effective or if changes are needed to maintain a sound internal control structure.

Resolution

Stevens County has established a risk committee to review risks over its major transaction cycles. The committee has reviewed the payroll and receipting processes and plans to review capital assets next. A summary of their discussions is maintained by the committee.

Schedule of Expenditures of Federal Awards (10-1)

The County needed to improve its system of identifying federal award information to facilitate preparation of the Schedule of Expenditures of Federal Awards (SEFA).

Resolution

The County has improved its system of identifying federal award information to provide sufficient information for the preparation of the SEFA.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

11-1 Supervisory Review Over Eligibility and Reporting

Program: Medical Assistance Program (MA) (CFDA No. 93.778)

Criteria: Standard internal control procedures should include a review process for case files to ensure the intake functions related to eligibility requirements are met, and a review process of the quarterly Department of Human Services (DHS) 2550 and 2556 reports to ensure accurate and timely reporting.

Condition: During our testing of controls over MA case files, we noted no documented review process of case files and reporting. Stevens County currently does not have an Income Maintenance Supervisor to review case files. Although the Human Services Director stated that she does a review of the quarterly DHS 2550 and 2556 reports, documentation of this review was not available.

Questioned Costs: None.

Context: Because of the lack of review process over eligibility, we increased our sample size for testing compliance. During our testing of compliance, no case files in our sample were missing any required items. The DHS 2550 and 2556 reports provide a signature space for the preparer and a signature space for the Financial Officer or Human Services Director. The Financial Officer has been signing the reports in both places. We tested two quarterly DHS 2550 and 2556 reports noting the reports were accurate and submitted timely.

Effect: The lack of periodic review by program supervisors of case files increases the risk that a client will receive benefits for which they are not eligible. Without formal documentation of a review of the DHS 2550 and 2556 reports, there is no assurance the reviews are being completed as intended, which may increase the risk that report could contain errors and may not be submitted timely.

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

Recommendation: We recommend Stevens County establish a process for reviewing a sample of case files periodically by a program supervisor, or other person with knowledge of the program, to ensure that all the required information affecting eligibility is obtained and correctly entered. We further recommend that those reviews as well as reviews of the DHS 2550 and 2556 reports be documented and the documentation should be retained in accordance with the County record retention schedule.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

David Burns/Joanie Murphy

Corrective Action Planned:

The signature pages for DHS 2550 and DHS 2556 are to be signed by the Director.

Stevens County Human Services expects to hire an Income Maintenance Supervisor who will review the MA case files.

Anticipated Completion Date:

The signature pages for DHS 2550 and DHS 2556 are now signed by the Director, March 31, 2012.

Stevens County Human Services expects to have a contract for an Income Maintenance Supervisor by August 1, 2012.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-1 Publishing Board Minutes and Claims Paid

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

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

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

Effect: Noncompliance with Minn. Stat. § 375.12.

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

Recommendation: The County Board should comply with the above-noted statute and publish an itemized list of County Board-approved payments over $2,000 with the total number of claims and total amount for payments under $2,000.

Client's Response:

In response to Minn. Stat. § 375.12 regarding the monthly publication of vendor payments, the County Board continues to choose not to publish this information due to the cost and continues to make the information physically available at the County Courthouse.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM RESOLVED

Ditch Fund Balance Deficits (05-1)

Five of the 30 individual ditch systems had deficit unreserved, undesignated fund balances at December 31, 2010, totaling $95,426, the largest being $35,848. Stevens County has not levied amounts sufficient to cover the individual ditch systems deficits for four of the five individual ditch systems.

Resolution

Although four ditch systems still had deficit unassigned fund balances as of December 31, 2011, three of the ditch systems have sufficient current levies to cover the deficits. The remaining ditch system, County Ditch 1, is a multi-year project, so the County did a one-year levy to cover part of the cost versus doing a spread levy, since it was not sure how much more would be spent. The intention is to levy for the remaining costs once the total costs are known.

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

Board of County Commissioners
Stevens County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Stevens 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 July 20, 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 Stevens County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Stevens County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of

Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 06-2 to be a material weakness.

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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 Stevens County has no tax increment financing districts.

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

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

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

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

July 20, 2012

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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
Stevens County

Compliance

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

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

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

Internal Control Over Compliance

Management of Stevens County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the 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. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 11-1. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Stevens County's corrective action plan to the federal award finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plan and, accordingly, we express no opinion on it.

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

/s/Rebecca Otto *|* */s/Greg Hierlinger*

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

July 20, 2012