

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

BIG STONE COUNTY
ORTONVILLE, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2014

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 150 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 700 public pension funds; and

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

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

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

For the Year Ended December 31, 2014



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

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2014

Office	Name	Term Expires
Commissioners		
1st District	Walter Wulff	January 2015
2nd District	Wade Athey	January 2017
3rd District	Brent Olson*	January 2017
4th District	Roger Sandberg**	January 2015
5th District	Joseph Berning	January 2017
Officers		
Elected		
Attorney	William Watson	January 2015
Auditor	Michelle Knutson	January 2015
Recorder	Elaine Martig	January 2015
Sheriff	John Haukos	January 2015
Treasurer	Cindy Nelson	January 2015
Appointed		
Assessor	Sandra Vold	December 2016
Coroner	Robert Ross, M.D.	January 2015
Environmental Officer	Darren Wilke	Indefinite
Emergency Management Director	James Hasslen	Indefinite
Highway Engineer	Nicholas Anderson	May 2017
Human Resources Director	Dawn Gregoire	Indefinite
Information Technology Director	Terry Ocaña	Indefinite
Veterans Service Officer	Daniel Meyer	Indefinite
Family Services		
Board		
Chair	Wade Athey	January 2017
Vice Chair	Roger Sandberg	January 2015
Secretary	Kathy Morrill	July 2015
Member	Joseph Berning	January 2017
Member	Brent Olson	January 2017
Member	Walter Wulff	January 2015
Member	Alice Stielow	July 2016
Director	Pam Rud	Indefinite

*Chair 2014

**Chair 2015

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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
Big Stone County

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Big Stone County, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal

control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Big Stone County as of December 31, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2015, on our consideration of Big Stone County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Big Stone County's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

March 31, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014
(Unaudited)**

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of the County's financial activities for the fiscal year ended December 31, 2014. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$32,991,995, of which \$25,561,500 is net investment in capital assets, and \$1,878,966 is restricted to specific purposes. The \$5,551,529 remaining may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's net position increased by \$1,168,805 for the year ended December 31, 2014.
- The net cost of governmental activities for the current fiscal year was \$4,074,408. The net cost was funded by general revenues and other items totaling \$5,243,213.
- The fund balances of the governmental funds decreased by \$292,638.

For the year ended December 31, 2014, the unrestricted fund balance of the General Fund was \$3,720,505, or 94.9 percent of the total General Fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

The government-wide statements are Exhibits 1 and 2 of this report.

Fund Financial Statements

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

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

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

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

The basic governmental fund financial statements are Exhibits 3 through 6 of this report.

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

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 23 through 56 of this report.

Other Information

Other information is provided as supplementary information regarding Big Stone County's intergovernmental revenue and federal awards programs.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$32,991,995 at the close of 2014. The largest portion of the net position (77.5 percent) reflects the County's net investment in capital assets (land, buildings, equipment, and infrastructure such as roads and bridges), less any related outstanding debt used to acquire those assets. However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

Big Stone County Net Position (in thousands)

	Governmental Activities	
	2014	2013
Assets		
Current and other assets	\$ 9,338	\$ 10,789
Capital assets	26,232	23,384
Total Assets	<u>\$ 35,570</u>	<u>\$ 34,173</u>
Liabilities		
Long-term liabilities	\$ 2,228	\$ 2,064
Other liabilities	350	286
Total Liabilities	<u>\$ 2,578</u>	<u>\$ 2,350</u>

	Governmental Activities	
	2014	2013
Net Position		
Net investment in capital assets	\$ 25,561	\$ 22,639
Restricted	1,879	3,466
Unrestricted	5,552	5,718
Total Net Position	\$ 32,992	\$ 31,823

Unrestricted net position--the part of net position that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--was 16.8 percent of the net position.

Governmental Activities

The County's activities increased net position by 3.7 percent (\$32,991,995 for 2014, compared to \$31,823,190 for 2013). Key elements of this increase in net position are as follows:

Big Stone County Changes in Net Position (in thousands)

	Governmental Activities	
	2014	2013
Revenues		
Program revenues		
Charges for services	\$ 1,233	\$ 1,108
Operating grants and contributions	4,430	4,283
Capital grants and contributions	620	220
General revenues		
Property taxes	4,452	4,260
Other	791	803
Total Revenues	\$ 11,526	\$ 10,674
Expenses		
General government	\$ 1,998	\$ 1,873
Public safety	1,079	1,075
Highways	3,966	4,168
Sanitation	192	191
Human services	2,365	2,322
Health	97	95
Culture and recreation	215	149
Conservation of natural resources	376	294
Economic development	41	49
Interest	28	56
Total Expenses	\$ 10,357	\$ 10,272
Change in Net Position	\$ 1,169	\$ 402
Net Position - January 1	31,823	31,421
Net Position - December 31	\$ 32,992	\$ 31,823

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$7,594,506, a decrease of \$292,638 in comparison with the prior year. Of the combined ending fund balances, \$6,631,088 represents unrestricted (committed, assigned, and unassigned) fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is classified as either nonspendable or restricted to indicate that it is not available for new spending because it has already been restricted for various reasons either by state law, grant agreements, or bond covenants, or is nonspendable.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unrestricted fund balance of \$3,720,505. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total expenditures. The General Fund unrestricted fund balance represents 94.9 percent of total General Fund expenditures. During 2014, the ending fund balance increased by \$1,242,438.

The Highway Special Revenue Fund had an unrestricted fund balance of \$1,239,878 at fiscal year-end, representing 19.0 percent of its annual expenditures. The ending fund balance decreased \$656,563 during 2014.

The Family Services Special Revenue Fund had an unrestricted fund balance of \$1,670,705 at fiscal year-end, representing 72.1 percent of its annual expenditures. The ending fund balance decreased \$900,420 during 2014.

The Ditch Special Revenue Fund had a restricted fund balance of \$188,967 at fiscal year-end, representing 175.8 percent of its annual expenditures. The ending fund balance increased \$20,430 during 2014.

The Debt Service Fund had a restricted fund balance of \$99,671 at fiscal year-end, representing 112.7 percent of its annual expenditures. The ending fund balance increased \$1,477 during 2014.

Governmental Activities

The County's total revenues were \$11,526,277. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2014.

Table 1 - Total County Revenues

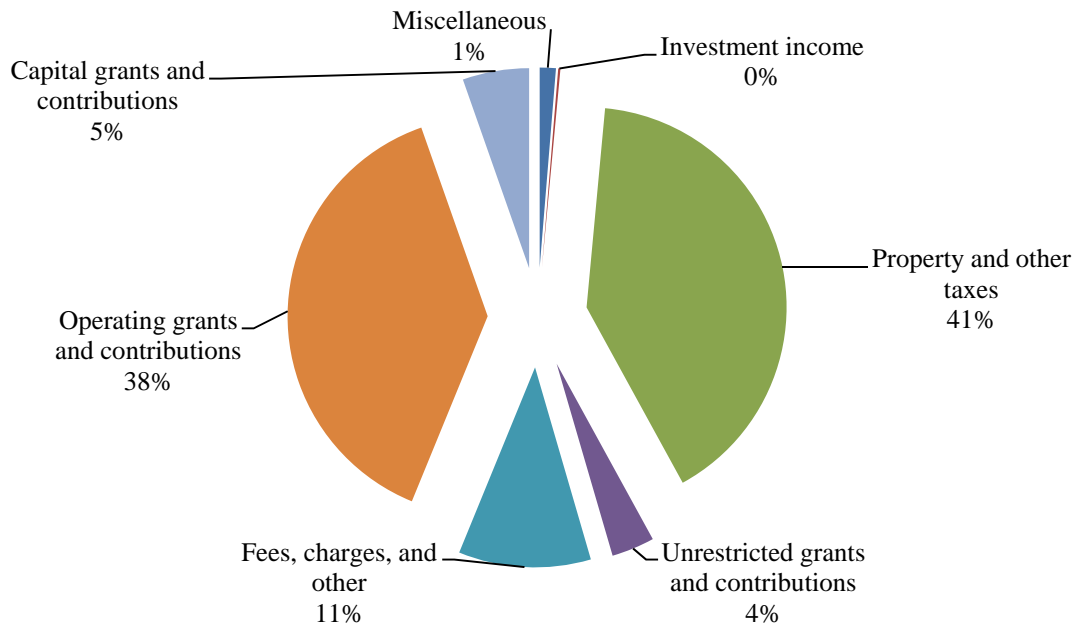
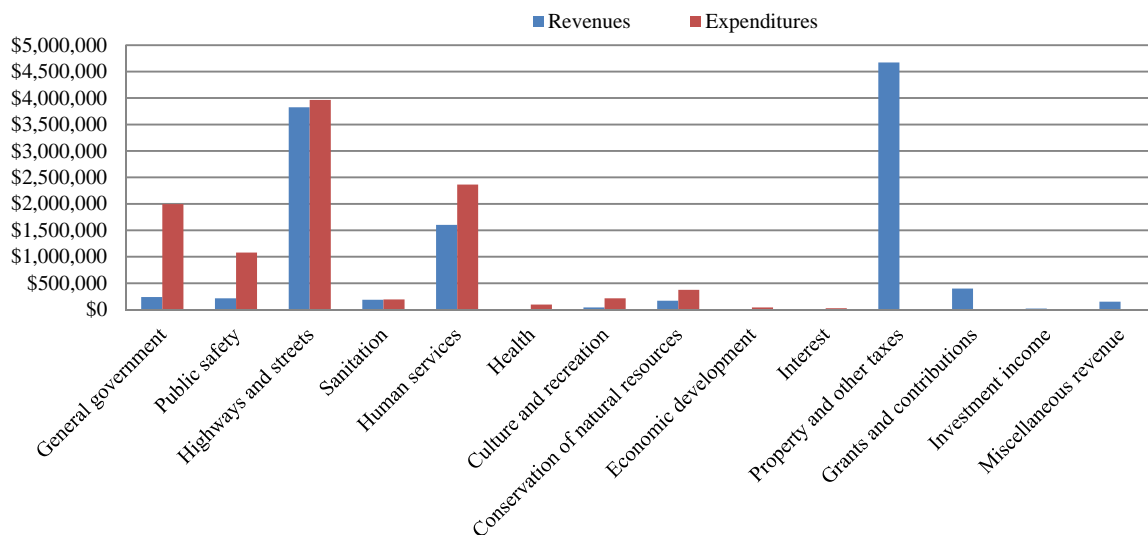


Table 2 presents the cost and revenue of each program, as well as the County's general revenues.

Total program and general revenues for the County were \$11,526,277, while total expenses were \$10,357,472. This reflects a \$1,168,805 increase in net position for the year ended December 31, 2014.

**Table 2
General Revenues, Program Revenues, and Expenses**



(Unaudited)

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

**Table 3
Governmental Activities**

	Total Cost of Services 2014	Net Cost of Services 2014
Highways and streets	\$ 3,965,713	\$ 138,912
Human services	2,365,501	762,835
General government	1,997,462	1,759,499
Public safety	1,079,470	865,404
All others	949,326	547,758
Totals	<u>\$ 10,357,472</u>	<u>\$ 4,074,408</u>

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) were \$114,627 over the final budget amounts.

Resources available for appropriation were \$301,997 above the final budgeted amount. An insurance dividend, proceeds from the sale of vehicles, additional grant and aid dollars, and delinquent tax collections that were not budgeted for were the cause of this.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County’s capital assets for its governmental activities at December 31, 2014, totaled \$26,231,546 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, infrastructure, and intangibles. The investment in capital assets increased \$2,848,059, or 12.2 percent, from the previous year.

**Table 4
Capital Assets at Year-End
(Net of depreciation, in thousands)**

	2014	2013
Land	\$ 696	\$ 696
Infrastructure	21,414	18,939
Buildings	1,724	1,797
Improvements other than buildings	200	136
Machinery and equipment	2,056	1,510
Construction in progress	125	289
Intangibles	17	17
Total	<u>\$ 26,232</u>	<u>\$ 23,384</u>

Additional information about the County’s capital assets can be found in Note 2.A.3. to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the County had total outstanding debt of \$790,000 which was backed by the full faith and credit of the government.

**Table 5
Outstanding Debt**

	2014	2013
General obligation bonds - capital improvement	\$ 790,000	\$ 850,000

The County’s debt related to general obligation bonds decreased by \$60,000 (7.1 percent) during the fiscal year.

Minnesota statutes limit the amount of debt a county may carry to 3.0 percent of its total market value. At the end of 2014, the County’s outstanding debt was .058 percent of its total estimated market value.

Additional information on the County’s long-term debt can be found in Note 2.C.3. to the financial statements of this report.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS

The County’s elected and appointed officials considered many factors when setting the 2015 budget, tax rates, and fees that will be charged for the year.

- The average unemployment rate for Big Stone County for 2014 was 4.41 percent. This compares closely with the state unemployment rate of 4.31 percent and shows a decrease from the County’s 4.875 percent rate of one year ago. This could impact the level of services requested by County residents.
- The County’s General Fund expenditures for 2015 are budgeted to increase 2.78 percent (\$108,491) over the 2014 original budget. The 2015 anticipated revenues, other than tax levy, state aid, and special assessments, are budgeted to increase 23.4 percent (\$197,005) over the 2014 original budget.

- The gross property tax levy for the County increased 1.18 percent (\$56,221) from 2014, and the net tax levy (the amount spread to taxpayers) increased 2.00 percent (\$92,050) from 2014. This does not reflect the State’s elimination of the homestead credit.

County Tax Rate and Levy History

2015	42.088%	\$	4,694,531
2014	42.654		4,602,481
2013	49.597		4,386,372
2012	57.299		4,342,943
2011	49.428		3,963,884
2010	50.717		3,669,841
2009	57.715		3,541,235
2008	60.262		3,270,398
2007	62.681		3,014,191

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014**

Assets

Cash and pooled investments	\$ 7,016,206
Investments	372,700
Receivables	1,796,091
Inventories	153,306
Capital assets	
Non-depreciable	837,310
Depreciable - net of accumulated depreciation	<u>25,394,236</u>
Total Assets	<u>\$ 35,569,849</u>

Liabilities

Accounts payable and other current liabilities	\$ 338,145
Accrued interest payable	11,369
Long-term liabilities	
Due within one year	125,012
Due in more than one year	<u>2,103,328</u>
Total Liabilities	<u>\$ 2,577,854</u>

Net Position

Net investment in capital assets	\$ 25,561,500
Restricted for	
Highways and streets	1,190,677
Debt service	89,586
Public safety	22,400
Family services	2,000
Conservation of natural resources	422,800
Other purposes	151,503
Unrestricted	<u>5,551,529</u>
Total Net Position	<u>\$ 32,991,995</u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Fees, Charges, Fines, and Other</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<u>Functions/Programs</u>					
Governmental activities					
General government	\$ 1,997,462	\$ 177,457	\$ 60,506	\$ -	\$ (1,759,499)
Public safety	1,079,470	74,575	139,491	-	(865,404)
Highways and streets	3,965,713	342,123	2,864,689	619,989	(138,912)
Sanitation	192,299	121,497	66,203	-	(4,599)
Human services	2,365,501	406,204	1,196,462	-	(762,835)
Health	96,857	1,125	-	-	(95,732)
Culture and recreation	215,366	9,864	32,608	-	(172,894)
Conservation of natural resources	375,926	99,740	70,531	-	(205,655)
Economic development	40,943	-	-	-	(40,943)
Interest	27,935	-	-	-	(27,935)
Total Governmental Activities	\$ 10,357,472	\$ 1,232,585	\$ 4,430,490	\$ 619,989	\$ (4,074,408)
General Revenues					
Property taxes				\$ 4,452,050	
Gravel taxes				95,029	
Mortgage registry and deed tax				5,449	
Payments in lieu of tax				120,232	
Grants and contributions not restricted to specific programs				399,644	
Unrestricted investment income				20,699	
Miscellaneous				150,110	
Total general revenues				\$ 5,243,213	
Change in net position				\$ 1,168,805	
Net Position - Beginning				31,823,190	
Net Position - Ending				\$ 32,991,995	

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	General	Highway
<u>Assets</u>		
Cash and pooled investments	\$ 4,127,248	\$ 822,297
Undistributed cash in agency funds	8,303	95,029
Petty cash and change funds	1,020	75
Investments	-	372,700
Taxes receivable		
Prior	40,408	12,362
Special assessments receivable		
Prior	8,051	-
Noncurrent	-	-
Accounts receivable	6,859	17
Accrued interest receivable	3,586	-
Loans receivable	30,000	-
Due from other governments	27,365	1,465,802
Advance to other funds	60,801	-
Advance to other governments	-	-
Inventories	-	153,306
	\$ 4,313,641	\$ 2,921,588
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 25,959	\$ 4,104
Salaries payable	46,634	30,716
Contracts payable	49,954	-
Due to other governments	79,093	1,048
Advance from other funds	-	-
	\$ 201,640	\$ 35,868
Deferred Inflows of Resources		
Unavailable revenue	\$ 49,614	\$ 1,314,944
Fund Balances		
Nonspendable	\$ 80,801	\$ 153,306
Restricted	261,081	177,592
Committed	783,483	275,071
Assigned	303,401	964,807
Unassigned	2,633,621	-
	\$ 4,062,387	\$ 1,570,776
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 4,313,641	\$ 2,921,588

EXHIBIT 3

<u>Family Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ 1,610,401	\$ 249,862	\$ 99,671	\$ 6,909,479
-	-	-	103,332
2,300	-	-	3,395
-	-	-	372,700
12,067	-	1,284	66,121
-	-	-	8,051
-	27,743	-	27,743
29,495	-	-	36,371
-	-	-	3,586
-	-	-	30,000
123,569	93	-	1,616,829
-	-	-	60,801
7,089	-	-	7,089
-	-	-	153,306
<u>\$ 1,784,921</u>	<u>\$ 277,698</u>	<u>\$ 100,955</u>	<u>\$ 9,398,803</u>
\$ 39,960	\$ 488	\$ -	\$ 70,511
34,478	-	-	111,828
-	-	-	49,954
25,711	-	-	105,852
-	60,500	-	60,500
<u>\$ 100,149</u>	<u>\$ 60,988</u>	<u>\$ -</u>	<u>\$ 398,645</u>
<u>\$ 12,067</u>	<u>\$ 27,743</u>	<u>\$ 1,284</u>	<u>\$ 1,405,652</u>
\$ -	\$ -	\$ -	\$ 234,107
2,000	188,967	99,671	729,311
150,000	-	-	1,208,554
1,520,705	-	-	2,788,913
-	-	-	2,633,621
<u>\$ 1,672,705</u>	<u>\$ 188,967</u>	<u>\$ 99,671</u>	<u>\$ 7,594,506</u>
<u>\$ 1,784,921</u>	<u>\$ 277,698</u>	<u>\$ 100,955</u>	<u>\$ 9,398,803</u>

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014**

Fund balance - total governmental funds (Exhibit 3)	\$	7,594,506
Amounts reported for governmental activities in the statement of net position 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.		26,231,546
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		1,405,652
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (790,000)	
Compensated absences	(551,409)	
Net OPEB obligation	(886,931)	
Accrued interest payable	(11,369)	
	(2,239,709)	(2,239,709)
Net Position of Governmental Activities (Exhibit 1)		<u><u>\$ 32,991,995</u></u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General	Highway
Revenues		
Taxes	\$ 2,756,396	\$ 906,682
Special assessments	119,500	-
Licenses and permits	25,089	1,195
Intergovernmental	851,133	4,697,808
Charges for services	188,470	297,693
Gifts and contributions	2,500	-
Investment earnings	19,612	2,065
Miscellaneous	182,315	37,935
	\$ 4,145,015	\$ 5,943,378
Expenditures		
Current		
General government	\$ 2,105,860	\$ -
Public safety	1,058,228	-
Highways and streets	-	6,353,336
Sanitation	192,585	-
Human services	-	-
Health	43,842	-
Culture and recreation	157,849	-
Conservation of natural resources	267,755	-
Economic development	40,943	-
Intergovernmental	53,015	184,106
Debt service		
Principal	-	-
Interest	-	-
Administrative (fiscal) fees	-	-
	\$ 3,920,077	\$ 6,537,442
Excess of Revenues Over (Under) Expenditures	\$ 224,938	\$ (594,064)
Other Financing Sources (Uses)		
Transfers in	\$ 1,000,000	\$ -
Transfers out	-	-
Proceeds from the sale of capital assets	17,500	5,300
	\$ 1,017,500	\$ 5,300
Net Change in Fund Balance	\$ 1,242,438	\$ (588,764)
Fund Balance - January 1	2,819,949	2,227,339
Increase (decrease) in inventories	-	(67,799)
	\$ 4,062,387	\$ 1,570,776
Fund Balance - December 31	\$ 4,062,387	\$ 1,570,776

EXHIBIT 5

<u>Family Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ 796,860	\$ -	\$ 88,360	\$ 4,548,298
-	127,850	-	247,350
-	-	-	26,284
1,213,273	-	1,552	6,763,766
375,440	-	-	861,603
-	-	-	2,500
-	48	-	21,725
30,764	-	-	251,014
\$ 2,416,337	\$ 127,898	\$ 89,912	\$ 12,722,540
\$ -	\$ -	\$ -	\$ 2,105,860
-	-	-	1,058,228
-	-	-	6,353,336
-	-	-	192,585
2,316,757	-	-	2,316,757
-	-	-	43,842
-	-	-	157,849
-	107,468	-	375,223
-	-	-	40,943
-	-	-	237,121
-	-	60,000	60,000
-	-	27,885	27,885
-	-	550	550
\$ 2,316,757	\$ 107,468	\$ 88,435	\$ 12,970,179
\$ 99,580	\$ 20,430	\$ 1,477	\$ (247,639)
\$ -	\$ -	\$ -	\$ 1,000,000
(1,000,000)	-	-	(1,000,000)
-	-	-	22,800
\$ (1,000,000)	\$ -	\$ -	\$ 22,800
\$ (900,420)	\$ 20,430	\$ 1,477	\$ (224,839)
2,573,125	168,537	98,194	7,887,144
-	-	-	(67,799)
\$ 1,672,705	\$ 188,967	\$ 99,671	\$ 7,594,506

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

Net change in fund balance - total governmental funds (Exhibit 5) \$ (224,839)

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 inflows of resources - December 31	\$ 1,405,652	
Deferred inflows of resources - January 1	<u>(2,628,190)</u>	(1,222,538)

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. The difference is the net book value of the assets disposed of.

Expenditures for general capital assets and infrastructure	\$ 4,862,872	
Net book value of assets disposed of	(170,287)	
Current year depreciation	<u>(1,844,526)</u>	2,848,059

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

Principal repayments		
General obligation bonds		60,000

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

Change in accrued interest payable	\$ 500	
Change in compensated absences	(35,004)	
Change in net OPEB liability	(189,574)	
Change in inventories	<u>(67,799)</u>	<u>(291,877)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 1,168,805

FIDUCIARY FUNDS

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2014**

<u>Assets</u>	
Cash and pooled investments	<u>\$ 288,444</u>
<u>Liabilities</u>	
Accounts payable	\$ 6,083
Due to other governments	282,060
Advance from other funds	<u>301</u>
Total Liabilities	<u>\$ 288,444</u>

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014

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, 2014. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Joint Ventures

The County participates in several joint ventures described in Note 4.C. The County also participates in a related organization described in Note 4.D.

B. Basic Financial Statements

1. Government-Wide Statements

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

- The Highway Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as assigned property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.
- The Family Services Special Revenue Fund accounts for restricted revenue resources from the federal, state, and other oversight agencies, as well as assigned property tax revenues used for economic assistance and community social services programs.
- The Ditch Special Revenue Fund accounts for special assessment revenues levied against benefitted property to finance the cost of constructing and maintaining an agricultural drainage ditch system.
- The Debt Service Fund is used to account for the accumulation of restricted resources used for, and the payment of, principal, interest, and related costs.

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Big Stone County considers all revenues as available if collected within 60 days after the end of the current period. Property taxes are recognized as revenues in the year for which they are levied provided they are also available. Shared revenues are generally recognized in the period the appropriation goes into effect and the revenues are available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position 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.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

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, 2014, 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 2014 were \$18,234.

3. Receivables and Payables

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

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

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

4. Inventories and Prepaid Items

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

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

5. Capital Assets

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

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

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

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

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

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. A liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide financial statements. The government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion consists of an amount based on a trend analysis of current usage of vacation and vested sick leave. The noncurrent portion consists of the remaining amount of vacation and total vested sick leave.

7. Long-Term Obligations

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

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the County has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

9. Classification of Net Position

Net position in the government-wide financial statements is classified in the following categories:

- Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.
- Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

10. Classification of Fund Balances

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

- Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.
- Restricted - amounts in which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.
- Assigned - amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Auditor, who has been delegated that authority by Board resolution.
- Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

10. Classification of Fund Balances (Continued)

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

11. Minimum Fund Balance

Big Stone County has adopted a minimum fund balance policy for the General Fund, the Highway Special Revenue Fund, and the Family Services Special Revenue Fund. All three funds are heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined it needs to maintain a minimum unrestricted fund balance (committed, assigned, and unassigned) of no less than five months of operating expenditures. At December 31, 2014, unrestricted fund balances for the General Fund and the Family Services Special Revenue Fund were at or above the minimum fund balance levels.

12. Use of Estimates

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Future Change in Accounting Standards

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the County's calendar year 2015. The County has not yet determined the financial statement impact of adopting this new standard.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 7,016,206
Investments	372,700
Statement of fiduciary net position	
Cash and pooled investments	<u>288,444</u>
Total Cash and Investments	<u>\$ 7,677,350</u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution 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's policy is to minimize deposit custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2014, the County's deposits in banks were entirely covered by federal depository insurance or by collateral in accordance with Minnesota statutes.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage are available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. On December 31, 2014, the County's investments were not exposed to custodial credit risk.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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

The following table presents the County's cash and deposit balances at December 31, 2014. The County has no investments subject to investment risks.

Checking	\$	1,329,955
Savings		4,844,000
Certificates of deposit		1,500,000
Petty cash		3,395
		3,395
Total Cash and Investments	\$	7,677,350

2. Receivables

Receivables as of December 31, 2014, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 66,121	\$ -
Special assessments	35,794	27,289
Accounts receivable	36,371	-
Loans receivable	30,000	20,000
Interest	3,586	-
Due from other governments	1,616,829	-
Advance to other governments	7,390	-
	\$ 1,796,091	\$ 47,289

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

Loans Receivable

On July 15, 2014, the County board approved a \$40,000 loan to the Big Stone County Historical Society to finance an addition to the Big Stone County Museum. The loan is to be repaid at one percent interest over four years, with the option to pay off early if sufficient donated funds become available. Loan activity for 2014 is as follows:

Loans issued	\$	40,000
Loan repayments		(10,000)
Ending Balance		\$ 30,000

3. Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 297,590	\$ -	\$ -	\$ 297,590
Gravel pits	350,314	-	-	350,314
Right-of-way	47,695	-	-	47,695
Construction in progress	289,489	124,728	289,489	124,728
Intangible assets	16,983	-	-	16,983
Total capital assets not depreciated	\$ 1,002,071	\$ 124,728	\$ 289,489	\$ 837,310
Capital assets depreciated				
Buildings	\$ 3,897,764	\$ 43,248	\$ 209,690	\$ 3,731,322
Land improvements	245,352	76,555	-	321,907
Machinery and equipment	4,609,424	908,035	714,614	4,802,845
Infrastructure	41,678,424	3,999,795	-	45,678,219
Total capital assets depreciated	\$ 50,430,964	\$ 5,027,633	\$ 924,304	\$ 54,534,293

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 2,100,891	\$ 73,346	\$ 166,949	\$ 2,007,288
Land improvements	109,818	11,945	-	121,763
Machinery and equipment	3,098,944	235,151	587,068	2,747,027
Infrastructure	22,739,895	1,524,084	-	24,263,979
	<u>\$ 28,049,548</u>	<u>\$ 1,844,526</u>	<u>\$ 754,017</u>	<u>\$ 29,140,057</u>
Total accumulated depreciation				
	<u>\$ 28,049,548</u>	<u>\$ 1,844,526</u>	<u>\$ 754,017</u>	<u>\$ 29,140,057</u>
Total capital assets depreciated, net	<u>\$ 22,381,416</u>	<u>\$ 3,183,107</u>	<u>\$ 170,287</u>	<u>\$ 25,394,236</u>
Governmental Activities Capital Assets, Net	<u>\$ 23,383,487</u>	<u>\$ 3,307,835</u>	<u>\$ 459,776</u>	<u>\$ 26,231,546</u>

Construction in progress consists of the amount completed on a building remodel project.

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

Governmental Activities	
General government	\$ 110,965
Public safety	46,805
Highways and streets, including depreciation of infrastructure assets	1,659,856
Sanitation	428
Human services	11,696
Culture and recreation	14,776
	<u>\$ 1,844,526</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,844,526</u>

There was no depletion expense charged to functions/programs of the County in 2014.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. Advances To/From Other Funds

The composition of interfund balances as of December 31, 2014, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Special Revenue	\$ 60,500
	Taxes and Penalties Agency Fund	301
		<hr/>
Total Advances To/From Other Funds		<u>\$ 60,801</u>

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

2. Interfund Transfers

During 2014, the Family Services Special Revenue Fund transferred \$1,000,000 to the General Fund as the result of a County Board approved reclassification of assigned fund balance.

C. Liabilities

1. Payables

Payables at December 31, 2014, were as follows:

	Governmental Activities
Accounts payable	\$ 70,511
Salaries payable	111,828
Contracts payable	49,954
Due to other governments	105,852
	<hr/>
Total Payables	<u>\$ 338,145</u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Construction Commitments

The County has no active highway construction projects as of December 31, 2014. Active construction projects in the General Fund include the following:

	Spent-to-Date	Remaining Commitment
Remodeling Project	\$ 49,954	\$ 291,401

3. Long-Term Debt

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

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2014
General obligation bonds 2009 G.O. Capital Improvement Bonds	2025	\$40,000 - \$85,000	1.5 - 4.0	\$ 1,000,000	\$ 790,000

4. Debt Service Requirements

Debt payments on the capital improvement bonds are made from the Debt Service Fund. Debt service requirements at December 31, 2014, were as follows:

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2015	\$ 60,000	\$ 26,535
2016	60,000	25,035
2017	65,000	23,310
2018	65,000	21,360
2019	70,000	19,195
2020 - 2024	385,000	55,940
2025	85,000	1,700
Total	\$ 790,000	\$ 173,075

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds					
Capital improvement	\$ 850,000	\$ -	\$ 60,000	\$ 790,000	\$ 60,000
Compensated absences	516,405	326,028	291,024	551,409	65,012
Other postemployment benefits	697,357	322,304	132,730	886,931	-
Governmental Activities					
Long-Term Liabilities	<u>\$ 2,063,762</u>	<u>\$ 648,332</u>	<u>\$ 483,754</u>	<u>\$ 2,228,340</u>	<u>\$ 125,012</u>

D. Fund Balance

Fund Balances	General	Highway	Family Services	Ditch	Debt Service	Total
Nonspendable						
Advances	\$ 60,801	\$ -	\$ -	\$ -	\$ -	\$ 60,801
Loan receivable	20,000	-	-	-	-	20,000
Inventory	-	153,306	-	-	-	153,306
Restricted for						
Law library	2,393	-	-	-	-	2,393
Recorder's Technology Fund	83,263	-	-	-	-	83,263
Recorder's Compliance Fund	65,847	-	-	-	-	65,847
Sheriff's contingency	4,229	-	-	-	-	4,229
Gravel pit restoration	-	177,592	-	-	-	177,592
Gun permit fees	18,171	-	-	-	-	18,171
Unspent grant monies	84,678	-	2,000	-	-	86,678
Park playground equipment	2,500	-	-	-	-	2,500
Ditch	-	-	-	188,967	-	188,967
Debt service	-	-	-	-	99,671	99,671
Committed to						
Capital projects	196,685	-	-	-	-	196,685
Building maintenance	553,202	-	-	-	-	553,202
MSI equipment and building						
Repair	33,596	-	-	-	-	33,596
County road projects	-	273,505	-	-	-	273,505
Fuel pumps	-	1,566	-	-	-	1,566
Out-of-home placements	-	-	150,000	-	-	150,000
Assigned to						
Library capital	12,000	-	-	-	-	12,000
Highway	-	964,807	-	-	-	964,807
Family Services	-	-	1,520,705	-	-	1,520,705
Remodel project	291,401	-	-	-	-	291,401
Unassigned	2,633,621	-	-	-	-	2,633,621
Total Fund Balances	<u>\$ 4,062,387</u>	<u>\$ 1,570,776</u>	<u>\$ 1,672,705</u>	<u>\$ 188,967</u>	<u>\$ 99,671</u>	<u>\$ 7,594,506</u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after five years of credited service.

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

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's 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 the General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. 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 remaining year.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description (Continued)

Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent for each year of service.

For all General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014. Public Employees Police and Fire Fund members were required to contribute 10.20 percent of their annual covered salary in 2014.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Funding Policy (Continued)

In 2014, the County was required to contribute the following percentages of annual covered payroll:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	15.30

The County's contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	2014	2013	2012
General Employees Retirement Fund	\$ 185,635	\$ 185,078	\$ 178,209
Public Employees Police and Fire Fund	47,163	44,919	44,422

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers) and the Public Employees Police and Fire Fund (10.80 percent for members and 16.20 percent for employers).

B. Defined Contribution Plan

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

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2014, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 3,028	\$ 3,028
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

Big Stone County pays the health insurance for qualified retired employees and elected officials. This is a single-employer defined benefit health care plan. To be eligible, employees must have worked for Big Stone County on a full-time basis or been elected to office for a minimum of 10 years, be at least 55 years old, and retire while in active service. Those eligible shall be entitled to the cost of their individual health insurance coverage up to a maximum monthly figure not to exceed the monthly premium for a Minnesota Comprehensive Health Association's (MCHA) medical coverage for their age group. However, all eligible retirees shall be required to apply for Medicare coverage and Blue Cross Blue Shield Senior Gold Medicare Supplement (including the additional preventative care) at their earliest eligibility. The retiree must purchase Medicare Parts A & B at their own expense. For eligible employees hired prior to January 1, 1991, the premium for the individual health insurance coverage or the Medicare supplement and the County's Group Medicare Part D coverage will be paid by Big Stone County until the death of the retiree.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Plan Description (Continued)

Any eligible employee hired between January 1, 1991, and December 31, 2011, shall be eligible for one year of employer retiree insurance contributions for each five years of service with the County to a maximum of three years of contributions.

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Big Stone County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. The County has no implicit rate subsidy. The County had 6 elected officials and 26 employees eligible for this benefit in 2014. The cost from this program totaled \$132,730 (\$21,192 for elected officials and \$111,538 for employees) in 2014.

Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$ 335,096
Interest on net OPEB obligation	27,894
Adjustment to ARC	<u>(40,686)</u>
Annual OPEB cost (expense)	\$ 322,304
Contributions made during the year	<u>(132,730)</u>
Increase in net OPEB obligation	\$ 189,574
Net OPEB Obligation - Beginning of Year	<u>697,357</u>
Net OPEB Obligation - End of Year	<u>\$ 886,931</u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2012, 2013, and 2014, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2012	\$ 328,779	\$ 162,389	49.4%	\$ 521,479
December 31, 2013	325,530	149,652	46.0	697,357
December 31, 2014	322,304	132,730	41.2	886,931

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial accrued liability for benefits was \$3,991,730, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,991,730. The covered payroll (annual payroll of active employees covered by the plan) was \$2,695,105, and the ratio of the UAAL to the covered payroll was 148.1 percent.

Actuarial Methods and Assumptions

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

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

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

In the January 1, 2012, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.0 percent investment rate of return (net of investment expenses), which is Big Stone County's implicit rate of return on the General Fund.

The annual health care cost trend is 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 6 years. Both rates included a 2.5 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2014, was 24 years.

4. Summary of Significant Contingency and Other Items

A. Risk Management

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Summary of Significant Contingency and Other Items

A. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$480,000 per claim in 2014 and \$490,000 in 2015. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

B. Contingent Liabilities

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

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

C. Joint Ventures

Countryside Public Health Service

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Summary of Significant Contingency and Other Items

C. Joint Ventures

Countryside Public Health Service (Continued)

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

Control is vested in the Countryside Public Health Service Board of Health. The Board consists of 11 persons, 2 from each county, except the county with the largest population, which has 3 members. Each member of the Board is appointed by the County Commissioners of the county represented.

Financing is provided by state and federal grants, appropriations from member counties, and charges for services. Big Stone County's contribution for 2014 was \$53,015.

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

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the Southwestern Minnesota Adult Mental Health Consortium Board was created under the authority of Minn. Stat. § 471.59. Presently, its members include Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Renville, Swift, and Yellow Medicine Counties; and Southwest Health and Human Services representing Lincoln, Lyon, Murray, Pipestone, Redwood, and Rock Counties. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host.

The Board takes actions and enters into such agreements as necessary to plan and develop within the Southwestern Minnesota Adult Mental Health Consortium Board's geographic jurisdiction, a system of care that serves the needs of adults with serious and persistent mental illness. The governing board is composed of one Board member from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Summary of Significant Contingency and Other Items

C. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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

PrimeWest Health System

In December 1998, Big Stone County became a member of the PrimeWest Central County-Based Purchasing Initiative Joint Powers Board (since renamed PrimeWest Health System) with Douglas, Grant, McLeod, Meeker, Pipestone, Pope, Renville, Stevens, and Traverse Counties under the authority of Minn. Stat. § 471.59. Beltrami, Clearwater, and Hubbard Counties were later added to the PrimeWest Health System. Big Stone County, in partnership with these 12 counties, is organized to directly purchase health care services for county residents who are eligible for Medical Assistance and General Assistance Medical Care as authorized by Minn. Stat. § 256B.692. County-based purchasing is the local control alternative favored for improved coordination of services to prepaid Medical Assistance programs in complying with Minnesota Department of Health requirements as set forth in Minn. Stat. chs. 62D and 62N.

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

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

Douglas County acts as fiscal agent for the PrimeWest Health System and reports the cash transactions as an investment trust fund on its financial statements. Financing is provided by Medical Assistance and General Assistance Medical Care payments from the Minnesota Department of Human Services.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Summary of Significant Contingency and Other Items

C. Joint Ventures

PrimeWest Health System (Continued)

Complete financial information can be obtained from its administrative office at PrimeWest Health, 2209 Jefferson Street, Suite 101, Alexandria, Minnesota 56308.

Pomme de Terre River Association

The Pomme de Terre River Association Joint Powers Board was established August 11, 1981, by an agreement between Big Stone County and five other counties and their respective soil and water conservation districts. The agreement was made to develop and implement plans to protect property from damage of flooding; control erosion of land; protect streams and lakes from sedimentation and pollution; and maintain or improve the quality of water in the streams, lakes, and ground water lying within the boundaries of the watershed of the Pomme de Terre River. Administrative costs are apportioned equally to the soil and water conservation districts based on actual costs. An amended and restated Joint Powers Agreement was approved on March 19, 2013.

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

During 2014, Big Stone County contributed \$708 to the Joint Powers Board.

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

Central Minnesota Emergency Services Board

The Central Minnesota Regional Radio Board was established in 2007, under the authority conferred upon the member parties by Minn. Stat. §§ 471.59 and 403.39. As of June 1, 2011, the Central Minnesota Regional Radio Board changed its name to the Central Minnesota Emergency Services Board. Members include the City of St. Cloud and the Counties of Benton, Big Stone, Douglas, Grant, Kandiyohi, Meeker, Mille Lacs, Morrison, Otter Tail, Pope, Sherburne, Stearns, Stevens, Swift, Todd, Traverse, Wadena, Wilkin, and Wright.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Summary of Significant Contingency and Other Items

C. Joint Ventures

Central Minnesota Emergency Services Board (Continued)

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

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

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

The Central Minnesota Emergency Services Board has no long-term debt. Financing is provided by the appropriations from member parties and by state and federal grants. During 2014, Big Stone County contributed \$3,872 to the Joint Powers Board.

Complete financial information can be obtained from the Central Minnesota Emergency Services Board, City of St. Cloud, Office of the Mayor, City Hall, 400 - 2nd Street South, St. Cloud, Minnesota 56301.

Supporting Hands Nurse Family Partnership

The Supporting Hands Nurse Family Partnership Board was established pursuant to Minn. Stat. §§ 145A.17 and 471.59 and a joint powers agreement, effective May 31, 2007. The Board is comprised of one representative from each county to the agreement. The counties in the agreement are Big Stone, Chippewa, Douglas, Grant, Lac qui Parle, Lincoln, Lyon, McLeod, Meeker, Murray, Pipestone, Pope, Redwood, Renville, Stevens, Swift, Traverse, and Yellow Medicine. As a member of Countryside Public Health Service, Big Stone County is required to be a member of this joint

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Summary of Significant Contingency and Other Items

C. Joint Ventures

Supporting Hands Nurse Family Partnership (Continued)

powers agreement. The purpose of this agreement is to organize, govern, plan, and administer a multi-county based Nurse Family Partnership Program specifically within the jurisdictional boundaries of the counties involved.

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2014, Big Stone County did not make a contribution to the Partnership, as a contribution was made by the Countryside Public Health Service.

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

Pioneerland Library System

Big Stone County, along with 32 cities and 9 other counties, participates in the Pioneerland Library System in order to provide efficient and improved regional public library service. The Pioneerland Library System is governed by the Pioneerland Library System Board, composed of 35 members appointed by member cities and counties. During the year, the County contributed \$65,587 to the System.

Separate financial information for the Pioneerland Library System can be obtained from its administrative office at Pioneerland Regional Library, 410 - 5th Street S.W., Willmar, Minnesota 56201.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Summary of Significant Contingency and Other Items

C. Joint Ventures (Continued)

Southwest Minnesota Private Industry Council, Inc.

The Southwest Minnesota Private Industry Council, Inc., (SW MN PIC) is a private nonprofit corporation which was created through a Joint Powers Agreement on October 1, 1983, and began operations in 1985 under the Job Training Partnership Act (JTPA) authorized by Congress to administer and operate job training programs in a 14-county area of Southwestern Minnesota. These counties include Big Stone, Chippewa, Cottonwood, Jackson, Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, Swift, and Yellow Medicine. SW MN PIC is governed by the Chief Elected Official Board, which is composed of one representative from each member county. Big Stone County did not make any payments to this organization in 2014.

Separate financial information for SW MN PIC can be obtained from the Lyon County Government Center, 607 West Main Street, Marshall, Minnesota 56258.

D. Related Organization - Upper Minnesota River Watershed District

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

E. Agricultural Best Management Loan Program

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

REQUIRED SUPPLEMENTARY INFORMATION

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,969,748	\$ 2,969,748	\$ 2,756,396	\$ (213,352)
Special assessments	118,000	118,000	119,500	1,500
Licenses and permits	18,625	18,625	25,089	6,464
Intergovernmental	415,369	415,369	851,133	435,764
Charges for services	177,325	177,325	188,470	11,145
Gifts and contributions	-	-	2,500	2,500
Investment earnings	30,300	30,300	19,612	(10,688)
Miscellaneous	113,651	113,651	182,315	68,664
Total Revenues	\$ 3,843,018	\$ 3,843,018	\$ 4,145,015	\$ 301,997
Expenditures				
Current				
General government				
Commissioners	\$ 153,974	\$ 153,974	\$ 154,076	\$ (102)
Law library	6,000	6,000	4,984	1,016
Auditor	218,612	218,612	233,211	(14,599)
Treasurer	93,924	93,924	96,472	(2,548)
Accounting and auditing	39,360	39,360	36,852	2,508
Information technology	243,227	243,227	256,127	(12,900)
Human resources	94,814	94,814	91,420	3,394
General administration	122,450	122,450	115,680	6,770
Elections	42,342	42,342	40,270	2,072
Attorney	93,118	93,118	85,191	7,927
Recorder	163,162	163,162	148,658	14,504
Assessor	256,896	256,896	251,446	5,450
Planning and zoning	91,999	91,999	55,379	36,620
Buildings and plant	205,124	205,124	423,325	(218,201)
Veterans service officer	108,640	108,640	112,769	(4,129)
Total general government	\$ 1,933,642	\$ 1,933,642	\$ 2,105,860	\$ (172,218)
Public safety				
Sheriff	\$ 928,257	\$ 928,257	\$ 870,630	\$ 57,627
Boat and water safety	1,865	1,865	1,298	567
Coroner	5,000	5,000	8,747	(3,747)
Probation	44,000	44,000	41,679	2,321
Emergency management	28,413	28,413	37,981	(9,568)
E-911 system	107,500	107,500	97,893	9,607
Total public safety	\$ 1,115,035	\$ 1,115,035	\$ 1,058,228	\$ 56,807

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	\$ 191,480	\$ 191,480	\$ 192,585	\$ (1,105)
Health				
Public health	\$ 44,067	\$ 44,067	\$ 43,842	\$ 225
Culture and recreation				
Culture and recreation	\$ 105,337	\$ 105,337	\$ 101,945	\$ 3,392
Historical society	31,000	31,000	30,680	320
Toqua Park	29,885	29,885	25,224	4,661
Total culture and recreation	\$ 166,222	\$ 166,222	\$ 157,849	\$ 8,373
Conservation of natural resources				
Extension	\$ 114,740	\$ 114,740	\$ 108,413	\$ 6,327
Conservation	91,816	91,816	99,991	(8,175)
Feedlot management	20,800	20,800	16,696	4,104
Water planning	36,789	36,789	42,655	(5,866)
Total conservation of natural resources	\$ 264,145	\$ 264,145	\$ 267,755	\$ (3,610)
Economic development				
Other	\$ 37,844	\$ 37,844	\$ 40,943	\$ (3,099)
Intergovernmental				
Health	\$ 53,015	\$ 53,015	\$ 53,015	\$ -
Total Expenditures	\$ 3,805,450	\$ 3,805,450	\$ 3,920,077	\$ (114,627)
Excess of Revenues Over (Under)				
Expenditures	\$ 37,568	\$ 37,568	\$ 224,938	\$ 187,370
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 1,000,000	\$ 1,000,000
Proceeds from the sale of capital assets	(1,000)	(1,000)	17,500	18,500
Total Other Financing Sources (Uses)	\$ (1,000)	\$ (1,000)	\$ 1,017,500	\$ 1,018,500
Net Change in Fund Balance	\$ 36,568	\$ 36,568	\$ 1,242,438	\$ 1,205,870
Fund Balance - January 1	2,819,949	2,819,949	2,819,949	-
Fund Balance - December 31	\$ 2,856,517	\$ 2,856,517	\$ 4,062,387	\$ 1,205,870

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
HIGHWAY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 875,220	\$ 875,220	\$ 906,682	\$ 31,462
Licenses and permits	-	-	1,195	1,195
Intergovernmental	4,193,900	4,193,900	4,697,808	503,908
Charges for services	167,000	167,000	297,693	130,693
Investment earnings	1,500	1,500	2,065	565
Miscellaneous	32,000	32,000	37,935	5,935
Total Revenues	\$ 5,269,620	\$ 5,269,620	\$ 5,943,378	\$ 673,758
Expenditures				
Current				
Highways and streets				
Administration	\$ 343,790	\$ 343,790	\$ 366,591	\$ (22,801)
Other - highways and streets	17,150	17,150	13,491	3,659
Construction	3,181,740	3,471,740	3,413,883	57,857
Maintenance	680,540	1,226,540	1,197,436	29,104
Equipment and maintenance shops	852,400	1,047,400	1,201,306	(153,906)
Material and services for resale	18,950	18,950	160,629	(141,679)
Total highways and streets	\$ 5,094,570	\$ 6,125,570	\$ 6,353,336	\$ (227,766)
Intergovernmental				
Highways and streets	176,050	176,050	184,106	(8,056)
Total Expenditures	\$ 5,270,620	\$ 6,301,620	\$ 6,537,442	\$ (235,822)
Excess of Revenues Over (Under) Expenditures	\$ (1,000)	\$ (1,032,000)	\$ (594,064)	\$ 437,936
Other Financing Sources (Uses)				
Proceeds from the sale of capital assets	1,000	1,000	5,300	4,300
Net Change in Fund Balance	\$ -	\$ (1,031,000)	\$ (588,764)	\$ 442,236
Fund Balance - January 1	2,227,339	2,227,339	2,227,339	-
Increase (decrease) in inventories	-	-	(67,799)	(67,799)
Fund Balance - December 31	\$ 2,227,339	\$ 1,196,339	\$ 1,570,776	\$ 374,437

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 824,983	\$ 824,983	\$ 796,860	\$ (28,123)
Intergovernmental	1,147,976	1,147,976	1,213,273	65,297
Charges for services	330,480	330,480	375,440	44,960
Miscellaneous	25,975	25,975	30,764	4,789
Total Revenues	\$ 2,329,414	\$ 2,329,414	\$ 2,416,337	\$ 86,923
Expenditures				
Current				
Human services				
Income maintenance	\$ 735,798	\$ 735,798	\$ 691,915	\$ 43,883
Social services	1,593,616	1,593,616	1,624,842	(31,226)
Total Expenditures	\$ 2,329,414	\$ 2,329,414	\$ 2,316,757	\$ 12,657
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 99,580	\$ 99,580
Other Financing Sources (Uses)				
Transfers out	-	-	(1,000,000)	(1,000,000)
Net Change in Fund Balance	\$ -	\$ -	\$ (900,420)	\$ (900,420)
Fund Balance - January 1	2,573,125	2,573,125	2,573,125	-
Fund Balance - December 31	\$ 2,573,125	\$ 2,573,125	\$ 1,672,705	\$ (900,420)

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 117,154	\$ 117,154	\$ 127,850	\$ 10,696
Investment earnings	-	-	48	48
Total Revenues	\$ 117,154	\$ 117,154	\$ 127,898	\$ 10,744
Expenditures				
Current				
Conservation of natural resources				
Other	293,308	293,308	107,468	185,840
Excess of Revenues Over (Under) Expenditures	\$ (176,154)	\$ (176,154)	\$ 20,430	\$ 196,584
Fund Balance - January 1	168,537	168,537	168,537	-
Fund Balance - December 31	<u>(7,617)</u>	<u>(7,617)</u>	<u>188,967</u>	<u>196,584</u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2009	\$ -	\$ 3,542,463	\$ 3,542,463	0.0%	\$ 2,461,776	143.9%
January 1, 2012	-	3,991,730	3,991,730	0.0	2,695,105	148.1

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2014

1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Budget Amendments

Over the course of the year, the County Board may revise estimated revenue and expenditure budgets. These budget amendments fall into three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and new grant awards.

Expenditure budgets were amended in the following fund:

	Original Budget	Increase (Decrease)	Final Budget
Highway Special Revenue Fund	\$ 5,270,620	\$ 1,031,000	\$ 6,301,620

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

Fund	Expenditures	Budget	Excess
General	\$ 3,920,077	\$ 3,805,450	\$ 114,627
Highway Special Revenue	6,537,442	6,301,620	235,822

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

5. Other Postemployment Benefits Funding Status

Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets to pay the actuarial accrued liability for postemployment benefits is zero. Currently, two actuarial valuations are available. As the information becomes available, future reports will provide additional trend analysis to meet the three valuation funding status requirement.

See Note 3.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

6. Other Postemployment Benefits - Significant Plan Provisions and Actuarial Assumption Changes

2012

Plan Provisions

- Employees hired after January 1, 2012, are not eligible for the postemployment medical subsidy.
- Reimbursement for the Medicare Part D premium is limited to \$50 per month for eligible employees who retire on or after January 1, 2012. Current retirees are grandfathered to full Part D premium.
- Non-union retirees who retire on or after January 1, 2012, receive a reimbursement limited to the \$1,000 Minnesota Comprehensive Health Association (MCHA) premium amount, and they do not receive the \$50 per month subsidy before reaching Medicare eligibility. Their reimbursement had been limited to the \$500 MCHA premium amount, and employees hired before January 1, 1991, were eligible for the \$50 per month subsidy before reaching Medicare eligibility.

Actuarial Assumptions

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.

SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUNDS

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 91,650	\$ 91,650	\$ 88,360	\$ (3,290)
Intergovernmental	-	-	1,552	1,552
Total Revenues	\$ 91,650	\$ 91,650	\$ 89,912	\$ (1,738)
Expenditures				
Debt service				
Principal	\$ 60,000	\$ 60,000	\$ 60,000	\$ -
Interest	27,885	27,885	27,885	-
Administrative (fiscal) fees	550	550	550	-
Total Expenditures	\$ 88,435	\$ 88,435	\$ 88,435	\$ -
Excess of Revenues Over (Under) Expenditures	\$ 3,215	\$ 3,215	\$ 1,477	\$ (1,738)
Fund Balance - January 1	98,194	98,194	98,194	-
Fund Balance - December 31	\$ 101,409	\$ 101,409	\$ 99,671	\$ (1,738)

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

AGENCY FUNDS

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

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

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

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

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>FAMILY SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 126,654	\$ 48,441	\$ 46,674	\$ 128,421
<u>Liabilities</u>				
Due to other governments	\$ 126,654	\$ 48,441	\$ 46,674	\$ 128,421
 <u>SOCIAL WELFARE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 5,922	\$ 52,966	\$ 52,805	\$ 6,083
<u>Liabilities</u>				
Accounts payable	\$ 5,922	\$ 52,966	\$ 52,805	\$ 6,083
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 18,313	\$ 707,411	\$ 659,806	\$ 65,918
<u>Liabilities</u>				
Due to other governments	\$ 18,313	\$ 707,411	\$ 659,806	\$ 65,918

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

**EXHIBIT C-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 101,031	\$ 12,711,050	\$ 12,724,059	\$ 88,022
<u>Liabilities</u>				
Due to other governments	\$ 101,031	\$ 12,710,749	\$ 12,724,059	\$ 87,721
Advance from other funds	-	301	-	301
Total Liabilities	\$ 101,031	\$ 12,711,050	\$ 12,724,059	\$ 88,022
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 251,920	\$ 13,519,868	\$ 13,483,344	\$ 288,444
<u>Liabilities</u>				
Accounts payable	\$ 5,922	\$ 52,966	\$ 52,805	\$ 6,083
Due to other governments	245,998	13,466,601	13,430,539	282,060
Advance from other funds	-	301	-	301
Total Liabilities	\$ 251,920	\$ 13,519,868	\$ 13,483,344	\$ 288,444

OTHER SCHEDULES

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2014**

Shared Revenue

State

Highway users tax	\$ 4,060,514
County program aid	224,840
PERA rate reimbursement	11,447
Disparity reduction aid	85,374
Police aid	38,080
Enhanced 911	75,107
Market value credit	77,983
Aquatic invasive species aid	37,730

Total shared revenue **\$ 4,611,075**

Reimbursement for Services

Minnesota Department of Human Services	\$ 259,215
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Payments

Local

Payments in lieu of taxes	\$ 120,232
Local contributions	2,400

Total payments **\$ 122,632**

Grants

State

Minnesota Department/Board/Office of	
Public Safety	\$ 394
Corrections	7,857
Human Services	386,024
Natural Resources	31,975
Revenue	3,529
Water and Soil Resources	54,091
Veterans Affairs	7,500
Peace Officer Standards and Training Board	1,609
Pollution Control Agency	63,803

Total state **\$ 556,782**

Federal

Department of	
Agriculture	\$ 79,898
Health and Human Services	496,954
Homeland Security	17,221
Transportation	619,989

Total federal **\$ 1,214,062**

Total state and federal grants **\$ 1,770,844**

Total Intergovernmental Revenue **\$ 6,763,766**

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ 79,898
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 619,989
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 989
Temporary Assistance for Needy Families	93.558	47,419
Child Support Enforcement	93.563	93,939
Refugee and Entrant Assistance - State Administered Programs	93.566	30
Child Care and Development Block Grant	93.575	1,401
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1,403
Foster Care - Title IV-E	93.658	64,534
Social Services Block Grant	93.667	51,508
Chafee Foster Care Independence Program	93.674	244
Children's Health Insurance Program	93.767	5
Medical Assistance Program	93.778	235,482
Total U.S. Department of Health and Human Services		\$ 496,954
U.S. Department of Homeland Security		
Passed Through United Way Emergency Food and Shelter National Board Program	97.024	\$ 2,558
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	14,663
Total U.S. Department of Homeland Security		\$ 17,221
Total Federal Awards		\$ 1,214,062

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Big Stone County under programs of the federal government for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Big Stone County, it is not intended to and does not present the financial position or changes in net position of Big Stone County.

3. Summary of Significant Accounting Policies

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

4. Subrecipients

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2014.

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

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

The major program is:

Highway Planning and Construction

CFDA #20.205

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

Big Stone County qualified as a low-risk auditee? **Yes**

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

INTERNAL CONTROL

ITEM ARISING THIS YEAR

Finding 2014-001

Audit Adjustment

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

Condition: During our audit, an adjustment was proposed and recorded to the General Fund in the amount of \$291,401 that resulted in a reduction of the liability for contracts payable. This adjustment was individually material to this opinion unit and was necessary to fairly present liabilities in Big Stone County's financial statements.

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

Effect: The following audit adjustment was reviewed and approved by County staff and is reflected in the financial statements: decreased contracts payable and general government expenditures by \$291,401 in the General Fund for work not yet completed on the courthouse construction project in 2014 that was considered a current period expenditure.

Cause: The County accrued a liability as of December 31, 2014, for the uncompleted portion of a contract related to the courthouse construction project.

Recommendation: We recommend County staff review their financial statement closing procedures to ensure that all significant adjustments have been made appropriately that are considered necessary to fairly state the County's financial statements in accordance with generally accepted accounting principles.

Client's Response:

The County will review its financial statement closing process and perform a detailed review of year-end activity to ensure adjustments are properly made to the financial statements.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2012-002

Eligibility Testing

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778)

Pass-Through Agency: Minnesota Department of Human Services

Criteria: OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Condition: The Minnesota Department of Human Services maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. While periodic supervisory case reviews are performed to provide reasonable assurance of compliance with grant requirements for eligibility, not all documentation was updated in MAXIS to support participant eligibility. The following instances were noted in our sample of 40 cases tested:

- Two cases did not have verification of asset requirements. For these cases, the most recent bank account balance or cash balance for each case was not updated in MAXIS.

Questioned Costs: Not applicable. The County administers the program, but benefits to participants in this program are paid by the State of Minnesota.

Context: The State of Minnesota contracts with the County Family Services Department to perform the "intake function" (meeting with the social services client to determine income and categorical eligibility) while the Minnesota Department of Human Services maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to participants.

Effect: Not updating information in MAXIS increases the risk that clients will receive benefits when they are not eligible.

Cause: Program personnel entering case information into MAXIS did not ensure all required information was updated in MAXIS.

Recommendation: We recommend that the County implement additional review procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations is obtained and properly updated in MAXIS. In addition, consideration should be given to providing additional training to program personnel.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Diana Hults, Family Services Director

Corrective Action Planned:

Discussion of issues with the Financial Workers who were reminded of basic updates that are required in MAXIS.

The information that was missing did not cause ineligibility on any of the cases, but workers were reminded to check ALL panels on the system when updating or viewing cases.

Anticipated Completion Date:

Completed on March 9, 2015.

IV. OTHER FINDINGS AND RECOMMENDATIONS

OTHER ITEM FOR CONSIDERATION

GASB Statement 68

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for counties that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the county's government-wide statement of financial position. Big Stone County's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in Big Stone County's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year, and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by Big Stone County to report the net pension liability and deferred outflows/inflows of resources.

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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*

Independent Auditor's Report

Board of County Commissioners
Big Stone County

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Big Stone County, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 31, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Big Stone County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Big Stone County's financial statements are free from 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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because Big Stone County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Big Stone County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to the County, and it is reported for that purpose.

Big Stone County's Response to Finding

Big Stone County's response to the internal control finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

March 31, 2015

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Big Stone County

Report on Compliance for Each Major Federal Program

We have audited Big Stone County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2014. Big Stone County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Big Stone County's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Big Stone County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on the Major Federal Program

In our opinion, Big Stone County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2012-002. Our opinion on the major federal program is not modified with respect to this matter.

Big Stone County's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Big Stone County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Big Stone County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2012-002, that we consider to be a significant deficiency.

Big Stone County's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Big Stone County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

March 31, 2015

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR