

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**STEVENS COUNTY**  
**MORRIS, MINNESOTA**

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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**STEVENS COUNTY  
MORRIS, MINNESOTA**

**Year Ended December 31, 2007**



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

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**STEVENS COUNTY  
MORRIS, MINNESOTA**

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**STEVENS COUNTY  
MORRIS, MINNESOTA**

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**STEVENS COUNTY  
MORRIS, MINNESOTA**

**ORGANIZATION  
DECEMBER 31, 2007**

			<u>Term Expires</u>
Elected			
Commissioners			
Chair	Paul Watzke	District 1	January 2009
Board Member	Herb Kloos	District 2	January 2011
Board Member	Neal Hofland	District 3	January 2009
Board Member	Larry Sayre	District 4	January 2009
Board Member	Don Munsterman	District 5	January 2011
Attorney	Charles Glasrud		January 2011
Auditor/Treasurer	Neil Wiese		January 2011
County Recorder	Virginia Mahoney		January 2011
Registrar of Titles	Virginia Mahoney		January 2011
County Sheriff	Randy Willis		January 2011
Appointed			
Assessor	Judy Thorstad		December 2008
County Coordinator	Jim Thoreen		Indefinite
Coroner	Michael Busian, M.D.		January 2008
Highway Engineer	Brian Giese		Indefinite
Veterans Service Officer	Hugh Reimers		Indefinite
Human Services Director	Joanie Murphy		Indefinite

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Stevens County

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Stevens County as of and for the year ended December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the required supplementary information listed in the table of contents 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.

Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Stevens County's basic financial statements. The supplementary information and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2009, on our consideration of Stevens County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

February 5, 2009

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**STEVENS COUNTY  
MORRIS, MINNESOTA**

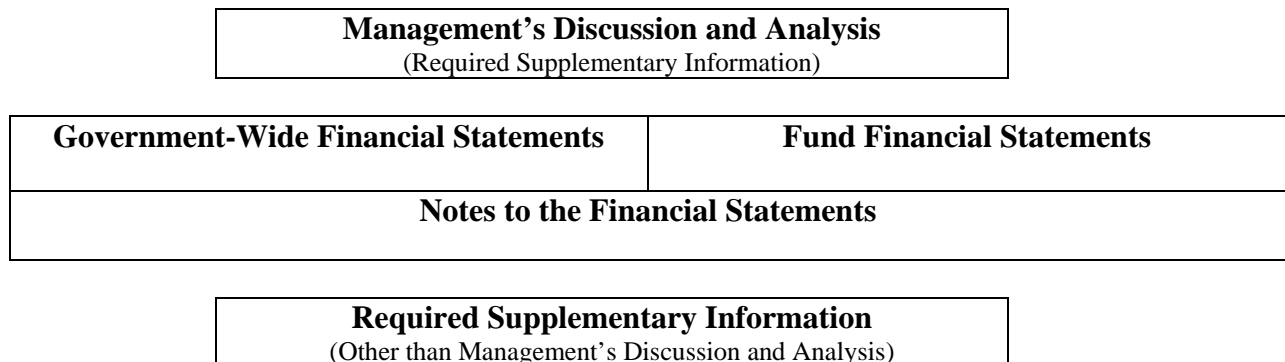
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2007  
(Unaudited)**

**INTRODUCTION**

Stevens County's Management's Discussion and Analysis (MD&A) presents a summary of Stevens County's financial activities for the fiscal year ended December 31, 2007. It will focus on the current year's activities and changes and should be read in combination with Stevens County's financial statements and the notes to the financial statements. Stevens County's activities are governmental in nature, with the exception of a County-owned and run ambulance service.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

Stevens County's MD&A serves as an introduction to the basic financial statements. Stevens County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) and certain budgetary comparison schedules are required to accompany the basic financial statements and, therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are inter-related.



Stevens County presents two government-wide financial statements. They are the Statement of Net Assets and the Statement of Activities. These two government-wide financial statements provide information about the activities of Stevens County as a whole and present a longer-term view of Stevens County's finances. Stevens County's fund financial statements follow these two government-wide financial statements. For governmental activities, these statements tell how Stevens County financed these services in the short term as well as what remains for future spending. Fund financial statements also report Stevens County's operations in more detail than

the government-wide statements by providing information about Stevens County's most significant/major funds. For proprietary activities, these statements provide detailed financial information relating to Stevens County's ambulance service. The remaining statement provides financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

### **Government-Wide Financial Statements--The Statement of Net Assets and the Statement of Activities**

The Statement of Net Assets and the Statement of Activities report information about Stevens County as a whole and about its activities in a way that helps the reader determine whether Stevens County's financial condition has improved or declined as a result of the current year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

These two statements consider all of Stevens County's current year revenues and expenses regardless of when Stevens County receives the revenue or pays the expense. These two statements report Stevens County's net assets and changes in them. You can think of Stevens County's net assets--the difference between assets and liabilities--as one way to measure Stevens County's financial health or financial position. Over time, increases or decreases in the County's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in Stevens County's property tax base and the general economic conditions of the state and County, to assess the overall health of Stevens County.

### **Fund Financial Statements**

Fund financial statements are prepared for the County's major funds. These fund statements are divided into governmental and proprietary funds. The governmental funds are constructed on a modified accrual basis and the proprietary funds on a full accrual basis. In Stevens County, a governmental fund balance sheet is provided for General, Road and Bridge Special Revenue, Human Services Special Revenue, Ditch Special Revenue, and nonmajor funds. All but one of Stevens County's basic services are reported in the governmental fund category. Governmental fund statements focus on how money flows into and out of these funds and shows the balances remaining at year-end available for expenditures. The modified accrual accounting method measures cash and other financial assets such as investments that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of Stevens County's general government operations and the basic services it provides. Stevens County's governmental fund information helps determine whether there are financial resources available that Stevens County can spend in the near future to finance its programs. A reconciliation statement follows the fund statements and depicts the relationship between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds.

The proprietary fund on ambulance operations includes a statement of fund net assets; a statement showing operating and nonoperating revenues, expenses; and the change in net assets; and a statement of cash flows for the year.

## **FINANCIAL HIGHLIGHTS**

- Governmental activities' total net assets are \$34,162,103, of which Stevens County has invested \$24,096,455 in capital assets, and \$734,718 is restricted to specific uses by Stevens County; \$9,330,930 is unrestricted.
- Proprietary (business-type) activity (ambulance service) includes total net assets of \$587,735, of which \$198,551 is invested in capital assets; \$389,184 is unrestricted.
- Stevens County's total net assets (governmental activities and business-type activities) total \$34,749,838, of which \$24,295,006 is invested in capital assets, and \$734,718 of the total net assets is restricted for specific uses; \$9,720,114 is unrestricted.
- The expenses of Stevens County's governmental activities for the year were \$9,505,014. General property tax revenues and other revenue sources totaling \$5,877,377 funded Stevens County's governmental activities' net cost of \$4,562,877.
- Stevens County's governmental funds' fund balances increased by \$624,663 during 2007.
- During 2007, Stevens County did not issue any new general obligation debt and does not have any outstanding general obligation debt.
- Long-term liabilities due to compensated absences total \$391,577, with \$171,013 due within one year.

## THE COUNTY AS A WHOLE

The analysis that follows focuses on the net assets (Table 1) and changes in net assets (Table 2) of Stevens County's governmental and business-type activities.

**Table 1**  
**Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
<b>Assets</b>						
Current and other assets	\$ 10,830,784	\$ 9,787,665	\$ 437,535	\$ 442,279	\$ 11,268,319	\$ 10,229,944
Capital assets	24,096,455	23,679,175	198,551	155,335	24,295,006	23,834,510
<b>Total Assets</b>	<b>\$ 34,927,239</b>	<b>\$ 33,466,840</b>	<b>\$ 636,086</b>	<b>\$ 597,614</b>	<b>\$ 35,563,325</b>	<b>\$ 34,064,454</b>
<b>Liabilities</b>						
Long-term debt outstanding	\$ 373,230	\$ 353,699	\$ 18,347	\$ 21,604	\$ 391,577	\$ 375,303
Other liabilities	391,906	265,538	30,004	20,981	421,910	286,519
<b>Total Liabilities</b>	<b>\$ 765,136</b>	<b>\$ 619,237</b>	<b>\$ 48,351</b>	<b>\$ 42,585</b>	<b>\$ 813,487</b>	<b>\$ 661,822</b>
<b>Net Assets</b>						
Invested in capital assets, net of debt	\$ 24,096,455	\$ 23,679,175	\$ 198,551	\$ 155,335	\$ 24,295,006	\$ 23,834,510
Restricted	734,718	346,332	-	-	734,718	346,332
Unrestricted	9,330,930	8,822,096	389,184	399,694	9,720,114	9,221,790
<b>Total Net Assets</b>	<b>\$ 34,162,103</b>	<b>\$ 32,847,603</b>	<b>\$ 587,735</b>	<b>\$ 555,029</b>	<b>\$ 34,749,838</b>	<b>\$ 33,402,632</b>

Stevens County's total net assets for the year ended December 31, 2007, total \$34,749,838. Unrestricted net assets totaling \$9,720,114 are available to Stevens County to finance day-to-day operations. Of the unrestricted net assets, \$9,330,930 is available for governmental activities, and \$389,184 is available for business-type activities.

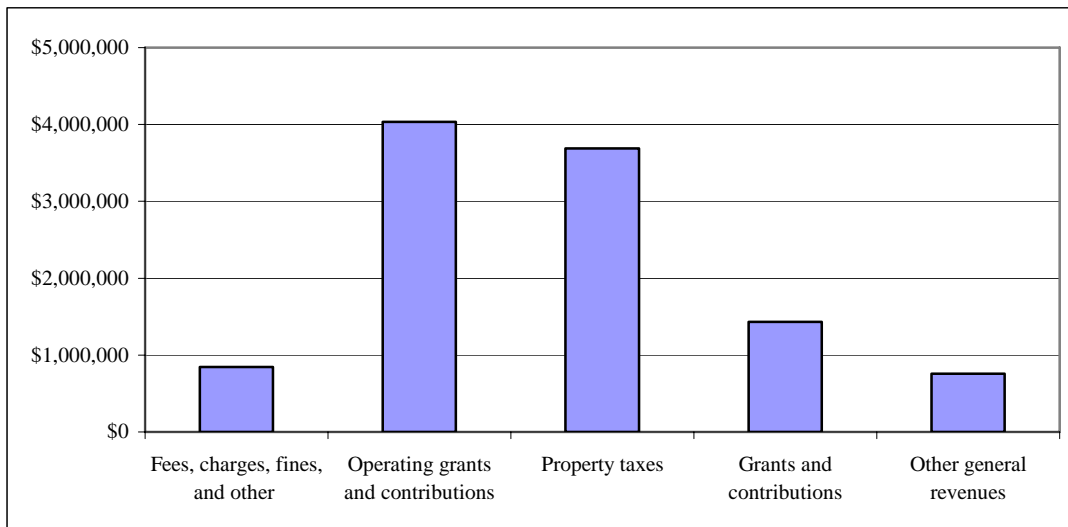
**Table 2**  
**Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
<b>Revenues</b>						
<b>Program revenues</b>						
Fees, fines, charges, and other	\$ 846,197	\$ 891,777	\$ 1,329,664	\$ 1,098,678	\$ 2,175,861	\$ 1,990,455
Operating grants and contributions	4,033,033	4,126,431	-	3,762	4,033,033	4,130,193
Capital grants and contributions	62,907	195,577	-	-	62,907	195,577
<b>General revenues</b>						
Property taxes	3,689,532	3,338,977	-	-	3,689,532	3,338,977
Payment in lieu of tax	44,948	45,288	-	-	44,948	45,288
Grants and contributions	1,432,098	1,447,332	1,000	-	1,433,098	1,447,332
Other general revenues	710,799	499,954	-	-	710,799	499,954
<b>Total Revenues</b>	<b>\$ 10,819,514</b>	<b>\$ 10,545,336</b>	<b>\$ 1,330,664</b>	<b>\$ 1,102,440</b>	<b>\$ 12,150,178</b>	<b>\$ 11,647,776</b>

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Expenses						
General government	\$ 2,203,363	\$ 1,874,767	\$ -	\$ -	\$ 2,203,363	\$ 1,874,767
Public safety	1,273,187	1,169,891	-	-	1,273,187	1,169,891
Highways and streets	2,802,916	2,658,253	-	-	2,802,916	2,658,253
Sanitation	185,753	224,435	-	-	185,753	224,435
Human services	2,337,354	2,479,209	-	-	2,337,354	2,479,209
Health	114,246	111,948	-	-	114,246	111,948
Culture and recreation	176,882	188,465	-	-	176,882	188,465
Conservation of natural resources	335,027	355,311	-	-	335,027	355,311
Economic development	76,286	60,500	-	-	76,286	60,500
Ambulance	-	-	1,297,958	1,066,689	1,297,958	1,066,689
<b>Total Expenses</b>	<b>\$ 9,505,014</b>	<b>\$ 9,122,779</b>	<b>\$ 1,297,958</b>	<b>\$ 1,066,689</b>	<b>\$ 10,802,972</b>	<b>\$ 10,189,468</b>
Increase (Decrease) in Net Assets	\$ 1,314,500	\$ 1,422,557	\$ 32,706	\$ 35,751	\$ 1,347,206	\$ 1,458,308

Stevens County's total revenues for the year ended December 31, 2007, were \$12,150,178. The total cost of Stevens County's programs and services for the year ended December 31, 2007, was \$10,802,972. The net assets for Stevens County increased by \$1,347,206.

#### Governmental Activities - Revenues



#### Governmental Activities

Revenues for Stevens County's governmental activities for 2007 were \$10,819,514. Stevens County's costs for all governmental activities for 2007 were \$9,505,014. As shown in Stevens County's Statement of Activities, the amount that Stevens County taxpayers ultimately financed for these governmental activities through local property taxation was \$3,689,532, because \$846,197 of the cost was paid by those who directly benefited from the programs, and

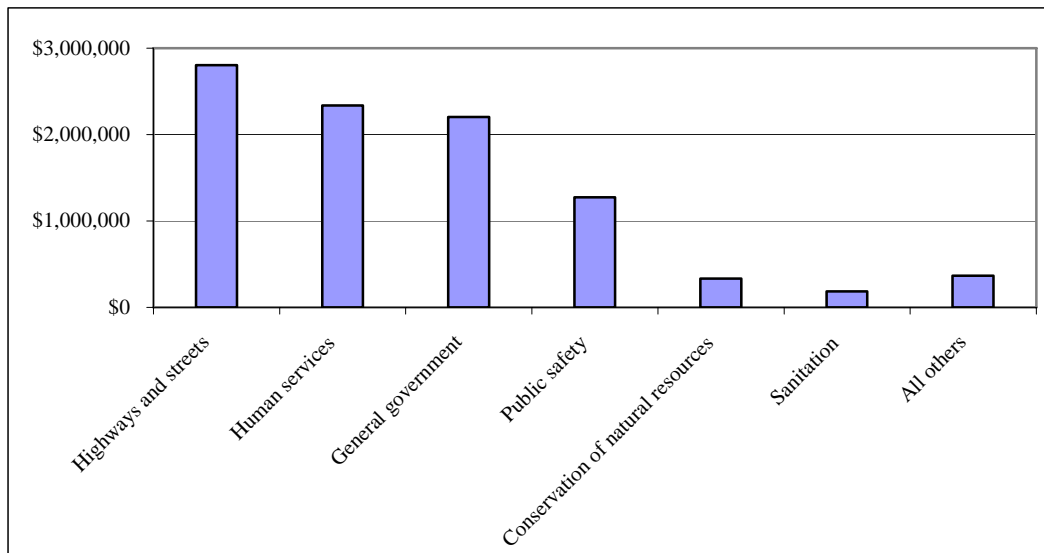
\$4,095,940 was paid by other governments and organizations that subsidized certain programs with operating and capital grants and contributions. Stevens County paid for the remaining “public benefit” portion of governmental activities with \$1,432,098 in other grants and contributions, interest income of \$630,490, payments in lieu of taxes of \$44,948, and other miscellaneous income of \$80,309.

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

**Table 3  
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
Program expenses				
Highways and streets	\$ 2,802,916	\$ 2,658,253	\$ 117,080	\$ 34,864
Human services	2,337,354	2,479,209	1,049,571	1,152,714
General government	2,203,363	1,874,767	1,854,982	1,366,448
Public safety	1,273,187	1,169,891	998,191	955,780
Conservation of natural resources	335,027	355,311	143,372	(29,446)
Sanitation	185,753	224,435	32,267	130,924
All others	367,414	360,913	367,414	297,710
<b>Total Program Expenses</b>	<b>\$ 9,505,014</b>	<b>\$ 9,122,779</b>	<b>\$ 4,562,877</b>	<b>\$ 3,908,994</b>

**Governmental Activities - Expenses**



## **Business-Type Activities**

Operating revenues of Stevens County's business-type activities (see Exhibit 8) for the year ended December 31, 2007, were \$1,329,664, and nonoperating revenues were \$1,000. Expenses of Stevens County's business-type activities (see Table 2) for 2007 were \$1,297,958, resulting in a net change in net assets of \$32,706. This compares with total operating revenues of \$1,098,678 and with total nonoperating revenues of \$3,762 for the year ended December 31, 2006. Operating expenses were \$1,066,689 for the year ended December 31, 2006, resulting in a change in net assets of \$35,751.

## **THE COUNTY'S FUNDS**

At December 31, 2007, the governmental funds (see the balance sheet) showed a combined fund balance of \$9,542,512 that is above last year's total of \$8,917,849 by \$624,663 after adjusting for an increase in inventory for the Road and Bridge Special Revenue Fund of \$108,309.

### **General Fund Budgetary Highlights**

The Stevens County Board of Commissioners did not make any budgetary amendments/revisions in 2007.

General Fund actual revenues exceeded budget expectations by \$509,109, although taxes collected were \$221,062 less than budgeted; this was offset by intergovernmental revenue greater than budgeted of \$546,870 and investment earnings greater than budgeted of \$255,592. Actual expenditures exceeded budgeted expenditures by \$459,211.

Other variations from the budget occurred when the County Board appropriated an unbudgeted \$30,000 to the Agricultural Society for capital improvements at the County Fair Grounds.

Another variation resulted from the unbudgeted transactions from gas tax passed through to the townships in the amount of \$182,540, shown as intergovernmental revenue and intergovernmental expenditures in the financial statements.

Also, the Commissioners approved an unbudgeted request for \$70,472 for snowmobile trails, which was offset by a state grant.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

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

	Governmental Activities		Business-Type Activities	
	2007	2006	2007	2006
Land	\$ 883,026	\$ 883,026	\$ 6,000	\$ 6,000
Construction in progress	39,521	39,765	-	-
Other improvements	77,175	83,287	-	-
Buildings and improvements	1,070,130	1,143,106	52,441	58,268
Machinery, furniture, and equipment	1,355,709	1,386,404	140,110	91,067
Infrastructure	20,670,894	20,143,587	-	-
Totals	<u>\$ 24,096,455</u>	<u>\$ 23,679,175</u>	<u>\$ 198,551</u>	<u>\$ 155,335</u>

### Debt

Stevens County's long-term liabilities are for compensated absences, and the County has no debt.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The planned 2009 Courthouse renovation and new Law Enforcement Center/Jail will cause significant increases in the tax levy in future years. Effects of this will be a proposed decrease in fund reserves of up to \$4,000,000 and the County bonding for approximately \$11,000,000 in debt.
- Stevens County's unemployment rate is increasing following statewide trends.
- There is a greater demand for services.
- Settling union contracts and employment-related issues would affect the 2008 budget.

### CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

Stevens County's financial reports provide citizens, taxpayers, customers, investors, and creditors with a general overview of Stevens County's finances, and it shows Stevens County's accountability for the money it receives and spends.

If you have questions about this report, or need additional financial information, contact Neil Wiese, Stevens County Auditor/Treasurer, by phone at 320-589-7409, by email at [neilwiese@co.stevens.mn.us](mailto:neilwiese@co.stevens.mn.us), or by mail to Stevens County Courthouse, 400 Colorado Avenue, Morris, Minnesota 56267. The complete 2007 financial statements can also be found on the County website at <http://www.co.stevens.mn.us/docs/departments/auditor/default.html>.

## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**STEVENS COUNTY  
MORRIS, MINNESOTA**

**EXHIBIT 1**

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 9,422,645	\$ 144,451	\$ 9,567,096
Taxes receivable			
Current - net	12,815	-	12,815
Prior - net	6,913	-	6,913
Special assessments receivable			
Current - net	7,299	-	7,299
Delinquent - net	5,118	-	5,118
Deferred - net	370,180	-	370,180
Accounts receivable - net	4,190	290,043	294,233
Accrued interest receivable	63,630	-	63,630
Internal balances	653	(653)	-
Due from other governments	785,937	3,694	789,631
Inventories	151,404	-	151,404
Capital assets			
Non-depreciable	922,547	6,000	928,547
Depreciable - net of accumulated depreciation	23,173,908	192,551	23,366,459
<b>Total Assets</b>	<b>\$ 34,927,239</b>	<b>\$ 636,086</b>	<b>\$ 35,563,325</b>
<b><u>Liabilities</u></b>			
Accounts payable	\$ 92,771	\$ 9,175	\$ 101,946
Salaries payable	31,938	20,829	52,767
Contracts payable	115,842	-	115,842
Due to other governments	88,546	-	88,546
Permit deposits	1,600	-	1,600
Unearned revenue	61,209	-	61,209
Long-term liabilities			
Due within one year	160,103	10,910	171,013
Due in more than one year	213,127	7,437	220,564
<b>Total Liabilities</b>	<b>\$ 765,136</b>	<b>\$ 48,351</b>	<b>\$ 813,487</b>
<b><u>Net Assets</u></b>			
Invested in capital assets - net of related debt	\$ 24,096,455	\$ 198,551	\$ 24,295,006
Restricted for			
General government	195,191	-	195,191
Public safety	35,793	-	35,793
Highways and streets	502,842	-	502,842
Held in trust for other purposes	892	-	892
Unrestricted	9,330,930	389,184	9,720,114
<b>Total Net Assets</b>	<b>\$ 34,162,103</b>	<b>\$ 587,735</b>	<b>\$ 34,749,838</b>

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

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**STEVENS COUNTY  
MORRIS, MINNESOTA**

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
<b>Primary government</b>		
<b>Governmental activities</b>		
General government	\$ 2,203,363	\$ 257,405
Public safety	1,273,187	47,081
Highways and streets	2,802,916	323,528
Sanitation	185,753	101,447
Human services	2,337,354	114,476
Health	114,246	-
Culture and recreation	176,882	-
Conservation of natural resources	335,027	2,260
Economic development	76,286	-
<b>Total governmental activities</b>	<b>\$ 9,505,014</b>	<b>\$ 846,197</b>
<b>Business-type activities</b>		
Ambulance	1,297,958	1,329,664
<b>Total Primary Government</b>	<b>\$ 10,802,972</b>	<b>\$ 2,175,861</b>
 <b>General Revenues</b>		
	Property taxes	
	Grants and contributions not restricted to specific programs	
	Payments in lieu of tax	
	Investment income	
	Miscellaneous	
	<b>Total general revenues</b>	
	<b>Change in net assets</b>	
	<b>Net Assets - Beginning</b>	
	<b>Net Assets - Ending</b>	

**EXHIBIT 2**

<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Assets</b>		
<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ 90,976	\$ -	\$ (1,854,982)	\$ -	\$ (1,854,982)
227,915	-	(998,191)	-	(998,191)
2,299,401	62,907	(117,080)	-	(117,080)
52,039	-	(32,267)	-	(32,267)
1,173,307	-	(1,049,571)	-	(1,049,571)
-	-	(114,246)	-	(114,246)
-	-	(176,882)	-	(176,882)
189,395	-	(143,372)	-	(143,372)
-	-	(76,286)	-	(76,286)
<b>\$ 4,033,033</b>	<b>\$ 62,907</b>	<b>\$ (4,562,877)</b>	<b>\$ -</b>	<b>\$ (4,562,877)</b>
-	-	-	31,706	31,706
<b>\$ 4,033,033</b>	<b>\$ 62,907</b>	<b>\$ (4,562,877)</b>	<b>\$ 31,706</b>	<b>\$ (4,531,171)</b>
		\$ 3,689,532	\$ -	\$ 3,689,532
		1,432,098	1,000	1,433,098
		44,948	-	44,948
		630,490	-	630,490
		80,309	-	80,309
		<b>\$ 5,877,377</b>	<b>\$ 1,000</b>	<b>\$ 5,878,377</b>
		<b>\$ 1,314,500</b>	<b>\$ 32,706</b>	<b>\$ 1,347,206</b>
		<b>32,847,603</b>	<b>555,029</b>	<b>33,402,632</b>
		<b>\$ 34,162,103</b>	<b>\$ 587,735</b>	<b>\$ 34,749,838</b>

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## **FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

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**STEVENS COUNTY  
MORRIS, MINNESOTA**

**EXHIBIT 3**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Solid Waste Nonmajor Governmental Fund</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>						
Cash and pooled investments	\$ 3,956,353	\$ 1,416,366	\$ 3,431,133	\$ 156,186	\$ 395,171	\$ 9,355,209
Petty cash and change funds	5,450	50	-	-	-	5,500
Undistributed cash in agency funds	26,824	5,699	8,920	4,732	761	46,936
Cash with fiscal agent	15,000	-	-	-	-	15,000
Taxes receivable						
Current	6,781	2,351	3,683	-	-	12,815
Prior	3,653	1,341	1,919	-	-	6,913
Special assessments						
Current	-	-	-	7,299	-	7,299
Delinquent	-	-	-	5,118	-	5,118
Deferred	-	-	-	370,180	-	370,180
Accounts receivable	1,332	790	230	-	1,838	4,190
Accrued interest receivable	63,630	-	-	-	-	63,630
Due from other funds	11,500	4,909	-	-	-	16,409
Due from other governments	36,403	575,659	173,875	-	-	785,937
Advance to other funds	229,000	-	-	-	-	229,000
Inventories	-	151,404	-	-	-	151,404
<b>Total Assets</b>	<b><u>\$ 4,355,926</u></b>	<b><u>\$ 2,158,569</u></b>	<b><u>\$ 3,619,760</u></b>	<b><u>\$ 543,515</u></b>	<b><u>\$ 397,770</u></b>	<b><u>\$ 11,075,540</u></b>

**STEVENS COUNTY  
MORRIS, MINNESOTA**

**EXHIBIT 3  
(Continued)**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Solid Waste Nonmajor Governmental Fund</u>	<u>Total Governmental Funds</u>
<b><u>Liabilities and Fund Balances</u></b>						
<b>Liabilities</b>						
Accounts payable	\$ 33,956	\$ 8,492	\$ 50,123	\$ 200	\$ -	\$ 92,771
Salaries payable	2,444	25,637	3,857	-	-	31,938
Contracts payable	-	115,842	-	-	-	115,842
Due to other funds	1,625	-	14,716	13	-	16,354
Due to other governments	77,607	987	9,096	258	-	87,948
Deferred revenue - unavailable	22,644	470,390	19,676	382,460	1,196	896,366
Deferred revenue - unearned	61,209	-	-	-	-	61,209
Permit deposits	-	1,600	-	-	-	1,600
Advance from other funds	-	-	-	229,000	-	229,000
<b>Total Liabilities</b>	<b>\$ 199,485</b>	<b>\$ 622,948</b>	<b>\$ 97,468</b>	<b>\$ 611,931</b>	<b>\$ 1,196</b>	<b>\$ 1,533,028</b>
<b>Fund Balances</b>						
Reserved for						
Encumbrances	\$ 17,195	\$ 36,248	\$ -	\$ -	\$ -	\$ 53,443
Advance to other funds	229,000	-	-	-	-	229,000
Inventories	-	151,404	-	-	-	151,404
Real estate tax shortfall	84,496	-	-	-	-	84,496
Sheriff's contingency	126	-	-	-	-	126
HAVA	15,980	-	-	-	-	15,980
DARE	11,302	-	-	-	-	11,302
Missing heirs	892	-	-	-	-	892
Recorder's compliance fund	61,136	-	-	-	-	61,136
Recorder's equipment purchases	16,384	-	-	-	-	16,384
Enhanced 911	24,348	-	-	-	-	24,348
Boat and water	17	-	-	-	-	17
Unreserved						
Designated for						
Future expenditures	300,000	150,000	150,000	-	-	600,000
Cash flows	2,209,507	1,067,703	1,173,714	-	-	4,450,924
Capital improvements	1,024,570	-	-	-	-	1,024,570
Compensated absences	144,630	130,266	98,334	-	-	373,230
Undesignated	16,858	-	2,100,244	(68,416)	-	2,048,686
Unreserved, reported in nonmajor Special revenue funds	-	-	-	-	396,574	396,574
<b>Total Fund Balances</b>	<b>\$ 4,156,441</b>	<b>\$ 1,535,621</b>	<b>\$ 3,522,292</b>	<b>\$ (68,416)</b>	<b>\$ 396,574</b>	<b>\$ 9,542,512</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,355,926</b>	<b>\$ 2,158,569</b>	<b>\$ 3,619,760</b>	<b>\$ 543,515</b>	<b>\$ 397,770</b>	<b>\$ 11,075,540</b>

**STEVENS COUNTY  
MORRIS, MINNESOTA**

**EXHIBIT 4**

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

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$ 9,542,512</b>
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.	24,096,455
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	896,366
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	<u>(373,230)</u>
<b>Net Assets of Governmental Activities (Exhibit 1)</b>	<b><u><u>\$ 34,162,103</u></u></b>

**STEVENS COUNTY  
MORRIS, MINNESOTA**

**EXHIBIT 5**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Solid Waste Nonmajor Governmental Fund</u>	<u>Total</u>
<b>Revenues</b>						
Taxes	\$ 1,972,456	\$ 667,981	\$ 1,046,128	\$ -	\$ -	\$ 3,686,565
Special assessments	-	-	-	260,536	-	260,536
Licenses and permits	13,242	-	-	-	-	13,242
Intergovernmental	1,366,425	2,109,967	1,561,765	-	-	5,038,157
Charges for services	185,540	62,330	90,729	-	85,457	424,056
Fines and forfeits	17,887	-	3,198	-	-	21,085
Investment earnings	605,592	-	-	9,426	-	615,018
Miscellaneous	176,740	262,018	20,549	2,260	7,200	468,767
<b>Total Revenues</b>	<b>\$ 4,337,882</b>	<b>\$ 3,102,296</b>	<b>\$ 2,722,369</b>	<b>\$ 272,222</b>	<b>\$ 92,657</b>	<b>\$ 10,527,426</b>
<b>Expenditures</b>						
<b>Current</b>						
General government	\$ 2,113,493	\$ -	\$ -	\$ -	\$ -	\$ 2,113,493
Public safety	1,307,155	-	-	-	-	1,307,155
Highways and streets	-	3,179,844	-	-	-	3,179,844
Sanitation	173,280	-	-	-	6,912	180,192
Human services	-	-	2,347,427	-	-	2,347,427
Health	114,246	-	-	-	-	114,246
Culture and recreation	176,882	-	-	-	-	176,882
Conservation of natural resources	275,132	-	-	57,875	-	333,007
Economic development	76,286	-	-	-	-	76,286
<b>Intergovernmental</b>						
Highways and streets	182,540	-	-	-	-	182,540
<b>Total Expenditures</b>	<b>\$ 4,419,014</b>	<b>\$ 3,179,844</b>	<b>\$ 2,347,427</b>	<b>\$ 57,875</b>	<b>\$ 6,912</b>	<b>\$ 10,011,072</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (81,132)</b>	<b>\$ (77,548)</b>	<b>\$ 374,942</b>	<b>\$ 214,347</b>	<b>\$ 85,745</b>	<b>\$ 516,354</b>
<b>Other Financing Sources (Uses)</b>						
Transfers in	\$ 55,340	\$ -	\$ -	\$ -	\$ -	\$ 55,340
Transfers out	-	-	-	-	(55,340)	(55,340)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 55,340</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (55,340)</b>	<b>\$ -</b>
<b>Change in Fund Balance</b>	<b>\$ (25,792)</b>	<b>\$ (77,548)</b>	<b>\$ 374,942</b>	<b>\$ 214,347</b>	<b>\$ 30,405</b>	<b>\$ 516,354</b>
<b>Fund Balance - January 1</b>	<b>4,182,233</b>	<b>1,504,860</b>	<b>3,147,350</b>	<b>(282,763)</b>	<b>366,169</b>	<b>8,917,849</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>108,309</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>108,309</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,156,441</b>	<b>\$ 1,535,621</b>	<b>\$ 3,522,292</b>	<b>\$ (68,416)</b>	<b>\$ 396,574</b>	<b>\$ 9,542,512</b>

**STEVENS COUNTY  
MORRIS, MINNESOTA**

*EXHIBIT 6*

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

**Net change in fund balances - total governmental funds (Exhibit 5) \$ 516,354**

Amounts reported for governmental activities in the statement of activities are different because:

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Deferred revenue - December 31	\$ 896,366	
Deferred revenue - January 1	<u>(604,278)</u>	292,088

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	\$ 1,581,852	
Current year depreciation	<u>(1,072,520)</u>	509,332

In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the capital assets disposed of. (92,052)

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

Change in compensated absences	\$ (19,531)	
Change in inventories	<u>108,309</u>	<u>88,778</u>

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ 1,314,500**

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**PROPRIETARY FUND**

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STEVENS COUNTY  
MORRIS, MINNESOTA

EXHIBIT 7

STATEMENT OF NET ASSETS  
AMBULANCE ENTERPRISE FUND  
DECEMBER 31, 2007

Assets

**Current assets**

Cash and pooled investments	\$	143,251
Petty cash and change funds		1,200
Accounts receivable - net		290,043
Due from other funds		3,248
Due from other governments		3,694

**Total current assets** **\$ 441,436**

**Noncurrent assets**

Capital assets		
Nondepreciable	\$	6,000
Depreciable - net		192,551

**Total noncurrent assets** **\$ 198,551**

**Total Assets** **\$ 639,987**

Liabilities

**Current liabilities**

Accounts payable	\$	9,175
Salaries payable		20,829
Compensated absences payable - current		10,910
Due to other funds		3,901

**Total current liabilities** **\$ 44,815**

**Noncurrent liabilities**

Compensated absences payable - long-term		7,437
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**Total Liabilities** **\$ 52,252**

Net Assets

Invested in capital assets	\$	198,551
Unrestricted		389,184

**Total Net Assets** **\$ 587,735**

**STEVENS COUNTY  
MORRIS, MINNESOTA**

**EXHIBIT 8**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
AMBULANCE ENTERPRISE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

<b>Operating Revenues</b>	
Charges for services	\$ 1,299,505
Miscellaneous	<u>30,159</u>
<b>Total Operating Revenues</b>	<b>\$ 1,329,664</b>
<b>Operating Expenses</b>	
Personal services	\$ 586,654
Ambulance operations	189,921
Emergency medical services training	13,921
Bad debts	472,990
Depreciation	<u>34,472</u>
<b>Total Operating Expenses</b>	<b>\$ 1,297,958</b>
<b>Operating Income (Loss)</b>	<b>\$ 31,706</b>
<b>Nonoperating Revenues (Expenses)</b>	
Gifts and contributions	<u>1,000</u>
<b>Change in Net Assets</b>	<b>\$ 32,706</b>
<b>Net Assets - January 1</b>	<u>555,029</u>
<b>Net Assets - December 31</b>	<b>\$ <u>587,735</u></b>

**STEVENS COUNTY  
MORRIS, MINNESOTA**

**EXHIBIT 9**

**STATEMENT OF CASH FLOWS  
AMBULANCE ENTERPRISE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007  
Increase (Decrease) in Cash and Cash Equivalents**

<b>Cash Flows from Operating Activities</b>	
Receipts from customers and users	\$ 810,185
Payments to suppliers	(199,515)
Payments to employees	<u>(583,644)</u>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 27,026</b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Contributions	1,000
<b>Cash Flows from Capital and Related Financing Activities</b>	
Purchases of capital assets	<u>(77,688)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ (49,662)</b>
<b>Cash and Cash Equivalents at January 1</b>	<b><u>194,113</u></b>
<b>Cash and Cash Equivalents at December 31</b>	<b><u><u>\$ 144,451</u></u></b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>	
<b>Operating income (loss)</b>	<b><u>\$ 31,706</u></b>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation expense	\$ 34,472
Bad debts expense	472,990
(Increase) decrease in accounts receivable	(512,537)
(Increase) decrease in due from other governments	(3,694)
(Increase) decrease in due from other funds	(3,248)
Increase (decrease) in accounts payable	2,756
Increase (decrease) in salaries payable	6,267
Increase (decrease) in compensated absences - current	1,871
Increase (decrease) in due to other funds	1,571
Increase (decrease) in compensated absences - long-term	<u>(5,128)</u>
<b>Total adjustments</b>	<b><u>\$ (4,680)</u></b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b><u><u>\$ 27,026</u></u></b>
<b>Cash and Cash Equivalents - Exhibit 7</b>	
Cash and pooled investments	\$ 143,251
Petty cash and change funds	<u>1,200</u>
<b>Total Cash and Cash Equivalents</b>	<b><u><u>\$ 144,451</u></u></b>

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

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**FIDUCIARY FUNDS**

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STEVENS COUNTY  
MORRIS, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2007

	<u>Agency Funds</u>
<b><u>Assets</u></b>	
Cash and pooled investments	\$ 867,740
Due from other funds	<u>598</u>
<b>Total Assets</b>	<b><u>\$ 868,338</u></b>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 16,508
Due to other governments	838,381
Advance taxes	<u>13,449</u>
<b>Total Liabilities</b>	<b><u>\$ 868,338</u></b>

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**STEVENS COUNTY  
MORRIS, MINNESOTA**

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

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 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 (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

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

2. Fund Financial Statements

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

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

The County reports the following major governmental funds:

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

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

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

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

The County reports the following major enterprise fund:

The Ambulance Enterprise Fund is used to account for the operations of the County ambulance service. Financing is provided by user service charges and a County subsidy.

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

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

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

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 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 \$615,018.

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

3. Receivables and Payables

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

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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

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

All receivables are shown net of an allowance for uncollectibles.

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

4. Inventories

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

5. Capital Assets

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

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Capital Assets (Continued)

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the County did not have any capitalized interest.

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

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

6. Compensated Absences

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

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

7. Deferred Revenue

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

8. Long-Term Obligations

In the government-wide financial statements and proprietary fund type fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

9. Fund Equity

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

10. Use of Estimates

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

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

Ditch Fund Deficits

Of 30 drainage systems, 5 have incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund balances of the Ditch Special Revenue Fund as of December 31, 2007.

Account balances	\$ 113,518
Account deficits	<u>(181,934)</u>
Fund Balance	<u>\$ (68,416)</u>

For internal purposes, the County accounts for its ditches on the accrual basis. Under the full accrual basis where revenues are recognized when earned, the Ditch Special Revenue Fund reports a positive fund balance of \$314,044 with only one ditch reporting a deficit.

B. Excess of Expenditures Over Budget

The General Fund had expenditures in excess of budget for the year ended December 31, 2007. Final budget was \$3,959,803, which was less than actual expenditures of \$4,419,014 by \$459,211.

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Cash and pooled investments	
Governmental activities	\$ 9,422,645
Business-type activities	144,451
Fiduciary funds - agency funds	<u>867,740</u>
 Total Cash and Investments	 <u><u>\$ 10,434,836</u></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.

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2007, the County's deposits were not exposed to custodial credit risk.

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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;
- (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.

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2007, \$915,013 of marketable certificates of deposit, \$2,531,625 of repurchase agreements, and \$3,640,626 of government securities were exposed to custodial credit risk because they were held by the counterparty.

**STEVENS COUNTY  
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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

The following table represents the County's cash and investment balances at December 31, 2007, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
U.S. government agency securities					
Federal National Mortgage Association	AAA	Moody's		09/24/2009	\$ 100,000
Federal National Mortgage Association	AAA	Moody's		10/28/2009	100,031
Federal National Mortgage Association	AAA	Moody's		03/10/2010	200,000
Federal National Mortgage Association	AAA	Moody's		07/01/2011	139,592
Federal National Mortgage Association	AAA	Moody's		04/23/2012	502,655
Federal National Mortgage Association	AAA	Moody's		05/21/2012	124,923
Total Federal National Mortgage Association			15.2%		\$ 1,167,201
Federal Home Loan Mortgage Corporation					
Federal Home Loan Mortgage Corporation	AAA	Moody's		07/15/2009	\$ 205,004
Federal Home Loan Mortgage Corporation	AAA	Moody's		05/01/2014	104,685
Federal Home Loan Mortgage Corporation	AAA	Moody's		09/01/2018	102,278
Total Federal Home Loan Mortgage Corporation			5.4%		\$ 411,967

**STEVENS COUNTY  
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Federal Home Loan Bank	AAA	Moody's		02/05/2008	\$ 250,317
Federal Home Loan Bank	AAA	Moody's		05/21/2008	249,845
Federal Home Loan Bank	AAA	Moody's		01/22/2009	148,970
Federal Home Loan Bank	AAA	Moody's		01/28/2009	149,578
Federal Home Loan Bank	AAA	Moody's		07/16/2009	100,750
Federal Home Loan Bank	AAA	Moody's		03/08/2010	200,000
Federal Home Loan Bank	AAA	Moody's		03/30/2010	100,479
Federal Home Loan Bank	AAA	Moody's		12/06/2010	201,126
Federal Home Loan Bank	AAA	Moody's		12/06/2011	250,547
Federal Home Loan Bank	AAA	Moody's		06/20/2012	100,813
Federal Home Loan Bank	AAA	Moody's		09/17/2012	201,250
Federal Home Loan Bank	AAA	Moody's		10/22/2012	212,175
Federal Home Loan Bank	AAA	Moody's		11/23/2012	251,015
Federal Home Loan Bank	AAA	Moody's		05/14/2013	255,463
Total Federal Home Loan Bank			34.7%		\$ 2,672,328
Federal Farm Credit Bank	AAA	Moody's	<5.0%	04/28/2011	\$ 350,000
Small Business Administration Loan Pool	N/R	N/A		09/25/2012	\$ 50,721
Small Business Administration Loan Pool	N/R	N/A		07/25/2015	42,137
Small Business Administration Loan Pool	N/R	N/A		06/25/2020	89,656
Small Business Administration Loan Pool	N/R	N/A		07/25/2020	36,062
Small Business Administration Loan Pool	N/R	N/A		11/25/2021	31,536
Small Business Administration Loan Pool	N/R	N/A		07/25/2023	21,799
Small Business Administration Loan Pool	N/R	N/A		07/25/2023	97,507
Small Business Administration Loan Pool	N/R	N/A		04/25/2024	10,021
Small Business Administration Loan Pool	N/R	N/A		04/25/2024	91,294
Small Business Administration Loan Pool	N/R	N/A		08/25/2024	4,128
Small Business Administration Loan Pool	N/R	N/A		10/25/2024	128,640
Small Business Administration Loan Pool	N/R	N/A		11/25/2025	98,765
Total Small Business Administration Loan Pool			9.1%		\$ 702,266
United States Department of Agriculture Loan Pool	N/R	N/A		04/01/2011	\$ 188,546
United States Department of Agriculture Loan Pool	N/R	N/A		03/02/2012	200,637
United States Department of Agriculture Loan Pool	N/R	N/A		06/15/2019	148,500
Total United States Department of Agriculture Loan Pool			7.0%		\$ 537,683

**STEVENS COUNTY  
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Investment pools/mutual funds					
MAGIC Fund	N/A	N/A	N/A		\$ 602,871
Negotiable certificates of deposit	N/A	N/A	N/A		\$ 1,251,877
Repurchase agreements	N/A	N/A	N/A		\$ 2,531,625
Total investments					\$ 10,227,818
Deposits					200,318
Change funds					6,700
Total Cash and Investments					\$ 10,434,836

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

2. Receivables

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

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 19,728	\$ -
Special assessments	382,597	173,278
Accounts	4,190	-
Interest	63,630	-
Due from other governments	785,937	-
Total Governmental Activities	\$ 1,256,082	\$ 173,278

**STEVENS COUNTY  
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Business-Type Activities		
Accounts (net)	\$ 290,043	\$ -
Due from other governments	3,694	-
Total Business-Type Activities	\$ 293,737	\$ -

3. Capital Assets

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

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 883,026	\$ -	\$ -	\$ 883,026
Construction in progress	39,765	7,000	7,244	39,521
Total capital assets not depreciated	\$ 922,791	\$ 7,000	\$ 7,244	\$ 922,547
Capital assets depreciated				
Improvements other than buildings	\$ 116,586	\$ -	\$ -	\$ 116,586
Building improvements	5,939	-	-	5,939
Buildings	2,950,331	-	40,000	2,910,331
Machinery, furniture, and equipment	3,782,837	370,084	311,747	3,841,174
Infrastructure	30,504,954	1,212,012	-	31,716,966
Total capital assets depreciated	\$ 37,360,647	\$ 1,582,096	\$ 351,747	\$ 38,590,996
Less: accumulated depreciation for				
Improvements other than buildings	\$ 33,299	\$ 6,112	\$ -	\$ 39,411
Building improvements	916	297	-	1,213
Buildings	1,812,248	72,679	40,000	1,844,927
Machinery, furniture, and equipment	2,396,433	308,727	219,695	2,485,465
Infrastructure	10,361,367	684,705	-	11,046,072
Total accumulated depreciation	\$ 14,604,263	\$ 1,072,520	\$ 259,695	\$ 15,417,088
Total capital assets depreciated, net	\$ 22,756,384	\$ 509,576	\$ 92,052	\$ 23,173,908
Governmental Activities				
Capital Assets, Net	\$ 23,679,175	\$ 516,576	\$ 99,296	\$ 24,096,455

**STEVENS COUNTY  
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 6,000	\$ -	\$ -	\$ 6,000
Capital assets depreciated				
Land improvements	\$ 10,042	\$ -	\$ -	\$ 10,042
Buildings	145,660	-	-	145,660
Machinery, furniture, and equipment	434,244	77,688	56,763	455,169
Total capital assets depreciated	\$ 589,946	\$ 77,688	\$ 56,763	\$ 610,871
Less: accumulated depreciation for				
Land improvements	\$ 10,042	\$ -	\$ -	\$ 10,042
Buildings	87,392	5,827	-	93,219
Machinery, furniture, and equipment	343,177	28,645	56,763	315,059
Total accumulated depreciation	\$ 440,611	\$ 34,472	\$ 56,763	\$ 418,320
Total capital assets depreciated, net	\$ 149,335	\$ 43,216	\$ -	\$ 192,551
Business-Type Activities				
Capital Assets, Net	\$ 155,335	\$ 43,216	\$ -	\$ 198,551

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

Governmental Activities	
General government	\$ 116,196
Public safety	39,319
Highways and streets, including depreciation of infrastructure assets	889,333
Human services	21,216
Sanitation	6,456
	\$ 1,072,520
Total Depreciation Expense - Governmental Activities	
Business-Type Activities	
Ambulance	\$ 34,472
	\$ 34,472

**STEVENS COUNTY  
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Human Services	\$ 11,301
	Ambulance	199
		<u>11,500</u>
Total due to General Fund		\$ 11,500
Road and Bridge	General	\$ 1,027
	Human Services	167
	Ditch	13
	Ambulance	3,702
		<u>4,909</u>
Total due to Road and Bridge Fund		\$ 4,909
Ambulance	Human Services	\$ 3,248
State Revenue Agency Fund	General	\$ 598
		<u>20,255</u>
Total Due To/From Other Funds		\$ 20,255

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

2. Advance From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Ditch	\$ 229,000
		<u>229,000</u>

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

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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3. Detailed Notes on All Funds

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

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2007, consisted of the following:

Transfer to General Fund from Solid Waste Special Revenue Fund	\$	55,340	Provide funding for recycling activities
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C. Liabilities

1. Payables

Payables at December 31, 2007, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 92,771	\$ 9,175
Salaries	31,938	20,829
Contracts	115,842	-
Due to other governments	88,546	-
Permit deposits	1,600	-
Total Payables	\$ 330,697	\$ 30,004

2. Deferred Revenue

Deferred revenue as of December 31, 2007, for the County's governmental funds are as follows:

	Deferred Unavailable	Deferred Unearned
Governmental funds		
Taxes and special assessments	\$ 397,216	\$ -
State-aid highway allotments	467,847	-
Grants	15,831	61,209
Interest	15,472	-
Total Governmental Funds	\$ 896,366	\$ 61,209

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Construction and Other Significant Commitments

On October 7, 2007, the County Board authorized the purchase of a dump body and hoist for an old sign truck used at the Highway Department. The County did not make a payment in 2007. The amount paid in 2008 was \$36,248.

On September 18, 2007, the County Board authorized the purchase of a new ambulance. The County did not make a payment in 2007. The amount paid in 2008 was \$102,230.

On December 18, 2007, the County Board authorized the purchase of a 2008 Chevy Impala from the state purchase contract. The County did not make a payment in 2007. The amount paid in 2008 was \$17,195.

4. Changes in Long-Term Liabilities

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

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 353,699	\$ 335,690	\$ 316,159	\$ 373,230	\$ 160,103

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 21,604	\$ 25,935	\$ 29,192	\$ 18,347	\$ 10,910

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

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

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

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

For 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.

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

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	\$ 264,615	\$ 225,814	\$ 190,964
Public Employees Police and Fire Fund	39,525	28,957	23,212

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

B. Defined Contribution Plan

Two employees of Stevens County are covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA 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.

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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4. Pension Plans

B. Defined Contribution Plan (Continued)

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

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 4,326	\$ 4,326
Percentage of covered payroll	5.00%	5.00%

5. Risk Management

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

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

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

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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6. Conduit Debt

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

7. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

B. Claims and Litigation

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

C. Joint Ventures

West Central Area Agency on Aging

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

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

West Central Area Agency on Aging (Continued)

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

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

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

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

Complete financial information can be obtained from:

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

Mid-State Community Health Services

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

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Mid-State Community Health Services (Continued)

Complete financial information can be obtained from:

Mid-State Community Health Services  
621 Pacific Avenue  
Morris, Minnesota 56267

Stevens Traverse Grant Public Health Nursing Service

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

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

Financing is provided by state grants; appropriations from Stevens, Traverse, and Grant Counties; and charges for services. Stevens County's contribution for 2007 was \$111,948 based on a Cost Allocation Plan developed by Fiscal Officer Karen Folkens.

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

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

Rainbow Rider Transit Board

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

**STEVENS COUNTY  
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7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Rainbow Rider Transit Board (Continued)

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

Complete financial information can be obtained from:

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

Minnesota River Basin Joint Powers Board

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

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

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

During 2007, Stevens County did not contribute any funds to the Joint Powers Board. Complete financial information can be obtained from:

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

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

PrimeWest Central County-Based Purchasing Initiative

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

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

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

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

Complete financial information can be obtained from:

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

Regional Fitness Center

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

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Regional Fitness Center (Continued)

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

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

Financing is provided by the 1998 Minnesota legislative appropriation of \$2,500,000 to the University of Minnesota and contributions in the amount of \$2,500,000 from the other parties to this agreement. Stevens County's share, \$200,000, was paid over a period of five years. Operational and maintenance expenses will be covered by membership fees and other income generated by the Regional Fitness Center. During 2007, Stevens County did not contribute any funds to the Regional Fitness Center.

Complete financial information can be obtained from:

Morris Area Schools  
201 South Columbia Avenue  
Morris, Minnesota 56267

Pomme de Terre River Association

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

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Pomme de Terre River Association (Continued)

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

During 2007, Stevens County did not contribute any funds to the Joint Powers Board.

Complete financial information can be obtained from:

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

Supporting Hands Nurse Family Partnership Board

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

Complete financial information can be obtained from:

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

Central Minnesota Regional Radio Board

The Central Minnesota Regional Radio Board was established in 2007, under the authority conferred upon the member parties by Minn. Stat. §§ 471.59 and 403.39, and includes the City of St. Cloud and the Counties of Benton, Big Stone, Douglas, Grant, Kandiyohi, Meeker, Morrison, Otter Tail, Pope, Sherburne, Stearns, Stevens, Swift, Todd, Traverse, Wadena, Wilkin, and Wright.

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Central Minnesota Regional Radio Board (Continued)

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

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

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

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

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

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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

D. Jointly-Governed Organizations

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

Western Area City/County Co-op

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

District IV Transportation Planning

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

Stevens County Family Services Collaborative

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

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

**STEVENS COUNTY  
MORRIS, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Stevens County Family Services Collaborative (Continued)

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

Financing is provided by state and federal grants and contributions from its member parties. Stevens County, in an agent capacity, reports the cash transactions of the Stevens County Family Services Collaborative as an agency fund on its financial statements. During 2007, the County did not contribute any funds to the Collaborative.

E. Related Organization

Stevens County Housing and Redevelopment Authority

The County Board chair appoints a voting majority on the Stevens County Housing and Redevelopment Authority (HRA). In 2007, Stevens County did not appropriate any funds to the HRA. The County's accountability for the organization does not extend beyond making the appointments.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**STEVENS COUNTY  
MORRIS, MINNESOTA**

*Schedule 1*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,193,518	\$ 2,193,518	\$ 1,972,456	\$ (221,062)
Licenses and permits	18,500	18,500	13,242	(5,258)
Intergovernmental	819,555	819,555	1,366,425	546,870
Charges for services	285,000	285,000	185,540	(99,460)
Fines and forfeits	18,000	18,000	17,887	(113)
Investment earnings	350,000	350,000	605,592	255,592
Miscellaneous	144,200	144,200	176,740	32,540
<b>Total Revenues</b>	<b>\$ 3,828,773</b>	<b>\$ 3,828,773</b>	<b>\$ 4,337,882</b>	<b>\$ 509,109</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 231,066	\$ 231,066	\$ 264,482	\$ (33,416)
Law library	16,000	16,000	17,271	(1,271)
County coordinator	70,288	70,288	64,645	5,643
County auditor/treasurer	303,502	303,502	304,243	(741)
County assessor	178,229	178,229	187,006	(8,777)
Elections	1,000	1,000	66	934
Accounting and auditing	43,000	43,000	42,887	113
Data processing	160,470	160,470	166,484	(6,014)
Attorney	171,879	171,879	176,930	(5,051)
Law enforcement	-	-	5,000	(5,000)
Recorder	250,679	250,679	200,077	50,602
Planning and zoning	70,018	70,018	70,969	(951)
Buildings and plant	320,681	320,681	290,017	30,664
Jail/Courthouse project	20,000	20,000	-	20,000
Veterans service officer	32,059	32,059	29,205	2,854
Unallocated	100,100	100,100	294,211	(194,111)
<b>Total general government</b>	<b>\$ 1,968,971</b>	<b>\$ 1,968,971</b>	<b>\$ 2,113,493</b>	<b>\$ (144,522)</b>

**STEVENS COUNTY  
MORRIS, MINNESOTA**

***Schedule 1  
(Continued)***

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 1,139,494	\$ 1,139,494	\$ 1,102,365	\$ 37,129
Boat and water safety	-	-	69	(69)
Safety coordinator	26,053	26,053	17,035	9,018
Coroner	12,000	12,000	28,521	(16,521)
E-911 system	29,500	29,500	20,590	8,910
Probation and parole	62,750	62,750	70,104	(7,354)
SWAT	-	-	3,584	(3,584)
Civil defense	30,800	30,800	64,806	(34,006)
Snowmobile safety	-	-	81	(81)
<b>Total public safety</b>	<b>\$ 1,300,597</b>	<b>\$ 1,300,597</b>	<b>\$ 1,307,155</b>	<b>\$ (6,558)</b>
<b>Sanitation</b>				
Recycling	\$ 104,458	\$ 104,458	\$ 110,703	\$ (6,245)
Hazardous waste	57,708	57,708	62,577	(4,869)
<b>Total sanitation</b>	<b>\$ 162,166</b>	<b>\$ 162,166</b>	<b>\$ 173,280</b>	<b>\$ (11,114)</b>
<b>Health</b>				
Nursing service	<b>\$ 111,948</b>	<b>\$ 111,948</b>	<b>\$ 114,246</b>	<b>\$ (2,298)</b>
<b>Culture and recreation</b>				
Historical society	\$ 55,000	\$ 55,000	\$ 55,000	\$ -
Regional library	51,410	51,410	51,410	-
Snowmobile trails	-	-	70,472	(70,472)
<b>Total culture and recreation</b>	<b>\$ 106,410</b>	<b>\$ 106,410</b>	<b>\$ 176,882</b>	<b>\$ (70,472)</b>
<b>Conservation of natural resources</b>				
County extension	\$ 107,181	\$ 107,181	\$ 109,122	\$ (1,941)
Soil and water conservation	101,430	101,430	101,430	-
Agricultural inspections	11,100	11,100	9,077	2,023
Agricultural society/County fair	25,000	25,000	55,000	(30,000)
Predator control	2,000	2,000	503	1,497
<b>Total conservation of natural resources</b>	<b>\$ 246,711</b>	<b>\$ 246,711</b>	<b>\$ 275,132</b>	<b>\$ (28,421)</b>

**STEVENS COUNTY  
MORRIS, MINNESOTA**

*Schedule 1*  
*(Continued)*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Economic development</b>				
Housing and redevelopment	\$ -	\$ -	\$ 13,286	\$ (13,286)
Industrial development	63,000	63,000	63,000	-
<b>Total economic development</b>	<b>\$ 63,000</b>	<b>\$ 63,000</b>	<b>\$ 76,286</b>	<b>\$ (13,286)</b>
<b>Intergovernmental</b>				
Highways and streets	\$ -	\$ -	\$ 182,540	\$ (182,540)
<b>Total Expenditures</b>	<b>\$ 3,959,803</b>	<b>\$ 3,959,803</b>	<b>\$ 4,419,014</b>	<b>\$ (459,211)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	\$ (131,030)	\$ (131,030)	\$ (81,132)	\$ 49,898
<b>Other Financing Sources (Uses)</b>				
Transfers in	55,340	55,340	55,340	-
<b>Net Change in Fund Balance</b>	<b>\$ (75,690)</b>	<b>\$ (75,690)</b>	<b>\$ (25,792)</b>	<b>\$ 49,898</b>
<b>Fund Balance - January 1</b>	<b>4,182,233</b>	<b>4,182,233</b>	<b>4,182,233</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,106,543</b>	<b>\$ 4,106,543</b>	<b>\$ 4,156,441</b>	<b>\$ 49,898</b>

**STEVENS COUNTY  
MORRIS, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 746,185	\$ 746,185	\$ 667,981	\$ (78,204)
Intergovernmental	2,297,465	2,297,465	2,109,967	(187,498)
Charges for services	124,500	124,500	62,330	(62,170)
Miscellaneous	97,500	97,500	262,018	164,518
<b>Total Revenues</b>	<b><u>\$ 3,265,650</u></b>	<b><u>\$ 3,265,650</u></b>	<b><u>\$ 3,102,296</u></b>	<b><u>\$ (163,354)</u></b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 284,100	\$ 284,100	\$ 249,889	\$ 34,211
Maintenance	902,400	902,400	864,080	38,320
Construction	1,696,100	1,696,100	1,431,041	265,059
Equipment maintenance and shop	585,000	585,000	619,175	(34,175)
Materials and services for resale	23,050	23,050	15,659	7,391
<b>Total Expenditures</b>	<b><u>\$ 3,490,650</u></b>	<b><u>\$ 3,490,650</u></b>	<b><u>\$ 3,179,844</u></b>	<b><u>\$ 310,806</u></b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b><u>\$ (225,000)</u></b>	<b><u>\$ (225,000)</u></b>	<b><u>\$ (77,548)</u></b>	<b><u>\$ 147,452</u></b>
<b>Fund Balance - January 1</b>	<b>1,504,860</b>	<b>1,504,860</b>	<b>1,504,860</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>108,309</u></b>	<b><u>108,309</u></b>
<b>Fund Balance - December 31</b>	<b><u>\$ 1,279,860</u></b>	<b><u>\$ 1,279,860</u></b>	<b><u>\$ 1,535,621</u></b>	<b><u>\$ 255,761</u></b>

**STEVENS COUNTY  
MORRIS, MINNESOTA**

*Schedule 3*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,168,784	\$ 1,168,784	\$ 1,046,128	\$ (122,656)
Intergovernmental	1,309,829	1,309,829	1,561,765	251,936
Charges for services	52,102	52,102	90,729	38,627
Fines and forfeits	-	-	3,198	3,198
Miscellaneous	26,309	26,309	20,549	(5,760)
<b>Total Revenues</b>	<b>\$ 2,557,024</b>	<b>\$ 2,557,024</b>	<b>\$ 2,722,369</b>	<b>\$ 165,345</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 472,161	\$ 472,161	\$ 474,016	\$ (1,855)
Social services	2,084,863	2,084,863	1,873,411	211,452
<b>Total Expenditures</b>	<b>\$ 2,557,024</b>	<b>\$ 2,557,024</b>	<b>\$ 2,347,427</b>	<b>\$ 209,597</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	\$ -	\$ -	\$ 374,942	\$ 374,942
<b>Fund Balance - January 1</b>	<b>3,147,350</b>	<b>3,147,350</b>	<b>3,147,350</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,147,350</b>	<b>\$ 3,147,350</b>	<b>\$ 3,522,292</b>	<b>\$ 374,942</b>

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**STEVENS COUNTY  
MORRIS, MINNESOTA**

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

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1. Budgetary Information

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

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

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

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The General Fund had expenditures in excess of budget for the year ended December 31, 2007. Final budget was \$3,959,803, which was less than expenditures of \$4,419,014 by \$459,211.

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**SUPPLEMENTARY INFORMATION**

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**FIDUCIARY FUNDS**

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**STEVENS COUNTY  
MORRIS, MINNESOTA**

Statement 1

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

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>MID-STATE COMMUNITY HEALTH SERVICE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 141,881	\$ 764,874	\$ 760,555	\$ 146,200
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 3,357	\$ -	\$ 3,357
Due to other governments	141,881	761,517	760,555	142,843
<b>Total Liabilities</b>	<b>\$ 141,881</b>	<b>\$ 764,874</b>	<b>\$ 760,555</b>	<b>\$ 146,200</b>
 <b><u>SCHOOL DISTRICTS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 3,101,695	\$ 3,101,695	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 3,101,695	\$ 3,101,695	\$ -
 <b><u>STATE REVENUE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 14,094	\$ 1,015,923	\$ 1,009,776	\$ 20,241
Due from other funds	-	598	-	598
<b>Total Assets</b>	<b>\$ 14,094</b>	<b>\$ 1,016,521</b>	<b>\$ 1,009,776</b>	<b>\$ 20,839</b>
<b><u>Liabilities</u></b>				
Due to other governments	\$ 14,094	\$ 1,016,521	\$ 1,009,776	\$ 20,839

**STEVENS COUNTY  
MORRIS, 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
<b><u>STEVENS COUNTY FAMILY SERVICES COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 169,659	\$ 32,735	\$ 101,572	\$ 100,822
<b><u>Liabilities</u></b>				
Due to other governments	\$ 169,659	\$ 32,735	\$ 101,572	\$ 100,822
 <b><u>STEVENS TRAVERSE GRANT PUBLIC HEALTH NURSING SERVICE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 566,954	\$ 1,604,567	\$ 1,625,128	\$ 546,393
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 13,125	\$ -	\$ 13,125
Due to other governments	566,954	1,591,442	1,625,128	533,268
<b>Total Liabilities</b>	<b>\$ 566,954</b>	<b>\$ 1,604,567</b>	<b>\$ 1,625,128</b>	<b>\$ 546,393</b>
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 82,702	\$ 6,215,525	\$ 6,244,143	\$ 54,084
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 26	\$ -	\$ 26
Due to other governments	64,154	6,202,050	6,225,595	40,609
Advance taxes	18,548	13,449	18,548	13,449
<b>Total Liabilities</b>	<b>\$ 82,702</b>	<b>\$ 6,215,525</b>	<b>\$ 6,244,143</b>	<b>\$ 54,084</b>

**STEVENS COUNTY  
MORRIS, 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
<b><u>TOWNS AND CITIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 2,342,913	\$ 2,342,913	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 2,342,913	\$ 2,342,913	\$ -
 <b><u>WATERSHED</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 79,178	\$ 79,178	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 79,178	\$ 79,178	\$ -
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 975,290	\$ 15,157,410	\$ 15,264,960	\$ 867,740
Due from other funds	-	598	-	598
<b>Total Assets</b>	<b>\$ 975,290</b>	<b>\$ 15,158,008</b>	<b>\$ 15,264,960</b>	<b>\$ 868,338</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 16,508	\$ -	\$ 16,508
Due to other governments	956,742	15,128,051	15,246,412	838,381
Advance taxes	18,548	13,449	18,548	13,449
<b>Total Liabilities</b>	<b>\$ 975,290</b>	<b>\$ 15,158,008</b>	<b>\$ 15,264,960</b>	<b>\$ 868,338</b>

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## **OTHER SCHEDULES**

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**STEVENS COUNTY  
MORRIS, MINNESOTA**

**Schedule 4**

**SCHEDULE OF DEPOSITS AND INVESTMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Number</u>	<u>Interest Rate (%)</u>	<u>Maturity Dates</u>	<u>Fair Value</u>
<b>Cash and Pooled Investments</b>				
Interest-bearing checking	One	0.30	Continuous	\$ 100,822
Repurchase agreement	Two	Variable	Continuous	2,531,625
Certificates of deposit	Thirteen	4.60 to 5.25	February 25, 2008 to December 28, 2009	1,251,877
Minnesota Association of Governments Investing for Counties (MAGIC) Fund	One	4.35	Continuous	602,871
Federal Home Loan Mortgage Corporation	Three	4.00	July 15, 2009 to September 1, 2018	411,967
Federal Home Loan Bank	Fourteen	3.31 to 5.60	February 5, 2008 to May 14, 2013	2,672,328
Federal National Mortgage Association	Six	4.00 to 5.55	September 24, 2009 to May 21, 2012	1,167,201
Federal Farm Credit Bank	One	4.80	April 28, 2011	350,000
Small Business Administration	Eleven	Variable	September 25, 2012 to November 25, 2025	702,266
SBA Stonefly Inn	One	Variable	June 15, 2019	148,500
Farm Service Agency	Two	5.75	April 1, 2011 to March 2, 2012	<u>389,183</u>
<b>Total cash and pooled investments</b>				<b>\$ 10,328,640</b>
<b>Designated Investments</b>				
Fish and Wildlife certificate of deposit	One	4.45	December 3, 2008	<u>84,496</u>
<b>Total Deposits and Investments</b>				<b><u>\$ 10,413,136</u></b>

**STEVENS COUNTY  
MORRIS, MINNESOTA**

**BALANCE SHEET - BY DITCH  
DITCH SPECIAL REVENUE FUND  
DECEMBER 31, 2007**

	Assets					Total
	Cash	Undistributed Cash	Special Assessments Receivable			
			Current	Delinquent	Deferred	
<b>County Ditches</b>						
1	\$ 12,825	\$ 488	\$ -	\$ -	\$ 10,001	\$ 23,314
2	8,212	493	-	-	12,866	21,571
3	8,690	155	-	-	5,495	14,340
4	14,027	-	-	-	17,553	31,580
5	1,329	-	-	-	5,577	6,906
6	5,980	-	-	-	5,000	10,980
7	2,428	34	-	-	2,000	4,462
8	1,150	276	-	-	2,500	3,926
10	9,070	90	-	-	5,102	14,262
11	3,927	-	-	-	24,846	28,773
12	1,066	-	-	-	500	1,566
13	4,294	-	-	-	4,126	8,420
14	851	-	-	-	1,404	2,255
15	13,885	808	-	-	15,002	29,695
16	2,387	-	-	-	3,000	5,387
17	3,310	86	-	-	5,000	8,396
18	10,271	291	-	-	21,713	32,275
20	1,471	-	-	-	1,000	2,471
21	8,316	1,322	7,162	5,118	99,473	121,391
22	3,093	-	-	-	2,000	5,093
25	3,655	-	-	-	16,240	19,895
27	1,954	-	-	-	2,000	3,954
29	988	170	-	-	5,000	6,158
30	7,812	-	43	-	5,000	12,855
31	2,554	510	-	-	5,326	8,390
38	2,449	-	-	-	4,640	7,089
43	3,289	-	-	-	2,001	5,290
<b>Judicial Ditches</b>						
2	2,693	-	-	-	2,501	5,194
9	13,952	9	94	-	83,083	97,138
10/11	258	-	-	-	231	489
<b>Total</b>	<b>\$ 156,186</b>	<b>\$ 4,732</b>	<b>\$ 7,299</b>	<b>\$ 5,118</b>	<b>\$ 370,180</b>	<b>\$ 543,515</b>

Schedule 5

<b>Liabilities</b>						<b>Fund</b>	<b>Total</b>
<b>Accounts Payable</b>	<b>Due to Other Funds</b>	<b>Due to Other Governments</b>	<b>Deferred Revenue</b>	<b>Advance from Other Funds</b>	<b>Total</b>	<b>Balance Unreserved Undesignated</b>	<b>Liabilities and Fund Balance</b>
\$ 30	\$ -	\$ -	\$ 10,001	\$ -	\$ 10,031	\$ 13,283	\$ 23,314
18	-	-	12,866	-	12,884	8,687	21,571
6	-	-	5,495	-	5,501	8,839	14,340
8	-	-	17,553	75,000	92,561	(60,981)	31,580
3	-	-	5,577	-	5,580	1,326	6,906
3	-	-	5,000	-	5,003	5,977	10,980
2	-	-	2,000	-	2,002	2,460	4,462
2	13	-	2,500	-	2,515	1,411	3,926
8	-	-	5,102	-	5,110	9,152	14,262
7	-	-	24,846	18,000	42,853	(14,080)	28,773
1	-	-	500	-	501	1,065	1,566
2	-	-	4,126	-	4,128	4,292	8,420
1	-	-	1,404	-	1,405	850	2,255
28	-	-	15,002	-	15,030	14,665	29,695
3	-	-	3,000	-	3,003	2,384	5,387
3	-	-	5,000	-	5,003	3,393	8,396
22	-	-	21,713	-	21,735	10,540	32,275
2	-	-	1,000	-	1,002	1,469	2,471
14	-	-	111,753	90,000	201,767	(80,376)	121,391
2	-	-	2,000	-	2,002	3,091	5,093
16	-	-	16,240	3,000	19,256	639	19,895
1	-	-	2,000	-	2,001	1,953	3,954
2	-	-	5,000	-	5,002	1,156	6,158
8	-	-	5,000	-	5,008	7,847	12,855
6	-	-	5,326	-	5,332	3,058	8,390
1	-	-	4,640	3,000	7,641	(552)	7,089
1	-	-	2,001	-	2,002	3,288	5,290
-	-	-	2,501	-	2,501	2,693	5,194
-	-	-	83,083	40,000	123,083	(25,945)	97,138
-	-	258	231	-	489	-	489
<b>\$ 200</b>	<b>\$ 13</b>	<b>\$ 258</b>	<b>\$ 382,460</b>	<b>\$ 229,000</b>	<b>\$ 611,931</b>	<b>\$ (68,416)</b>	<b>\$ 543,515</b>

**STEVENS COUNTY  
MORRIS, MINNESOTA**

*Schedule 6*

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

	<b>Governmental Funds</b>
<b>Shared Revenue</b>	
<b>State</b>	
Highway users tax	\$ 2,032,705
County program aid	1,029,663
PERA rate reimbursement	18,442
Police aid	28,957
Market value credit	333,685
Disparity reduction aid	50,308
	<b>\$ 3,493,760</b>
<b>Reimbursement for Services</b>	
<b>State</b>	
Minnesota Department of Human Services	<b>\$ 489,615</b>
<b>Payments</b>	
<b>Local</b>	
Payments in lieu of taxes	<b>\$ 44,948</b>
<b>Grants</b>	
<b>State</b>	
Minnesota Department/Board of	
Public Safety	\$ 88,942
Natural Resources	52,437
Human Services	501,365
Corrections	17,243
Veterans Services	2,238
Water and Soil Resources	60,012
Peace Officer Standards and Training Board	3,618
Office of Environmental Assistance	52,039
	<b>\$ 777,894</b>
<b>Total State</b>	
<b>Federal</b>	
Department of	
Agriculture	\$ 1,722
Transportation	5,867
Health and Human Services	183,187
Homeland Security	41,164
	<b>\$ 231,940</b>
<b>Total Federal</b>	
<b>Total State and Federal Grants</b>	
	<b>\$ 1,009,834</b>
<b>Total Intergovernmental Revenue</b>	
	<b>\$ 5,038,157</b>



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**STEVENS COUNTY  
MORRIS, MINNESOTA**

*Schedule 7*

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-4 Segregation of Duties

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

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

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

Client's Response:

*The County's management is aware of the situation and continues to monitor it to ensure that internal control policies and procedures are being followed.*

06-1 Preparation of Financial Statements

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

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

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

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

Client's Response:

*The County Auditor-Treasurer has brought this finding to the County Board and stated that without additional internal help and/or outside assistance, this issue will remain unresolved.*

06-2 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. Statement on Auditing Standards No. 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

During our audit, we identified two material adjustments in the General Fund. Investments were increased by \$120,561 to reflect the correct fair value at December 31, 2007, mainly due to differences in the fair value of Small Business Administration loans

held with Coastal Securities, and an adjustment was made in the amount of \$61,209 to defer a Natural Resource Block Grant received in 2007 which was not earned until 2008. An adjustment was made in the Ambulance Enterprise Fund to reflect an allowance for doubtful accounts in the amount of \$134,205. An adjustment was made to the government-wide governmental activities to reduce compensated absences by \$167,974 due to formula errors in the worksheets provided by the County. The errors caused the vacation balances to be overstated by \$194,986 and the vested sick leave balances to be understated by \$27,012. Audit adjustments were also necessary to adjust modified accrual financial statements to the full accrual basis for the government-wide financial statements.

Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

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

Client's Response:

*The County Auditor-Treasurer believes that hiring of a government-experienced CPA firm to assist in compiling the County financials would address both this issue and issue 6-1, but notes that this option would be significantly more expensive for the County to implement and which the Board has not authorized. The Auditor-Treasurer's Office will continue to attempt to improve in this area, but notes that lack of staff time and experience limits their effectiveness in totally eliminating errors.*

ITEM ARISING THIS YEAR

07-1 Monitoring of Compensatory and Compensated Absence Balances

At December 31, 2007, payroll records show three of the four employees in the Ambulance Department had compensatory balances in excess of the maximum 40-hour balance permitted in Section 10.13 of the General Unit Labor Agreement. The excess compensatory balances for the three employees ranged from 21.5 hours to 93.75 hours. Payroll records show the Ambulance Administrator, who is not covered by Section 10.13 of the General Unit Labor Agreement, had a compensatory balance of 431.70 hours. A

clarification of County policy and/or the status of the Ambulance Administrator under the Fair Labor Standards Act is needed to determine the excess compensatory balance. This issue is addressed as item 07-3 in the Management Practices section of this report.

Payroll records also show the Human Services Director and an employee within that department had excess vacation balances of 56.5 and 15.5 hours, respectively. We could not locate documentation that any of the excess balances noted above were approved by the Board.

The Ambulance Administrator and the Human Services Director were both aware of the excess balances. The Ambulance Administrator stated that the number of ambulance calls have increased over recent years, resulting in staff working extra hours to complete their work and respond to the calls. The Human Services Director stated that it is difficult to take sufficient vacation to keep the balance down. The department head and payroll clerk approve leave slips when a leave request is made; however, the County did not provide documentation of the procedures in place to ensure employees are notified and adjustments are made when their balances exceed policy. There appears to be a lack of understanding of responsibilities in that area.

We recommend the County Board provide the directive needed to ensure written procedures are in place defining the controls and oversight responsibilities for compliance with the County payroll policies in place.

Client's Response:

*In regards to the compensated vacation balances, a missed step by the payroll department resulted in the unallowable excess hours being inputted into the formula used to compute the balances. The spreadsheet formula was also changed accidentally and contributed to the incorrectly reported balances.*

*By December 31, 2008, the County Human Resources Director, working with the Payroll Clerk, will assure that all compensatory and vacation balances comply with appropriate policy and/or bargaining agreement provisions. The Human Resources Director is drafting for County Board adoption policy procedure amendments to ensure that: (1) Comp time hours are earned only by eligible employees; (2) Comp time balances do not exceed permitted maximums; and (3) Vacation hours do not exceed permitted maximums and that individuals are notified of the loss of those hours in excess of the maximum. Additionally, the Human Resources Director will review with Department Heads the need to adhere to current and revised policies.*

## II. OTHER FINDINGS AND RECOMMENDATIONS

### A. MINNESOTA LEGAL COMPLIANCE

#### PREVIOUSLY REPORTED ITEM NOT RESOLVED

##### 04-1 Publishing Board Minutes and Claims Paid

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

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

The County Board should comply with the above-noted statutes and publish the County Board minutes with vendor payments. During the 2005 legislative session, attempts were made through the Association of Minnesota Counties, the Metropolitan Inter-County Association, and the Office of the State Auditor toward changing and updating the law in a way that benefits counties, but they were unsuccessful.

#### Client's Response:

*In response to Minn. Stat. § 375.17 regarding the monthly publication of vendor payments, the County Board has taken this under advisement, continues to encourage AMC to pursue the change of this statute due to the significant cost of publication, and continues to make the information physically available at the County Courthouse.*

ITEM ARISING THIS YEAR

07-2

Collateral Assignments, Substitutions, and Depository Pledge Agreements

Bank of the West has changed its procedures for notifying the County Auditor-Treasurer of the assignment and substitution of collateral pledged to secure deposits. The new procedures provide only a monthly collateral pledge report summarizing the collateral pledged.

Following the provisions of Minn. Stat. § 118A.03, subd. 5, “a financial institution may withdraw excess collateral or substitute other collateral after giving written notice to the governmental entity and receiving confirmation. The authority to return any delivered and assigned collateral rests with the government entity.”

In addition, the depository pledge agreement with Bremer Bank allows the bank an opportunity to cure the default before the custodian can release the collateral in the event of a default.

Minn. Stat. § 118A.03, subd. 4, provides any collateral pledged shall be accompanied by a written assignment that states “upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged.”

We recommend that the County Auditor-Treasurer notify Bank of the West of the requirements under Minn. Stat. § 118A.03, subd. 5, to provide written notice to the County prior to withdrawal or substitution of collateral. We further recommend that the County Auditor-Treasurer work with Bremer Bank on making the necessary changes to the depository pledge agreement to be in compliance with Minn. Stat. § 118A.03, subd. 4.

Client’s Response:

*The Auditor-Treasurer has contacted Bremer Bank and Bank of the West and directed them to follow these requirements as the law dictates. Both banks are working on doing this.*

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

05-1 Ditch Fund Balance Deficits

Five of the 30 individual ditch systems had deficit unreserved, undesignated fund balances at December 31, 2007, totaling \$181,934, the largest being \$80,376. These individual ditch system deficits resulted in the Ditch Special Revenue Fund having a net fund balance deficit of \$68,416 at December 31, 2007, which is a significant improvement over previous years. In fact, if we consider deferred levies collectible in 2008, Stevens County has levied amounts sufficient to cover the individual ditch systems deficits, with the exception of County Ditch four.

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

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

Client's Response:

*Stevens County's Administration and Ditch Authority maintains the belief that the financial condition of the County Ditch Fund when viewed from a full accrual basis is sound and continues to improve as we work towards the resolution of this issue by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1.*

ITEM ARISING THIS YEAR

07-3 Compensatory Time - Ambulance Administrator

At December 31, 2007, payroll records show the Ambulance Administrator had an accumulated compensatory balance of 431.70 hours. During our procedures to determine the authority for the accumulation of compensatory time by the Ambulance Administrator, we found there is confusion within the County on how the Ambulance Administrator fits into the personnel policy and the status of the Ambulance Administrator under the Fair Labor Standards Act.

*Schedule 7*  
*(Continued)*

The Ambulance Administrator is not covered by the General Unit Labor Agreement. Work hours, including regular and overtime, are addressed in Section 22 of the County Personnel Policy, but the policy is confusing. Section 22.2 addresses overtime but states that it does not apply to the Sheriff's Department and Ambulance Service. The County Coordinator, in an e-mail responding to questions about Section 22 of the personnel policy, stated that he found that section of the policy to be "self-contradicting and confusing" and noted it should be revised. Section 22.4 appears to apply. Section 22.4 states that "employees in positions designated by the County Board as administrative are not eligible for either compensatory time or cash overtime. Individuals not covered by a union contract who are eligible for compensatory time will receive it as straight time and be restricted to a 40-hour maximum balance."

The position description for the Ambulance Administrator lists the position as exempt status. The personnel policy describes an exempt employee as one which less than 20 percent of the total work time is not considered executive, administrative, or professional work. The position description provides the purpose of the position, essential duties and responsibilities, and minimum training and experience required. Most of the requirements are administrative in nature; however, the position does include teaching first responder, CPR and EMT classes, and responding to emergency and non-emergency calls and patient transfer needs. In addition to requiring an associate degree in Advanced Life Support training with a business administration emphasis and supervisory experience, the Administrator must hold required certifications as a Paramedic, certified instructor and tester for EMTs and Medics, and must be current with certificates for ACLS, PALS, and CALS. Because the position description provides no guidance on the percentage of time spent on each function, it is difficult to determine if the position is or is not a position that should be exempt.

We recommend the County review the position description for the Ambulance Administrator and clarify the percentage of time expected for administrative/professional responsibilities and other responsibilities. We further recommend the County review Section 22 of the Personnel Policy and make any changes necessary to clarify the policy. Finally, we recommend the Board determine how to settle the matter if they determine the Ambulance Administrator was not entitled to accumulate compensatory time.

Client's Response:

*The County acknowledges lack of oversight regarding the Ambulance Administrator's compilation of compensatory hours. As an FLSA-exempt position, he is not eligible to earn comp time hours but merely has followed the practice established by the original administrator. Insofar as future FLSA administrative oversight is concerned, the County will enforce for all exempt employees a prohibition for comp time. The County will not reimburse the Administrator for any compensatory time claimed as part of a severance settlement. The County will revise appropriate sections of its Personnel Policy, particularly Section 22, to clarify eligibility for compensatory time.*

*The Ambulance Administrator has resigned his position effective December 1, 2008, in order to take other employment. The County has entered into an interim management contract with North Memorial Ambulance under provisions of Minn. Stat. § 471.476. The County is continuing discussions with said contractor regarding a long-term management contract. As of the effective date of the interim management agreement, the County will have no FLSA-exempt employees in the Ambulance Department.*

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 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 statement, accounting for OPEB is now similar to the accounting used by governments for pension plans.

*Schedule 7*  
*(Continued)*

In 2008, 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 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 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 Stevens County Board will need to address in order to comply with the statement are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the Stevens 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 Stevens County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Stevens County Board will have to comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;
- if an OPEB trust will be established, the Stevens County Board 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 that need to be recognized, the Stevens County Board will have to decide whether to hire an actuary.

GASB Statement 45 would be applicable to Stevens County for the year ended December 31, 2009.



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

Board of County Commissioners  
Stevens County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Stevens County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated February 5, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph 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 Recommendations as items 96-4, 06-1, 06-2, 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 Stevens 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, of the significant deficiencies described above, we consider item 06-2 to be a material weakness.

#### Compliance and Other Matters

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

#### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for 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, except that we did not test for compliance in public indebtedness because Stevens County has no debt.

The results of our tests indicate that, for the items tested, Stevens County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as items 04-1 and 07-2.

Also included in the Schedule of Findings and Recommendations are management practices comments and an other item for consideration. We believe these recommendations and information to be of benefit to Stevens County, and they are reported for that purpose.

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

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

*/s/Rebecca Otto*

*/s/Greg Hierlinger*

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

February 5, 2009