

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

BIG STONE COUNTY
ORTONVILLE, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2007

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

For the Year Ended December 31, 2007



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

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2007

Office	Name	Term Expires
Commissioners		
1st District	Douglas Tomschin*	January 2009
2nd District	Wade Athey	January 2011
3rd District	Brent Olson	January 2009
4th District	Roger Sandberg	January 2011
5th District	Howard Janssen**	January 2009
Officers		
Elected		
Attorney	William Watson	January 2011
Auditor	Michelle Knutson	January 2011
Recorder	Elaine Martig	January 2011
Sheriff	John Haukos	January 2011
Treasurer	Cindy Nelson	January 2011
Appointed		
Assessor	Sandra Vold	December 2008
Coroner	Robert Ross, M.D.	Indefinite
Environmental Officer	Darren Wilke	Indefinite
Emergency Management Director	James Hasslen	Indefinite
Highway Engineer	Nicholas Anderson	May 2009
Human Resources Director	Susan Schultz	Indefinite
Veterans Service Officer	Richard Johnson	Indefinite
Family Services		
Board		
Chair	Brent Olson	January 2009
Vice Chair	Howard Janssen	January 2009
Secretary	Kathy Morrill	July 2009
Member	Douglas Tomschin	January 2009
Member	Wade Athey	January 2011
Member	Roger Sandberg	January 2011
Member	Alice Stielow	July 2008
Director	Gayle Robinson	Indefinite

*Chair 2007

**Chair 2008

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Big Stone County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Big Stone County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Big Stone County as of December 31, 2007, 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.

The Management's Discussion and Analysis and the Budgetary Comparison Schedules are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which

consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of Big Stone County. The schedule and statement listed as supplementary information in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of Big Stone County. The supporting information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2008, on our consideration of Big Stone County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 4, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(Unaudited)**

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of the County's financial activities for the fiscal year ended December 31, 2007. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$28,740,771, of which \$21,194,709 is invested in capital assets, and \$1,965,348 is restricted to specific purposes. The \$5,580,714 remaining may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's net assets increased by \$837,353 for the year ended December 31, 2007.
- The net cost of governmental activities for the current fiscal year was \$3,280,978. The net cost was funded by general revenues and other items totaling \$4,118,331.
- The fund balances of the governmental funds decreased by \$376,260.

For the year ended December 31, 2007, the unreserved fund balance of the General Fund was \$2,465,335, or 76.6 percent of the total General Fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$28,740,771 at the close of 2007. The largest portion of the net assets (73.7 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure such as roads and bridges), less any related outstanding debt used to acquire those assets. However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

Big Stone County Net Assets (in thousands)

	Governmental Activities	
	2007	2006
Assets		
Current and other assets	\$ 8,534	\$ 8,209
Capital assets	21,195	20,609
Total Assets	<u>\$ 29,729</u>	<u>\$ 28,818</u>
Liabilities		
Long-term liabilities	\$ 535	\$ 618
Other liabilities	453	297
Total Liabilities	<u>\$ 988</u>	<u>\$ 915</u>
Net Assets		
Invested in capital assets	\$ 21,195	\$ 20,548
Restricted	1,965	705
Unrestricted	5,581	6,650
Total Net Assets	<u>\$ 28,741</u>	<u>\$ 27,903</u>

Unrestricted net assets--the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--are 19.4 percent of the net assets.

Governmental Activities

The County's activities increased net assets by three percent (\$28,740,771 for 2007 compared to \$27,903,418 for 2006). Key elements of this increase in net assets are as follows:

Big Stone County Changes in Net Assets (in thousands)

	Governmental Activities	
	2007	2006
Revenues		
Program revenues		
Charges for services	\$ 901	\$ 860
Operating grants and contributions	3,740	2,721
Capital grants and contributions	1,154	1,536
General revenues		
Property taxes	2,702	2,527
Other	1,417	1,406
Total Revenues	\$ 9,914	\$ 9,050
Expenses		
General government	\$ 1,412	\$ 1,424
Public safety	963	921
Highways	3,359	4,295
Sanitation	222	183
Human services	2,560	2,500
Health	74	71
Culture and recreation	150	144
Conservation of natural resources	266	268
Economic development	65	62
Interest	5	7
Total Expenses	\$ 9,076	\$ 9,875
Change in Net Assets	\$ 838	\$ (825)
Net Assets - January 1	27,903	28,728
Net Assets - December 31	\$ 28,741	\$ 27,903

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$6,667,067, a decrease of \$376,260 in comparison with the prior year. Of the combined ending fund balances, \$5,928,042 represents unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons either by state law, grant agreements, or bond covenants.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unreserved fund balance of \$2,465,335. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund unreserved fund balance represents 76.6 percent of total General Fund expenditures. During 2007, the ending fund balance decreased by \$105,608.

The Highway Special Revenue Fund had an unreserved fund balance of \$1,147,656 at fiscal year-end, representing 29.9 percent of its annual expenditures. The ending fund balance decreased \$77,062 during 2007.

The Family Services Special Revenue Fund had an unreserved fund balance of \$2,237,079 at fiscal year-end, representing 87.5 percent of its annual expenditures. The ending fund balance decreased \$189,019 during 2007.

The Ditch Special Revenue Fund had an unreserved fund balance of \$77,972 at fiscal year-end. The ending fund balance decreased \$4,571 during 2007.

Governmental Activities

The County's total revenues were \$9,913,452. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2007.

Table 1
Total County Revenues

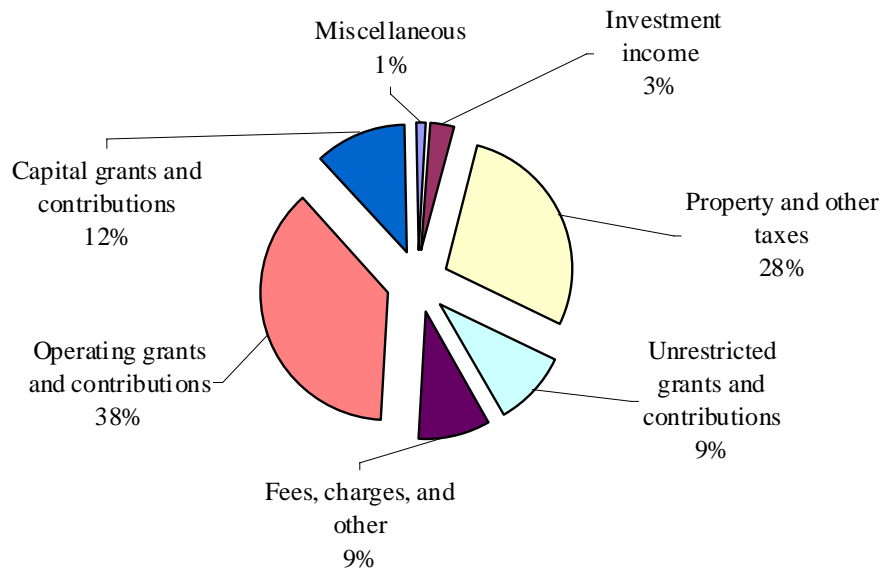
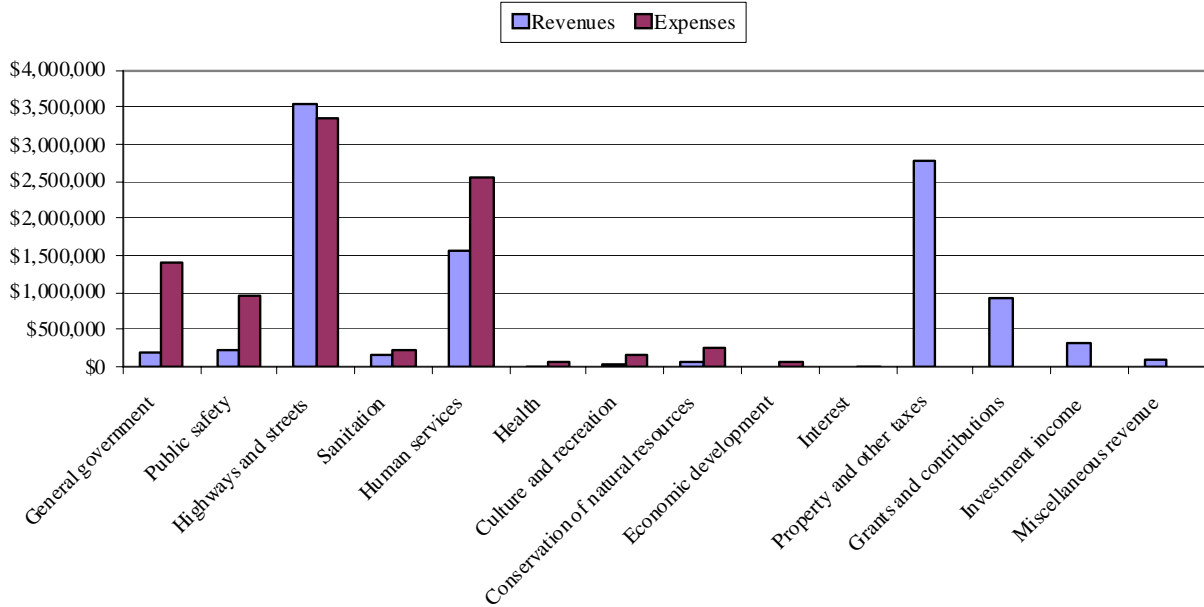


Table 2 presents the cost and revenue of each program, as well as the County's general revenues and special and extraordinary items.

Total revenues for the County were \$9,913,452, while total expenses were \$9,076,099. This reflects an \$837,353 increase in net assets for the year ended December 31, 2007.

Table 2



The cost of all governmental activities this year was \$9,076,099. However, as shown on the Statement of Activities on Exhibit 2, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$3,280,978 because some of the cost was paid by those who directly benefited from the programs (\$900,945) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4,894,176). The County paid for the remaining “public benefit” portion of governmental activities with \$4,118,331 in general revenues, primarily taxes (some of which could only be used for certain programs) and other revenues, such as grants and contributions not restricted to specific programs, and interest.

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

**Table 3
Governmental Activities**

	Total Cost of Services 2007	Net Cost of Services 2007
Highways and streets	\$ 3,359,300	\$ (183,716)
Human services	2,559,521	1,005,952
General government	1,411,816	1,213,040
Public safety	962,724	741,541
All others	782,738	504,161
Totals	\$ 9,076,099	\$ 3,280,978

General Fund Budgetary Highlights

Over the course of the year, the County Board revised the General Fund budget. The actual charges to appropriations (expenditures) were \$113,525 over the final budget amounts. The most significant negative variance (\$47,857) occurred in the County's Public Safety area, where part-time wages and auto expenses were up in the Sheriff's Department and a boat was purchased with a grant that was received, but not budgeted for.

On the other hand, resources available for appropriation were also \$334,729 above the final budgeted amount. Greater than expected collections for investment earnings, an insurance dividend, and additional state and federal grants were received and not budgeted for.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2007, totaled \$21,194,709 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$584,933, or 2.8 percent, from the previous year.

Capital Assets at Year-End (Net of depreciation, in thousands)

	<u>2007</u>	<u>2006</u>
Land	\$ 709	\$ 709
Construction in progress	1,576	-
Infrastructure	16,293	17,435
Buildings	938	975
Improvements other than buildings	173	177
Machinery and equipment	<u>1,506</u>	<u>1,314</u>
Total	<u>\$ 21,195</u>	<u>\$ 20,610</u>

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

Long-Term Debt

At the end of the current fiscal year, the County had total outstanding debt of \$75,000, which was backed by the full faith and credit of the government.

	2007	2006
General obligation bonds	\$ 75,000	\$ 90,000
Contracts for deed	-	62,010
Total	<u>\$ 75,000</u>	<u>\$ 152,010</u>

The County's debt related to general obligation bonds decreased by \$15,000 (16.7 percent) during the fiscal year.

Minnesota statutes limit the amount of debt a county may levy to 2 percent of its total market value. At the end of 2007, the County's outstanding debt was .01 percent of its total estimated market value.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County's elected and appointed officials considered many factors when setting the 2008 budget, tax rates, and fees that will be charged for the year.

- The average unemployment rate for Big Stone County for 2007 was 4.883 percent. This compares unfavorably with the state unemployment rate of 4.558 percent and shows an increase from the County's 4.275 percent rate of one year ago. This could impact the level of services requested by County residents.
- Mortgage interest rates have been extremely low, causing many to refinance their mortgages and/or finance new construction.
- The County's General Fund expenditures for 2008 are budgeted to decrease 2.8 percent (\$307,593) over the 2007 original budget. The 2008 anticipated revenues, other than tax levy, state aid, and special assessments, are budgeted to decrease 6.1 percent (\$370,835) over the 2007 original budget.
- The property tax levy for the County increased 6.5 percent (\$231,961) from 2007, but due to state aid cuts (\$24,246), the net tax levy (the amount spread to taxpayers) increased 8.5 percent from 2007.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007**

Assets

Cash and pooled investments	\$ 5,591,631
Investments	900,863
Receivables - net	1,902,344
Inventories	139,246
Capital assets	
Non-depreciable capital assets	2,284,448
Depreciable capital assets - net of accumulated depreciation	<u>18,910,261</u>
Total Assets	<u>\$ 29,728,793</u>

Liabilities

Accounts payable and other current liabilities	\$ 450,848
Accrued interest payable	1,688
Long-term liabilities	
Due within one year	90,543
Due in more than one year	<u>444,943</u>
Total Liabilities	<u>\$ 988,022</u>

Net Assets

Invested in capital assets	\$ 21,194,709
Restricted for	
Public safety	150,031
Highways and streets	1,625,864
Human services	17,157
Conservation of natural resources	64,852
Other purposes	107,444
Unrestricted	<u>5,580,714</u>
Total Net Assets	<u>\$ 28,740,771</u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Expenses	Fees, Charges, Fines, and Other	Program Revenues		Net (Expense) Revenue and Changes in Net Assets Governmental Activities
			Operating Grants and Contributions	Capital Grants and Contributions	
<u>Functions/Programs</u>					
Governmental activities					
General government	\$ 1,411,816	\$ 166,775	\$ 32,001	\$ -	\$ (1,213,040)
Public safety	962,724	60,714	127,665	32,804	(741,541)
Highways and streets	3,359,300	180,994	2,240,396	1,121,626	183,716
Sanitation	222,139	119,078	53,239	-	(49,822)
Human services	2,559,521	329,636	1,223,933	-	(1,005,952)
Health	73,919	1,495	-	-	(72,424)
Culture and recreation	150,325	8,014	24,037	-	(118,274)
Conservation of natural resources	266,250	34,239	38,475	-	(193,536)
Economic development	64,906	-	-	-	(64,906)
Interest	5,199	-	-	-	(5,199)
Total Governmental Activities	\$ 9,076,099	\$ 900,945	\$ 3,739,746	\$ 1,154,430	\$ (3,280,978)
 General revenues					
Property taxes					\$ 2,701,520
Gravel taxes					25,086
Mortgage registry and deed tax					3,809
Payments in lieu of tax					50,165
Grants and contributions not restricted to specific programs					921,226
Unrestricted investment earnings					311,919
Miscellaneous					104,606
Total general revenues					\$ 4,118,331
Change in net assets					\$ 837,353
Net Assets - Beginning					27,903,418
Net Assets - Ending					\$ 28,740,771

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	<u>General</u>	<u>Highway</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled investments	\$ 2,742,937	\$ 410,945	\$ 2,163,483	\$ 175,547	\$ 5,492,912
Undistributed cash in agency funds	42,094	38,111	13,789	530	94,524
Petty cash and change funds	1,820	75	2,300	-	4,195
Investments	9,783	860,000	-	31,080	900,863
Taxes receivable					
Prior	42,657	16,258	15,982	-	74,897
Special assessments receivable					
Prior	12,153	-	-	1,676	13,829
Noncurrent	-	-	-	171,073	171,073
Accounts receivable	3,153	13,155	49,486	-	65,794
Accrued interest receivable	123,577	15,582	-	264	139,423
Loans receivable	-	42,491	-	-	42,491
Due from other governments	20,222	1,174,181	197,207	265	1,391,875
Advance to other funds	121,362	-	-	-	121,362
Inventories	-	139,246	-	-	139,246
Total Assets	\$ 3,119,758	\$ 2,710,044	\$ 2,442,247	\$ 380,435	\$ 8,652,484

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	<u>General</u>	<u>Highway</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 51,552	\$ 20,081	\$ 73,305	\$ 11,314	\$ 156,252
Salaries payable	49,177	33,721	65,953	-	148,851
Contracts payable	-	68,167	-	-	68,167
Due to other governments	38,795	6,012	32,771	-	77,578
Advance from other funds	-	-	-	118,400	118,400
Deferred revenue - unavailable	127,729	1,099,709	15,982	172,749	1,416,169
Total Liabilities	\$ 267,253	\$ 1,227,690	\$ 188,011	\$ 302,463	\$ 1,985,417
Fund Balances					
Reserved for					
Advance to other funds	\$ 121,362	\$ -	\$ -	\$ -	\$ 121,362
Inventories	-	139,246	-	-	139,246
Loans receivable	-	42,491	-	-	42,491
Missing heirs	4,892	-	-	-	4,892
Law library	8,333	-	-	-	8,333
Recorder's technology fund	16,838	-	-	-	16,838
Recorder's compliance fund	44,385	-	-	-	44,385
Enhanced 911	144,870	-	-	-	144,870
Sheriff's contingency	2,508	-	-	-	2,508
Gravel pit restoration	-	64,852	-	-	64,852
Gun permit fees	2,653	-	-	-	2,653
Highway allotments	-	88,109	-	-	88,109
Election equipment grant	41,329	-	-	-	41,329
Unspent grant monies	-	-	17,157	-	17,157
Unreserved					
Designated for future expenditures	1,718,291	324,382	1,233,858	-	3,276,531
Designated for compensated absences	160,223	165,750	134,512	-	460,485
Undesignated	586,821	657,524	868,709	77,972	2,191,026
Total Fund Balances	\$ 2,852,505	\$ 1,482,354	\$ 2,254,236	\$ 77,972	\$ 6,667,067
Total Liabilities and Fund Balances	\$ 3,119,758	\$ 2,710,044	\$ 2,442,247	\$ 380,435	\$ 8,652,484

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007**

Fund Balances - Total Governmental Funds (Exhibit 3)	\$	6,667,067
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.		21,194,709
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,416,169
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (75,000)	
Compensated absences	(460,486)	
Accrued interest payable	(1,688)	
	(537,174)	(537,174)
Net Assets of Governmental Activities (Exhibit 1)		<u>\$ 28,740,771</u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>General</u>	<u>Highway</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total</u>
Revenues					
Taxes	\$ 1,528,990	\$ 586,161	\$ 599,782	\$ -	\$ 2,714,933
Special assessments	114,670	-	-	59,477	174,147
Licenses and permits	24,506	-	-	-	24,506
Intergovernmental	876,300	3,009,107	1,432,649	-	5,318,056
Charges for services	182,842	109,395	148,745	-	440,982
Investment earnings	256,828	49,006	-	1,117	306,951
Miscellaneous	134,730	69,208	180,891	-	384,829
Total Revenues	\$ 3,118,866	\$ 3,822,877	\$ 2,362,067	\$ 60,594	\$ 9,364,404
Expenditures					
Current					
General government	\$ 1,453,175	\$ -	\$ -	\$ -	\$ 1,453,175
Public safety	1,006,459	-	-	-	1,006,459
Highways and streets	-	3,687,699	-	-	3,687,699
Sanitation	227,128	-	-	-	227,128
Human services	-	-	2,556,249	-	2,556,249
Health	32,614	-	-	-	32,614
Culture and recreation	132,883	-	-	-	132,883
Conservation of natural resources	220,806	-	-	45,286	266,092
Economic development	64,906	-	-	-	64,906
Intergovernmental	41,305	123,536	-	-	164,841
Debt service					
Principal	41,200	20,810	-	15,000	77,010
Interest	-	1,455	-	4,432	5,887
Administrative (fiscal) fees	-	-	-	447	447
Total Expenditures	\$ 3,220,476	\$ 3,833,500	\$ 2,556,249	\$ 65,165	\$ 9,675,390
Excess of Revenues Over (Under) Expenditures	\$ (101,610)	\$ (10,623)	\$ (194,182)	\$ (4,571)	\$ (310,986)
Other Financing Sources (Uses)					
Transfers in	\$ -	\$ -	\$ 5,163	\$ -	\$ 5,163
Transfers out	(5,163)	-	-	-	(5,163)
Proceeds from sale of assets	1,165	2,391	-	-	3,556
Total Other Financing Sources (Uses)	\$ (3,998)	\$ 2,391	\$ 5,163	\$ -	\$ 3,556
Net Change in Fund Balances	\$ (105,608)	\$ (8,232)	\$ (189,019)	\$ (4,571)	\$ (307,430)
Fund Balances - January 1	2,958,113	1,559,416	2,443,255	82,543	7,043,327
Increase (decrease) in reserved for inventories	-	(68,830)	-	-	(68,830)
Fund Balances - December 31	\$ 2,852,505	\$ 1,482,354	\$ 2,254,236	\$ 77,972	\$ 6,667,067

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

Net Change in Fund Balances - Total Governmental Funds (Exhibit 5) **\$ (307,430)**

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 (decrease) in revenue deferred as unavailable.

Deferred revenue - December 31	\$ 1,416,169	
Deferred revenue - January 1	<u>(870,677)</u>	545,492

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets and infrastructure	\$ 2,065,656	
Current year depreciation	<u>(1,480,723)</u>	584,933

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

Principal repayments		
General obligation bonds	\$ 15,000	
Contracts for deed	<u>62,010</u>	77,010

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

Change in accrued interest payable	\$ 1,136	
Change in compensated absences	5,042	
Change in inventories	<u>(68,830)</u>	<u>(62,652)</u>

Change in Net Assets of Governmental Activities (Exhibit 2) **\$ 837,353**

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FIDUCIARY FUNDS

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2007**

Assets

Cash and pooled investments	<u>\$ 234,042</u>
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Liabilities

Due to other governments	\$ 231,080
Advance from other funds	<u>2,962</u>

Total Liabilities	<u>\$ 234,042</u>
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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007

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, 2007. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Joint Ventures

The County participates in several joint ventures which are described in Note 5.C. The County also participates in a related organization, which is described in Note 5.D.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about Big Stone County. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

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

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

The Highway 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.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Family 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 type:

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Big Stone 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 general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2007, 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 2007 were \$204,619.

2. Receivables and Payables

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

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

All receivables are shown net of an allowance for uncollectibles.

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Inventories and Prepaid Items

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

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

4. Restricted Assets

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

5. Capital Assets

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

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

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Capital Assets (Continued)

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

<u>Assets</u>	<u>Years</u>
Buildings	25 - 40
Land improvements	20 - 35
Public domain infrastructure	15 - 70
Machinery and equipment	3 - 15

6. Compensated Absences

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

7. Deferred Revenue

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Long-Term Obligations

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

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

9. Fund Equity

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

10. Use of Estimates

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

Expenditures exceeded budgets in the following funds:

<u>Fund</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 3,220,476	\$ 3,106,951	\$ 113,525
Special Revenue Funds			
Family Services	2,556,249	2,336,964	219,285
Ditch	65,165	49,300	15,865

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:

Governmental funds		
Cash and pooled investments		\$ 5,492,912
Undistributed cash in agency funds		94,524
Petty cash and change funds		4,195
Investments		900,863
Fiduciary funds		
Cash and pooled investments		<u>234,042</u>
Total Cash and Investments		<u>\$ 6,726,536</u>

a. Deposits

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County has adopted a policy for custodial credit risk of obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2007, the County’s deposits in banks were entirely covered by federal depository insurance or by collateral in accordance with Minnesota statutes.

b. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the County:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

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

Credit Risk

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. On December 31, 2007, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

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

The following table presents the County's cash and deposit balances at December 31, 2007. The County has no investments subject to investment risks.

Checking	\$ 614,520
Savings	1,923,038
Certificates of deposit	4,184,783
Petty cash	<u>4,195</u>
Total Cash and Investments	<u>\$ 6,726,536</u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2007, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 74,897	\$ -
Special assessments	184,902	171,073
Accounts	65,794	-
Interest	139,423	-
Loans	42,491	-
Advance to other governments	2,962	2,962
Due from other governments	1,391,875	-
Total Governmental Activities	\$ 1,902,344	\$ 174,035

3. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 297,590	\$ -	\$ -	\$ 297,590
Gravel pits	363,335	-	-	363,335
Right-of-way	47,695	-	-	47,695
Construction in progress	-	1,575,828	-	1,575,828
Total capital assets not depreciated	\$ 708,620	\$ 1,575,828	\$ -	\$ 2,284,448
Capital assets depreciated				
Buildings	\$ 2,665,371	\$ 8,690	\$ -	\$ 2,674,061
Land improvements	212,108	5,859	-	217,967
Machinery and equipment	3,847,439	475,279	168,500	4,154,218
Infrastructure	30,925,749	-	-	30,925,749
Total capital assets depreciated	\$ 37,650,667	\$ 489,828	\$ 168,500	\$ 37,971,995

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings	\$ 1,690,009	\$ 46,334	\$ -	\$ 1,736,343
Land improvements	34,635	9,934	-	44,569
Machinery and equipment	2,533,816	283,177	168,500	2,648,493
Infrastructure	<u>13,491,051</u>	<u>1,141,278</u>	<u>-</u>	<u>14,632,329</u>
 Total accumulated depreciation	 <u>\$ 17,749,511</u>	 <u>\$ 1,480,723</u>	 <u>\$ 168,500</u>	 <u>\$ 19,061,734</u>
 Total capital assets depreciated, net	 <u>\$ 19,901,156</u>	 <u>\$ (990,895)</u>	 <u>\$ -</u>	 <u>\$ 18,910,261</u>
 Governmental Activities Capital Assets, Net	 <u>\$ 20,609,776</u>	 <u>\$ 584,933</u>	 <u>\$ -</u>	 <u>\$ 21,194,709</u>

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

Governmental Activities	
General government	\$ 52,993
Public safety	32,207
Highways and streets, including depreciation of infrastructure assets	1,374,498
Sanitation	392
Family services	3,191
Culture and recreation	<u>17,442</u>
 Total Depreciation Expense - Governmental Activities	 <u><u>\$ 1,480,723</u></u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2007, is as follows:

1. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch	\$ 118,400
	Taxes and Penalties	2,962
		\$ 121,362

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

2. Interfund Transfers

In 2007, the General Fund transferred \$5,163 to the Family Services Special Revenue Fund for its share of interest earnings.

C. Liabilities

1. Payables

Payables at December 31, 2007, were as follows:

Accounts	\$ 156,252
Salaries	148,851
Contracts payable	68,167
Due to other governments	77,578
Total Payables	\$ 450,848

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Retired Officials' and Employees' Health Insurance Benefits

The County pays the health insurance for qualified retired employees and elected officials. Any employee or elected official hired on a full-time basis or elected to office prior to January 1, 1991, and retiring while in active service shall be entitled to the cost of their individual health insurance coverage up to a maximum monthly figure not to exceed the monthly premium for a Minnesota Comprehensive Health Association's (MCHA) medical coverage for their age group. To be eligible, employees and elected officials must have worked for Big Stone County for a minimum of 10 years and be at least 55 years old. All current eligible retirees shall be required to apply for Medicare coverage at their earliest eligibility. Medicare shall be the primary provider, and any remaining employer contributions shall be applied to the cost of a Medicare supplement.

Any employee hired after January 1, 1991, shall be eligible for one year of employer retiree insurance contributions for each five years of service with the County to a maximum of three years of contributions. To be eligible, employees and elected officials must have worked for Big Stone County for a minimum of 10 years and be at least 55 years old. Such retirees shall be required to apply for Medicare coverage at their earliest eligibility. Medicare shall be the primary provider, and any remaining employer contributions shall be applied to the cost of a Medicare supplement. The County finances the plan on a pay-as-you-go basis. The County's contributions for the year ended December 31, 2007, were:

	<u>Number of Participants</u>	<u>Contribution</u>
Governmental Activities		
Elected officials	11	\$ 47,558
Employees	23	90,930
Totals	34	\$ 138,488

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Bonded Debt

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2007</u>
General obligation bonds					
1996 G.O. Drainage Bonds	2012	\$15,000	5.29523	<u>\$ 235,000</u>	<u>\$ 75,000</u>

Debt payments on the drainage bonds are made from the Ditch Special Revenue Fund. Debt service requirements at December 31, 2007, were as follows:

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 15,000	\$ 3,660
2009	15,000	2,872
2010	15,000	2,070
2011	15,000	1,253
2012	15,000	420
Total	<u>\$ 75,000</u>	<u>\$ 10,275</u>

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
General obligation bonds					
Drainage bonds	\$ 90,000	\$ -	\$ 15,000	\$ 75,000	\$ 15,000
Contracts for deed					
Highway Fund					
Gravel pit	20,810	-	20,810	-	-
General Fund					
Government building	41,200	-	41,200	-	-
Compensated absences	<u>465,528</u>	<u>-</u>	<u>5,042</u>	<u>460,486</u>	<u>75,543</u>
Governmental Activity Long-Term Liabilities	<u>\$ 617,538</u>	<u>\$ -</u>	<u>\$ 82,052</u>	<u>\$ 535,486</u>	<u>\$ 90,543</u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description

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

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

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

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

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, and all Public Employees Police and Fire Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

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 Public Employees Retirement Fund and the Public Employees Police and Fire Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent. Public Employees Police and Fire Fund members were required to contribute 7.80 percent of their annual covered salary in 2007. That rate increased to 8.60 percent in 2008.

The County is required to contribute the following percentages of annual covered payroll in 2007 and 2008:

	<u>2007</u>	<u>2008</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.25	6.50
Public Employees Police and Fire Fund	11.70	12.90

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2007, 2006, and 2005, for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Public Employees Retirement Fund	\$ 152,572	\$ 146,935	\$ 128,937
Public Employees Police and Fire Fund	25,652	25,108	20,837

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

B. Defined Contribution Plan

Five employees of Big Stone County are covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA in accordance with Minn. Stat. ch. 353D. 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. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans (Continued)

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by Big Stone County during the year ended December 31, 2007, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 3,710	\$ 3,710
Percentage of covered payroll	5.00%	5.00%

Required contribution rates were 5.00 percent.

5. Summary of Significant Contingency and Other Items

A. Risk Management

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

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 \$400,000 per claim in 2007 and \$410,000 per claim in 2008. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

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

A. Risk Management (Continued)

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

B. Contingent Liabilities

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

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

C. Joint Ventures

Countryside Public Health Service

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

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

5. Summary of Significant Contingency and Other Items

C. Joint Ventures

Countryside Public Health Service (Continued)

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

Financing is provided by state and federal grants, appropriations from member counties, and charges for services. Big Stone County's contribution for 2007 was \$41,305.

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

Minnesota River Basin Joint Powers Board

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

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

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 2007, Big Stone County contributed \$693 to the Joint Powers Board. Complete financial statements for the Minnesota River Basin Joint Powers Board can be obtained from its administrative office at Administration Building No. 14, 600 East 4th Street, Chaska, Minnesota 55318.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

5. Summary of Significant Contingency and Other Items

C. Joint Ventures (Continued)

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the County entered into a joint powers agreement with Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Pipestone, Redwood, Renville, Rock, and Swift Counties; and Lincoln, Lyon, and Murray Counties represented by the Lincoln, Lyon, and Murray Human Services Board, creating and operating the Southwestern Minnesota Adult Mental Health Consortium Board under the authority of Minn. Stat. § 471.59. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host. The Board shall take actions and enter into such agreements as may be necessary to plan and develop within the Board's geographic jurisdiction, a system of care that will serve the needs of adults with serious and persistent mental illness. The governing board is composed of one board member from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

The following is a summary of the Board's annual financial report (the latest available) for the year ended December 31, 2005:

Total assets	\$ 1,148,132
Total liabilities	497,546
Total equity	650,586
Total revenues	1,960,287
Total expenditures	1,671,076
Net increase to fund balance	289,211

The Board reported no long-term obligations at December 31, 2005.

A complete financial report of the Southwestern Minnesota Adult Mental Health Consortium Board can be obtained at the Cottonwood County Family Services Agency, Windom, Minnesota 56101.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

5. Summary of Significant Contingency and Other Items

C. Joint Ventures (Continued)

Prime West Central County-Based Purchasing Initiative

The Prime West Central County-Based Purchasing Initiative was established in December 1998 by a joint powers agreement among Big Stone 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 Purchasing Initiative is vested in a Joint Powers Board, composed of one Commissioner from each member county. Each member of the Joint Powers Board is appointed by the County Commissioners of the county he or she represents.

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

Financing is provided by medical assistance and general assistance medical care payments from the Minnesota Department of Human Services, initial start-up loans from the member counties, and by proportional contributions from member counties, if necessary, to cover operational costs. In 1999, Big Stone County provided \$25,000 in the form of an initial start-up loan to the Prime West Central County-Based Purchasing Initiative. The Purchasing Initiative refunded the County start-up loan in 2006. The County did not contribute any funds to the Purchasing Initiative in 2007.

Douglas County acts as fiscal agent for Prime West Central County-Based Purchasing Initiative and reports the cash transactions as an investment trust fund on its financial statements. Complete financial information can be obtained from its administrative office at Prime West Health Systems, 510 - 22nd Avenue East, Suite 802, Alexandria, Minnesota 56308.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

5. Summary of Significant Contingency and Other Items

C. Joint Ventures (Continued)

Pomme de Terre River Association

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

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

During 2007, Big Stone County did not contribute any funds to the Joint Powers Board. Complete financial information for the Pomme de Terre River Association Joint Powers Board can be obtained from its administrative offices at 900 Roberts Street, Suite 104, Alexandria, Minnesota 56308.

D. Related Organization - Upper Minnesota River Watershed District

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

E. Agricultural Best Management Loan Program

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

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REQUIRED SUPPLEMENTARY INFORMATION

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,660,708	\$ 1,519,330	\$ 1,528,990	\$ 9,660
Special assessments	116,000	116,000	114,670	(1,330)
Licenses and permits	18,700	18,700	24,506	5,806
Intergovernmental	615,759	757,137	876,300	119,163
Charges for services	170,700	166,700	182,842	16,142
Investment earnings	154,000	154,000	256,828	102,828
Miscellaneous	48,270	52,270	134,730	82,460
Total Revenues	\$ 2,784,137	\$ 2,784,137	\$ 3,118,866	\$ 334,729
Expenditures				
Current				
General government				
Commissioners	\$ 159,883	\$ 159,883	\$ 153,100	\$ 6,783
Human resources	72,810	72,810	96,577	(23,767)
Law library	6,500	6,500	2,786	3,714
Auditor	170,649	170,649	169,757	892
Treasurer	102,351	102,351	102,477	(126)
Assessor	186,748	186,748	185,820	928
Elections	650	650	126	524
Accounting and auditing	25,000	25,000	28,301	(3,301)
Data processing	69,600	69,600	68,525	1,075
Attorney	71,005	71,005	76,334	(5,329)
Recorder	184,895	184,895	159,545	25,350
Planning and zoning	61,647	61,647	59,356	2,291
Buildings and plant	161,849	161,849	179,591	(17,742)
Veterans service officer	25,744	25,744	24,713	1,031
Other general government	149,000	149,000	146,167	2,833
Total general government	\$ 1,448,331	\$ 1,448,331	\$ 1,453,175	\$ (4,844)
Public safety				
Sheriff	\$ 855,005	\$ 855,005	\$ 882,279	\$ (27,274)
Boat and water safety	2,000	2,000	35,133	(33,133)
Coroner	2,500	2,500	2,050	450
E-911 system	62,500	78,200	59,491	18,709
Emergency management	20,897	20,897	27,506	(6,609)
Total public safety	\$ 942,902	\$ 958,602	\$ 1,006,459	\$ (47,857)
Sanitation				
Solid waste	\$ 195,615	\$ 195,615	\$ 227,128	\$ (31,513)
Health				
Public health	\$ 30,400	\$ 30,400	\$ 32,614	\$ (2,214)

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Culture and recreation				
Historical society	\$ 16,000	\$ 16,000	\$ 19,963	\$ (3,963)
Parks	21,071	21,071	18,077	2,994
Other	70,506	70,506	94,843	(24,337)
Total culture and recreation	\$ 107,577	\$ 107,577	\$ 132,883	\$ (25,306)
Conservation of natural resources				
Extension	\$ 95,590	\$ 95,590	\$ 93,378	\$ 2,212
Water planning	31,826	31,826	36,509	(4,683)
Feedlot management	21,226	21,226	17,400	3,826
Other	68,373	68,373	73,519	(5,146)
Total conservation of natural resources	\$ 217,015	\$ 217,015	\$ 220,806	\$ (3,791)
Economic development				
Other	\$ 66,906	\$ 66,906	\$ 64,906	\$ 2,000
Intergovernmental				
Health	\$ 41,305	\$ 41,305	\$ 41,305	\$ -
Debt service				
Principal	\$ 41,200	\$ 41,200	\$ 41,200	\$ -
Total Expenditures	\$ 3,091,251	\$ 3,106,951	\$ 3,220,476	\$ (113,525)
Excess of Revenues Over (Under) Expenditures	\$ (307,114)	\$ (322,814)	\$ (101,610)	\$ 221,204
Other Financing Sources (Uses)				
Proceeds from sale of assets	\$ -	\$ -	\$ 1,165	\$ 1,165
Transfers out	-	-	(5,163)	(5,163)
Net Change in Fund Balance	\$ (307,114)	\$ (322,814)	\$ (105,608)	\$ 217,206
Fund Balance - January 1	2,958,113	2,958,113	2,958,113	-
Fund Balance - December 31	\$ 2,650,999	\$ 2,635,299	\$ 2,852,505	\$ 217,206

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
HIGHWAY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 646,298	\$ 593,299	\$ 586,161	\$ (7,138)
Intergovernmental	4,041,079	4,094,078	3,009,107	(1,084,971)
Charges for services	108,000	108,000	109,395	1,395
Investment earnings	25,000	25,000	49,006	24,006
Miscellaneous	9,000	9,000	69,208	60,208
Total Revenues	\$ 4,829,377	\$ 4,829,377	\$ 3,822,877	\$ (1,006,500)
Expenditures				
Current				
Highways and streets				
Administration	\$ 313,510	\$ 313,510	\$ 331,168	\$ (17,658)
Maintenance	705,190	705,190	626,731	78,459
Construction	3,658,685	3,658,685	1,965,839	1,692,846
Equipment and maintenance shops	678,810	678,810	731,301	(52,491)
Material and services for resale	25,280	25,280	15,806	9,474
Other - highways and streets	28,700	28,700	16,854	11,846
Total highways and streets	\$ 5,410,175	\$ 5,410,175	\$ 3,687,699	\$ 1,722,476
Intergovernmental				
Highways and streets	132,330	132,330	123,536	8,794
Debt service				
Principal	-	-	20,810	(20,810)
Interest	800	800	1,455	(655)
Total Expenditures	\$ 5,543,305	\$ 5,543,305	\$ 3,833,500	\$ 1,709,805
Excess of Revenues Over (Under) Expenditures	\$ (713,928)	\$ (713,928)	\$ (10,623)	\$ 703,305
Other Financing Sources (Uses)				
Proceeds from sale of assets	5,000	5,000	2,391	(2,609)
Net Change in Fund Balance	\$ (708,928)	\$ (708,928)	\$ (8,232)	\$ 700,696
Fund Balance - January 1	1,559,416	1,559,416	1,559,416	-
Increase (decrease) in reserved for inventories	-	-	(68,830)	(68,830)
Fund Balance - December 31	\$ 850,488	\$ 850,488	\$ 1,482,354	\$ 631,866

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 659,970	\$ 603,216	\$ 599,782	\$ (3,434)
Intergovernmental	1,346,544	1,403,298	1,432,649	29,351
Charges for services	44,500	44,500	148,745	104,245
Miscellaneous	135,950	135,950	180,891	44,941
Total Revenues	\$ 2,186,964	\$ 2,186,964	\$ 2,362,067	\$ 175,103
Expenditures				
Current				
Human services				
Income maintenance	\$ 591,821	\$ 591,821	\$ 548,507	\$ 43,314
Social services	1,745,143	1,745,143	1,938,688	(193,545)
RSVP	-	-	69,054	(69,054)
Total Expenditures	\$ 2,336,964	\$ 2,336,964	\$ 2,556,249	\$ (219,285)
Excess of Revenues Over (Under) Expenditures	\$ (150,000)	\$ (150,000)	\$ (194,182)	\$ (44,182)
Other Financing Sources (Uses)				
Transfers In	-	-	5,163	5,163
Net Change in Fund Balance	\$ (150,000)	\$ (150,000)	\$ (189,019)	\$ (39,019)
Fund Balance - January 1	2,443,255	2,443,255	2,443,255	-
Fund Balance - December 31	\$ 2,293,255	\$ 2,293,255	\$ 2,254,236	\$ (39,019)

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 50,950	\$ 50,950	\$ 59,477	\$ 8,527
Investment earnings	-	-	1,117	1,117
Total Revenues	\$ 50,950	\$ 50,950	\$ 60,594	\$ 9,644
Expenditures				
Current				
Conservation of natural resources				
Other	\$ 29,900	\$ 29,900	\$ 45,286	\$ (15,386)
Debt service				
Principal	15,000	15,000	15,000	-
Interest	4,400	4,400	4,432	(32)
Administrative (fiscal) fees	-	-	447	(447)
Total Expenditures	\$ 49,300	\$ 49,300	\$ 65,165	\$ (15,865)
Net Change in Fund Balance	\$ 1,650	\$ 1,650	\$ (4,571)	\$ (6,221)
Fund Balance - January 1	82,543	82,543	82,543	-
Fund Balance - December 31	\$ 84,193	\$ 84,193	\$ 77,972	\$ (6,221)

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2007

1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Budget Amendments

The expenditures budget in the General Fund was amended as follows:

Original Budget	Increase (Decrease)	Final Budget
\$ 3,091,251	\$ 15,700	\$ 3,106,951

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

Fund	Expenditures	Budget	Excess
General Fund	\$ 3,220,476	\$ 3,106,951	\$ 113,525
Special Revenue Funds			
Family Services	2,556,249	2,336,964	219,285
Ditch	65,165	49,300	15,865

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SUPPLEMENTARY INFORMATION

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

AGENCY FUNDS

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

Big Stone Area Growth - to account for the collection and disbursement of funds for a non-profit organization established for community development and improvement.

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

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

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Statement 1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>FAMILY SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 124,821	\$ 82,733	\$ 99,193	\$ 108,361
<u>Liabilities</u>				
Due to other governments	\$ 124,821	\$ 82,733	\$ 99,193	\$ 108,361
 <u>BIG STONE AREA GROWTH</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 67,509	\$ 21,825	\$ 45,684
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 67,509	\$ 21,825	\$ 45,684
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 15,019	\$ 353,459	\$ 358,307	\$ 10,171
<u>Liabilities</u>				
Due to other governments	\$ 15,019	\$ 353,459	\$ 358,307	\$ 10,171

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

*Statement 1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 40,972	\$ 9,104,833	\$ 9,075,979	\$ 69,826
<u>Liabilities</u>				
Due to other governments	\$ 33,988	\$ 9,101,871	\$ 9,068,995	\$ 66,864
Advance from other funds	6,984	2,962	6,984	2,962
Total Liabilities	\$ 40,972	\$ 9,104,833	\$ 9,075,979	\$ 69,826
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 180,812	\$ 9,608,534	\$ 9,555,304	\$ 234,042
<u>Liabilities</u>				
Due to other governments	\$ 173,828	\$ 9,605,572	\$ 9,548,320	\$ 231,080
Advance from other funds	6,984	2,962	6,984	2,962
Total Liabilities	\$ 180,812	\$ 9,608,534	\$ 9,555,304	\$ 234,042

OTHER SCHEDULE

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 5

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Shared Revenue

State

Highway users tax	\$	2,221,111
County program aid		568,948
PERA rate reimbursement		11,447
Disparity reduction aid		89,315
Police aid		25,108
Enhanced 911		76,403
Market value credit		251,516
		<hr/>

Total Shared Revenue **\$ 3,243,848**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	530,823
		<hr/>

Payments

Local

Payments in lieu of taxes	\$	50,165
Household hazardous waste		1,200
		<hr/>

Total Payments **\$ 51,365**

Grants

State

Minnesota Department of		
Corrections	\$	9,982
Human Services		498,832
Natural Resources		24,037
Public Safety		6,262
Veterans Affairs		1,400
Water and Soil Resources Board		51,425
Peace Officer Standards and Training Board		2,010
Pollution Control Agency		52,039
		<hr/>

Total State **\$ 645,987**

Federal

Department of		
Agriculture	\$	3,492
Transportation		593,400
Health and Human Services		159,383
Homeland Security		43,061
Corporation for National and Community Service		46,697
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Total Federal **\$ 846,033**

Total State and Federal Grants **\$ 1,492,020**

Total Intergovernmental Revenue **\$ 5,318,056**

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 6

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2007

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Big Stone County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Big Stone County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." We consider none of the deficiencies to be material weaknesses.
- C. No instances of noncompliance material to the financial statements of Big Stone County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for Big Stone County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:
 - Highway Planning and Construction
 - CFDA #20.205
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Big Stone County was determined not to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

97-1 Segregation of Duties

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

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

Client's Response:

Big Stone County's management is aware that staff size does not provide for adequate segregation of accounting duties and responsibilities. Management remains cognizant of the situation and strives to ensure that staff duties and responsibilities provide as much segregation as possible.

06-1 Audit Adjustments

A control deficiency 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 misstatements of the financial statements on a timely basis. A control deficiency that typically is considered significant is the identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls.

During our audit, we proposed material adjustments that resulted in significant changes to the County's financial statements. The adjustments resulted from: errors made in recording transactions and with mapping of various account codes; controls over

calculating the proper amounts of due from other governments and contracts payable on the modified accrual basis did not detect errors, which resulted in the client's records understating assets and liabilities and overstating fund balance, revenues and expenditures; and the County did not consider the need for controls over the recording of certain accounting transactions. The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements may not be fairly presented.

We recommend that the County review internal controls currently in place, then design and implement procedures to improve internal controls over financial reporting to detect misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

Client's Response:

The County will continue to review, design, and implement procedures to improve internal controls over financial reporting to detect misstatements in the financial statements. The County's audit committee will be involved in the review process to identify potential misstatements.

06-4 Computer Risk Management

Risk management begins with a risk assessment of the County's computer system to identify those risks that could negatively influence computer operations. Internal controls should be implemented to reduce the identified risks. Internal controls implemented should be documented in a well-maintained policies and procedures manual, which should be communicated to the County's staff. Staff adherence to these policies and procedures should be monitored.

Proper controls should be maintained over the computer system to allow for proper financial reporting. The County does not maintain segregation of duties over the control of the computer system, require strong passwords, or test its disaster recovery plan.

We recommend the County take steps to improve the control over its computer systems by reviewing and maintaining error logs, segregating the duties of the information technology staff, requiring passwords that are longer and include more randomized characters, and testing its disaster recovery plan.

We recommend the County Board develop a plan to ensure that internal controls are in place to reduce the risk associated with the County's computer systems. Because computer systems are ever changing, the County should include in its plan periodic reassessment of risk to ensure existing internal controls are still effective.

Client's Response:

The County will take necessary steps to improve the control over its computer systems and will continue to reassess risk to ensure that existing internal controls are still effective.

ITEM ARISING THIS YEAR

07-1 Payroll

No controls exist to verify the correct pay rates were in the payroll system for all employees, that pay rates were updated for authorized reasons, or that any payroll information changes were reviewed by other County personnel. These conditions represent a serious weakness in the County's internal controls. Without improved controls, employees could be receiving incorrect pay or employees could be added or deleted from the system without being noticed.

We recommend that County management implement oversight procedures to ensure any changes made to an employee's payroll information are correct, are made for authorized purposes, and are reviewed by someone other than the person making the change.

Client's Response:

The County will implement oversight procedures to review any changes made to an employee's payroll information.

PREVIOUSLY REPORTED ITEMS RESOLVED

Capital Assets Policies and Procedures (06-2)

The County's capital assets policy did not address redetermination of the useful lives of the capital assets, nor when redetermination of the capital asset would take place.

Resolution

The County created a procedure to address when useful lives of capital assets should be reconsidered.

Controls Over the Accounting System Journal Entry Function (06-3)

The County did not limit access to the accounting system journal entry function to select County employees. The County had 13 user names with access to the journal entry function. Not all journal entries made to the accounting system were reviewed or approved.

Resolution

The County strengthened the controls over the journal entries by reevaluating who had access to the journal entry function and established a procedure to require review and approval of journal entries by someone other than the person making the journal entries.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

07-2 Depository Pledge Agreement

The County does not have a depository pledge agreement for collateral pledged by CenBank, Clinton State Bank, or Buffalo Ridge Bank.

We recommend that the County execute security agreements with all banks. The pledge agreement should be consistent with the language of Minn. Stat. § 118A.03.

Client's Response:

The County has provided all three banks the correct language as required by Minn. Stat. § 118A.03 and is working with United Banker's Bank and US Bank on getting their depository pledge agreements up to date.

B. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

07-3

Travel Policies

During our review of Big Stone County's disbursements, we noted meal reimbursements do not go through the payroll system, and income tax was not withheld on non-overnight meals. The Internal Revenue Service (IRS) code and regulations require withholding for meal reimbursement when the employee travels but does not stay overnight. 26 U.S.C. 162(a) and regulations promulgated thereunder. See also IRS Publication 15, Circular E "Employer's Tax Guide," IRS Publication 463 "Travel, Entertainment, Gift and Car Expenses."

We recommend that the County withhold income tax from employee reimbursement for non-overnight meals.

Client's Response:

The County will withhold income tax on employee reimbursement for non-overnight meals.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and

plans, provides the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

This year, the legislature enacted a new law, Minn. Stat. § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- it allows local governments to create both irrevocable and revocable OPEB trusts;
- it authorizes the use of a different list of permissible investments for both irrevocable and revocable OPEB trusts; and
- it also permits local governments to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

Some of the issues that the County Board will need to address in order to comply with GASB Statements 43 and 45 are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;

Schedule 6
(Continued)

- if an OPEB trust will be established, the County will have to decide whether to establish an irrevocable or a revocable trust, and report that trust appropriately in the financial statements; and
- in order to determine annual costs and liabilities to be recognized, the County Board will have to decide whether to hire an actuary.

GASB Statements 43 and 45 would be applicable to Big Stone County for the years ended December 31, 2008 and 2009, respectively.



REBECCA OTTO
STATE AUDITOR

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

Board of County Commissioners
Big Stone County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Big Stone County as of and for the year ended December 31, 2007, and have issued our report thereon dated August 4, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 97-1, 06-1, 06-4, and 07-1 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Big Stone County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Big Stone County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 07-2.

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

Big Stone County's written responses to the significant deficiencies, legal compliance finding, and management practice comment identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 4, 2008

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

Board of County Commissioners
Big Stone County

Compliance

We have audited the compliance of Big Stone County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2007. Big Stone County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Big Stone County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

Internal Control Over Compliance

The management of Big Stone County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Big Stone County's internal control.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Big Stone County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 4, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is

presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 4, 2008

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 7

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

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 Food Stamp Program	10.561	\$ <u>3,492</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ <u>593,400</u>
U.S. Election Assistance Commission		
Passed Through Minnesota Secretary of State Help America Vote Act Requirements Payments	90.401	\$ <u>7,263</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Temporary Assistance for Needy Families (TANF)	93.558	\$ 45,539
Child Care Development Fund Cluster		
Child Care Development and Block Grant	93.575	11,310
Child Care Mandatory and Matching Funds	93.596	19,258
Child Welfare Services - State Grants	93.645	1,821
Foster Care Title IV-E	93.658	18,865
Social Services Block Grant Title XX	93.667	58,265
Chafee Foster Care Independent Living	93.674	3,103
Block Grants for Community Mental Health Services	93.958	<u>1,222</u>
Total U.S. Department of Health and Human Services		\$ <u>159,383</u>
Corporation for National and Community Service		
Direct		
Retired Senior Volunteer Program	94.002	\$ <u>46,697</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety Boating Safety Financial Assistance	97.012	\$ 32,804
Passed Through United Way Emergency Food and Shelter National Board Program	97.024	2,357
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	<u>7,900</u>
Total U.S. Department of Homeland Security		\$ <u>43,061</u>
Total Federal Awards		\$ <u>853,296</u>

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

1. Reporting Entity

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

2. Basis of Presentation

The accounting records for grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual--when both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Big Stone County considers all revenues to be available if collected within 60 days of the current period. Expenditures are recorded when the liability is incurred.

The information in the schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

3. Reconciliation to Schedule of Intergovernmental Revenues

Federal grant revenue per Schedule of Intergovernmental Revenues	\$ 846,033
Help America Vote Act Requirements Payments grant monies unspent in 2006 and expended in 2007 (CFDA #90.401)	<u>7,263</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u><u>\$ 853,296</u></u>

4. Passed Through to Subrecipients

During 2007, the County did not pass any federal money to subrecipients.

5. Pass-Through Grant Numbers

Pass-through grant numbers were not assigned by the pass-through agencies.