

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

BIG STONE COUNTY
ORTONVILLE, MINNESOTA

YEAR ENDED DECEMBER 31, 2016

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 650 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**

Year Ended December 31, 2016



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

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

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ORTONVILLE, MINNESOTA**

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2016**

Office	Name	Term Expires
Commissioners		
1st District	Jay Backer**	January 2019
2nd District	Wade Athey*	January 2021
3rd District	Brent Olson	January 2021
4th District	Roger Sandberg	January 2019
5th District	Joseph Berning	January 2021
Officers		
Elected		
Attorney	William Watson	January 2019
Auditor	Michelle Knutson	January 2019
Recorder	Elaine Martig	January 2019
Sheriff	John Haukos	January 2019
Treasurer	Cindy Nelson	January 2019
Appointed		
Assessor	Sandra Vold	December 2020
Coroner	Robert Ross, M.D.	January 2019
Environmental Officer	Darren Wilke	Indefinite
Emergency Management Director	James Hasslen ¹	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	Jay Backer	January 2019
Vice Chair	Joseph Berning	January 2021
Secretary	Kathy Morrill	July 2017
Member	Roger Sandberg	January 2019
Member	Brent Olson	January 2021
Member	Wade Athey	January 2021
Member	Alice Stielow	July 2018
Director	Pam Rud	Indefinite

*Chair 2016

**Chair 2017

¹On August 2, 2016, the County Board appointed Dona Greiner to replace James Hasslen who resigned.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Big Stone County
Ortonville, Minnesota

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, 2016, 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 from 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, 2016, 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 April 5, 2017, 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.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 5, 2017

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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, 2016
(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, 2016. 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 County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$30,768,102, of which \$26,405,085 is net investment in capital assets, and \$2,340,234 is restricted to specific purposes. The \$2,022,783 remaining may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's net position increased by \$366,539 for the year ended December 31, 2016.
- The net cost of governmental activities for the current fiscal year was \$4,942,182. The net cost was funded by general revenues totaling \$5,308,721.
- The fund balances of the governmental funds increased by \$527,174.

For the year ended December 31, 2016, the unrestricted fund balance of the General Fund was \$3,737,818, or 94.3 percent of the total General Fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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, deferred outflows of resources, liabilities, and deferred inflows of resources of the County using the full 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, human 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 discretely presented 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 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 66 of this report.

Other Information

Other information is provided as supplementary information regarding Big Stone County's intergovernmental revenue.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. The County's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$30,768,102 at the close of 2016. The largest portion of the net position (85.8 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. Comparative data with 2015 is presented.

	Net Position	
	(in thousands)	
	Governmental Activities	
	2016	2015
Assets		
Current and other assets	\$ 14,235	\$ 12,417
Capital assets	26,955	27,483
Total Assets	\$ 41,190	\$ 39,900
Deferred Outflows of Resources		
Deferred pension outflows	\$ 2,515	\$ 422
Liabilities		
Long-term liabilities	\$ 11,577	\$ 9,183
Other liabilities	776	431
Total Liabilities	\$ 12,353	\$ 9,614
Deferred Inflows of Resources		
Deferred pension inflows	\$ 584	\$ 306

	Governmental Activities	
	2016	2015
Net Position		
Net investment in capital assets	\$ 26,405	\$ 26,874
Restricted	2,340	1,144
Unrestricted	2,023	2,384
Total Net Position	\$ 30,768	\$ 30,402

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 6.57 percent of net position.

Governmental Activities

The County's activities increased net position by 1.21 percent (\$30,768,102 for 2016, compared to \$30,401,563 for 2015). Key elements of this increase in net position are as follows:

Changes in Net Position (in thousands)

	Governmental Activities	
	2016	2015
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 1,669	\$ 1,463
Operating grants and contributions	5,053	4,723
Capital grants and contributions	76	-
General revenues		
Property taxes	4,510	4,455
Other	798	743
Total Revenues	\$ 12,106	\$ 11,384
Expenses		
General government	\$ 2,151	\$ 2,082
Public safety	1,250	1,137
Highways	4,198	4,154
Sanitation	210	200
Human services	2,941	2,528
Health	112	99
Culture and recreation	185	176
Conservation of natural resources	475	785
Economic development	204	155
Interest	14	97
Total Expenses	\$ 11,740	\$ 11,413
Change in Net Position	\$ 366	\$ (29)
Net Position - January 1	30,402	30,431
Net Position - December 31	\$ 30,768	\$ 30,402

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 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 \$11,970,177, an increase of \$527,174 in comparison with the prior year. Of the combined ending fund balances, \$6,581,979 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 \$3,737,818. 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 94.3 percent of total General Fund expenditures. During 2016, the ending fund balance increased by \$414,627.

The Highway Special Revenue Fund had an unrestricted fund balance of \$1,645,869 at fiscal year-end, representing 46.3 percent of its annual expenditures. The ending fund balance increased \$206,661 during 2016.

The Family Services Special Revenue Fund had an unrestricted fund balance of \$1,435,799 at fiscal year-end, representing 51.6 percent of its annual expenditures. The ending fund balance decreased \$126,500 during 2016.

The Ditch Special Revenue Fund had \$170,922 in restricted fund balance and an unassigned deficit of \$237,507 at fiscal year-end. The ending fund balance increased \$24,531 during 2016. The Ditch Fund will collect special assessments in future years to cover the deficit fund balance.

The Debt Service Fund had a restricted fund balance of \$111,193 at fiscal year-end, representing 128.9 percent of its annual expenditures. The ending fund balance increased \$7,855 during 2016.

Governmental Activities

The County's total revenues were \$12,106,820. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2016.

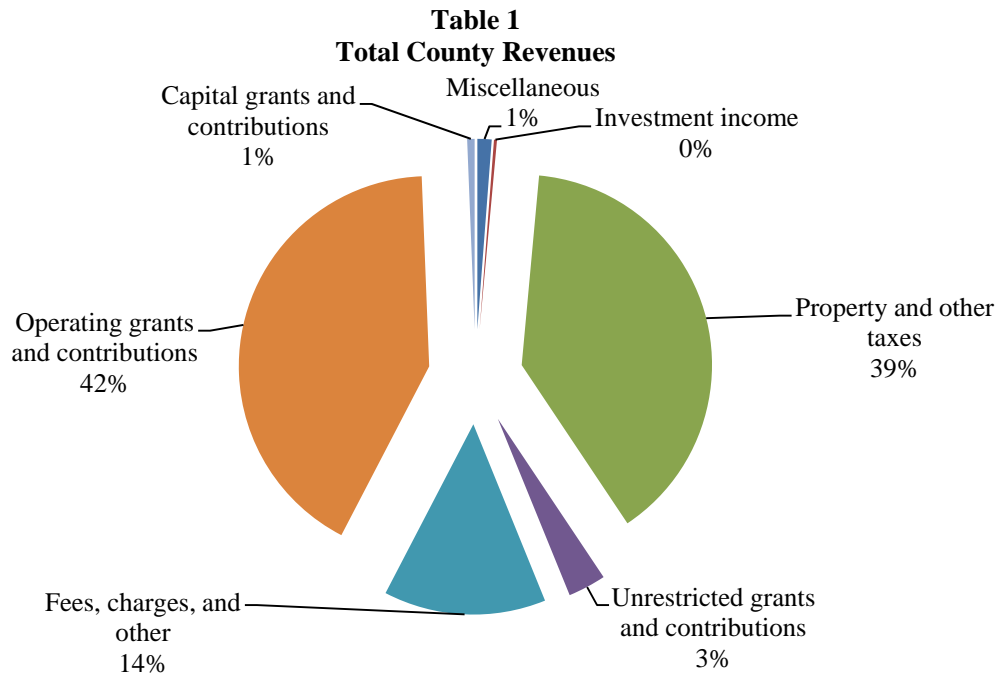
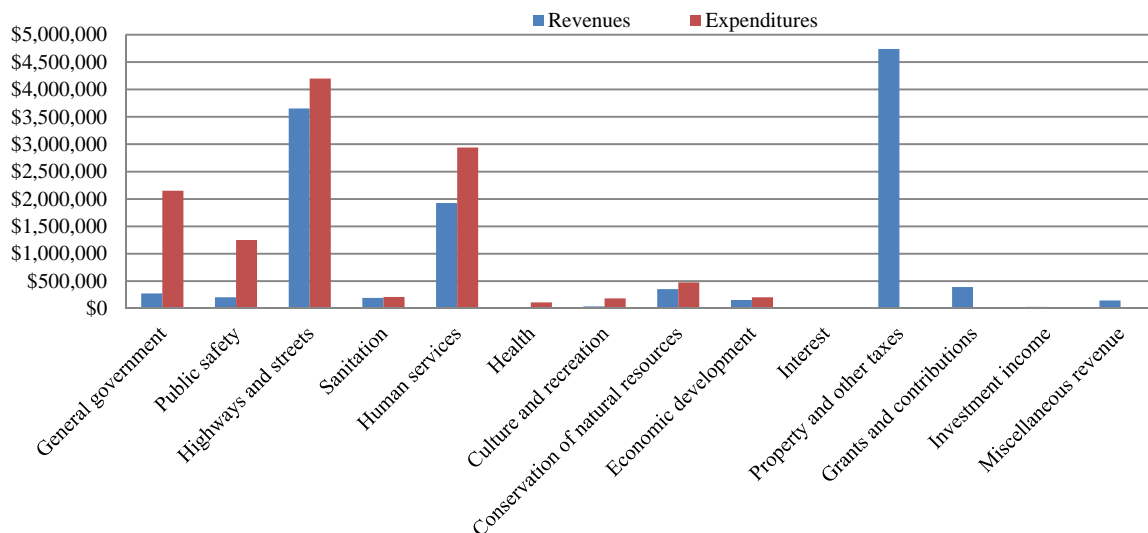


Table 2 presents the cost and revenue of each program, as well as the County's general revenues.

Total program and general revenues for the County were \$12,106,820, while total expenses were \$11,740,281. This reflects a \$366,539 increase in net position for the year ended December 31, 2016.

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 2016	Net Cost (Revenue) of Services 2016
Highways and streets	\$ 4,198,476	\$ 545,823
Human services	2,941,207	1,015,822
General government	2,150,864	1,876,789
Public safety	1,249,668	1,044,565
All others	1,200,066	459,183
Totals	\$ 11,740,281	\$ 4,942,182

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) were \$128,956 under the final budget amounts.

Resources available for appropriation were \$346,746 above the final budgeted amount due to unexpected revenues, including an insurance dividend, additional grant and aid dollars, and reimbursement for interest paid on the abatement bond that were not budgeted for.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County’s capital assets for its governmental activities at December 31, 2016, totaled \$26,955,130 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, infrastructure, and intangibles. The investment in capital assets decreased \$528,163, or 1.9 percent, from the previous year.

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

	2016	2015
Land	\$ 928	\$ 691
Infrastructure	21,525	22,361
Buildings	2,206	2,214
Improvements other than buildings	174	172
Machinery and equipment	2,097	2,028
Construction in progress	8	-
Intangibles	17	17
Total	\$ 26,955	\$ 27,483

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

Long-Term Debt

At the end of the current fiscal year, the County had total outstanding debt of \$4,670,000, which was backed by the full faith and credit of the government.

Table 5
Outstanding Debt

	2016	2015
General obligation bonds - capital improvement	\$ 670,000	\$ 730,000
General obligation bonds - abatement	4,000,000	4,000,000
Total	\$ 4,670,000	\$ 4,730,000

The County's debt related to general obligation bonds decreased by \$60,000 (1.3 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 2016, the County's outstanding debt was 0.34 percent of its total estimated market value.

Additional information on the County's long-term debt can be found in Notes 3.C.2. to 3.C.4 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 2017 budget, tax rates, and fees that will be charged for the year.

- The average unemployment rate for Big Stone County for 2016 was 4.94 percent. This is slightly higher in comparison with the state unemployment rate of 4.00 percent and shows an increase from the County's 4.51 percent rate of one year ago. This could impact the level of services requested by County residents.
- The County's General Fund expenditures for 2017 are budgeted to increase 9.37 percent (\$396,323) over the 2016 original budget. The 2017 anticipated revenues, other than tax levy, state aid, and special assessments, are budgeted to increase 17.35 percent (\$161,613) over the 2016 original budget.
- The gross property tax levy for the County increased 5.11 percent (\$251,767) from 2016, and the net tax levy (the amount spread to taxpayers) increased 5.25 percent (\$253,561) from 2016.

County Tax Rate and Levy History

2017	43.607%	\$	5,079,851
2016	41.279		4,826,290
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

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 Southeast, 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, 2016**

Assets

Cash and pooled investments	\$	7,990,253
Investments		372,700
Receivables		5,746,076
Inventories		125,947
Capital assets		
Non-depreciable		952,794
Depreciable - net of accumulated depreciation		26,002,336
		41,190,106
Total Assets	\$	41,190,106

Deferred Outflows of Resources

Deferred pension outflows	\$	2,515,446
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Liabilities

Accounts payable and other current liabilities	\$	407,537
Accrued interest payable		68,949
Unearned revenue		300,000
Long-term liabilities		
Due within one year		149,297
Due in more than one year		5,193,371
Net pension liability		5,001,551
Net other postemployment benefits obligation		1,232,472
		12,353,177
Total Liabilities	\$	12,353,177

Deferred Inflows of Resources

Deferred pension inflows	\$	584,273
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Net Position

Net investment in capital assets	\$	26,405,085
Restricted for		
Highways and streets		1,218,655
Debt service		100,919
Public safety		29,801
Family services		152,283
Conservation of natural resources		659,636
Other purposes		178,940
Unrestricted		2,022,783
		30,768,102
Total Net Position	\$	30,768,102

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<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	\$ 2,150,864	\$ 180,005	\$ 94,070	\$ -	\$ (1,876,789)
Public safety	1,249,668	61,186	143,917	-	(1,044,565)
Highways and streets	4,198,476	331,206	3,244,964	76,483	(545,823)
Sanitation	209,890	122,055	71,110	-	(16,725)
Human services	2,941,207	570,069	1,355,316	-	(1,015,822)
Health	112,144	875	-	-	(111,269)
Culture and recreation	184,777	8,895	27,738	-	(148,144)
Conservation of natural resources	475,243	238,954	115,494	-	(120,795)
Economic development	204,169	155,762	-	-	(48,407)
Interest	13,843	-	-	-	(13,843)
Total Governmental Activities	\$ 11,740,281	\$ 1,669,007	\$ 5,052,609	\$ 76,483	\$ (4,942,182)
General Revenues					
Property taxes				\$ 4,509,632	
Gravel taxes				77,295	
Mortgage registry and deed tax				4,387	
Payments in lieu of tax				150,214	
Grants and contributions not restricted to specific programs				390,619	
Unrestricted investment income				30,351	
Miscellaneous				146,223	
Total general revenues				\$ 5,308,721	
Change in net position				\$ 366,539	
Net Position - Beginning					30,401,563
Net Position - Ending					\$ 30,768,102

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	General	Highway
<u>Assets</u>		
Cash and pooled investments	\$ 4,332,833	\$ 1,368,949
Undistributed cash in agency funds	7,012	77,295
Petty cash and change funds	1,020	75
Investments	-	372,700
Taxes receivable		
Delinquent	19,601	6,107
Special assessments receivable		
Delinquent	7,614	-
Noncurrent	-	-
Accounts receivable	675	11,690
Accrued interest receivable	3,289	-
Loans receivable	3,931,139	-
Due from other governments	27,231	1,404,878
Advance to other funds	243,844	-
Advance to other governments	-	-
Inventories	-	125,947
	\$ 8,574,258	\$ 3,367,641
 <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 46,606	\$ 58,394
Salaries payable	54,820	45,151
Due to other governments	68,427	975
Unearned revenue	-	-
Advance from other funds	-	-
	\$ 169,853	\$ 104,520
Deferred Inflows of Resources		
Unavailable revenue	\$ 42,326	\$ 1,287,713
Fund Balances		
Nonspendable	\$ 4,164,983	\$ 125,947
Restricted	459,278	203,592
Committed	843,601	412,035
Assigned	167,525	1,233,834
Unassigned	2,726,692	-
	\$ 8,362,079	\$ 1,975,408
	\$ 8,574,258	\$ 3,367,641

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

EXHIBIT 3

<u>Family Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ 1,917,711	\$ 171,865	\$ 111,193	\$ 7,902,551
-	-	-	84,307
2,300	-	-	3,395
-	-	-	372,700
5,499	-	616	31,823
-	-	-	7,614
-	140,108	-	140,108
70,024	-	-	82,389
-	-	-	3,289
-	-	-	3,931,139
105,122	150	-	1,537,381
-	-	-	243,844
7,089	-	-	7,089
-	-	-	125,947
<u>\$ 2,107,745</u>	<u>\$ 312,123</u>	<u>\$ 111,809</u>	<u>\$ 14,473,576</u>
\$ 69,072	\$ -	\$ -	\$ 174,072
48,132	-	-	148,103
15,960	-	-	85,362
300,000	-	-	300,000
-	238,600	-	238,600
<u>\$ 433,164</u>	<u>\$ 238,600</u>	<u>\$ -</u>	<u>\$ 946,137</u>
<u>\$ 86,499</u>	<u>\$ 140,108</u>	<u>\$ 616</u>	<u>\$ 1,557,262</u>
\$ -	\$ -	\$ -	\$ 4,290,930
152,283	170,922	111,193	1,097,268
150,000	-	-	1,405,636
1,285,799	-	-	2,687,158
-	(237,507)	-	2,489,185
<u>\$ 1,588,082</u>	<u>\$ (66,585)</u>	<u>\$ 111,193</u>	<u>\$ 11,970,177</u>
<u>\$ 2,107,745</u>	<u>\$ 312,123</u>	<u>\$ 111,809</u>	<u>\$ 14,473,576</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, 2016**

Fund balance - total governmental funds (Exhibit 3)		\$ 11,970,177
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.		26,955,130
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds.		2,515,446
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.		1,557,262
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (4,670,000)	
Compensated absences	(672,668)	
Net other postemployment benefits obligation	(1,232,472)	
Net pension liability	(5,001,551)	
Accrued interest payable	<u>(68,949)</u>	(11,645,640)
Deferred inflows resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds.		<u>(584,273)</u>
Net Position of Governmental Activities (Exhibit 1)		<u><u>\$ 30,768,102</u></u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	General	Highway
Revenues		
Taxes	\$ 2,802,539	\$ 945,998
Special assessments	116,704	-
Licenses and permits	26,252	1,455
Intergovernmental	882,510	2,626,935
Charges for services	181,836	211,996
Investment earnings	28,208	745
Miscellaneous	337,124	32,483
	\$ 4,375,173	\$ 3,819,612
Expenditures		
Current		
General government	\$ 1,947,570	\$ -
Public safety	1,018,423	-
Highways and streets	-	3,354,278
Sanitation	201,618	-
Human services	-	-
Health	53,717	-
Culture and recreation	188,216	-
Conservation of natural resources	289,931	-
Economic development	48,407	-
Intergovernmental	58,427	200,603
Debt service		
Principal	-	-
Interest	155,312	-
Administrative (fiscal) fees	450	-
	\$ 3,962,071	\$ 3,554,881
Excess of Revenues Over (Under) Expenditures	\$ 413,102	\$ 264,731
Other Financing Sources (Uses)		
Proceeds from the sale of capital assets	1,525	22,321
	\$ 414,627	\$ 287,052
Fund Balance - January 1	7,947,452	1,768,747
Increase (decrease) in inventories	-	(80,391)
	\$ 8,362,079	\$ 1,975,408
Fund Balance - December 31	\$ 8,362,079	\$ 1,975,408

EXHIBIT 5

<u>Family Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ 762,859	\$ -	\$ 88,533	\$ 4,599,929
-	203,538	-	320,242
-	-	-	27,707
1,403,061	-	5,557	4,918,063
469,607	-	-	863,439
-	-	-	28,953
19,462	-	-	389,069
<u>\$ 2,654,989</u>	<u>\$ 203,538</u>	<u>\$ 94,090</u>	<u>\$ 11,147,402</u>
\$ -	\$ -	\$ -	\$ 1,947,570
-	-	-	1,018,423
-	-	-	3,354,278
-	-	-	201,618
2,781,489	-	-	2,781,489
-	-	-	53,717
-	-	-	188,216
-	179,007	-	468,938
-	-	-	48,407
-	-	-	259,030
-	-	60,000	60,000
-	-	25,035	180,347
-	-	1,200	1,650
<u>\$ 2,781,489</u>	<u>\$ 179,007</u>	<u>\$ 86,235</u>	<u>\$ 10,563,683</u>
\$ (126,500)	\$ 24,531	\$ 7,855	\$ 583,719
-	-	-	23,846
<u>\$ (126,500)</u>	<u>\$ 24,531</u>	<u>\$ 7,855</u>	<u>\$ 607,565</u>
1,714,582	(91,116)	103,338	11,443,003
-	-	-	(80,391)
<u>\$ 1,588,082</u>	<u>\$ (66,585)</u>	<u>\$ 111,193</u>	<u>\$ 11,970,177</u>

**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, 2016**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 607,565

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.

Unavailable revenue - December 31	\$ 1,557,262	
Unavailable revenue - January 1	<u>(624,839)</u>	932,423

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	\$ 1,607,290	
Net book value of assets disposed of	(148,778)	
Current year depreciation and depletion	<u>(1,986,675)</u>	(528,163)

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	\$ 12,391	
Change in compensated absences	(39,476)	
Change in net other postemployment benefits obligation	(167,560)	
Change in net pension liability	(2,245,823)	
Change in deferred pension outflows	2,093,160	
Change in deferred pension inflows	(277,587)	
Change in inventories	<u>(80,391)</u>	<u>(705,286)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 366,539

FIDUCIARY FUNDS

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2016**

<u>Assets</u>	
Cash and pooled investments	<u>\$ 274,272</u>
<u>Liabilities</u>	
Accounts payable	\$ 6,796
Due to other governments	262,232
Advance from other funds	<u>5,244</u>
Total Liabilities	<u>\$ 274,272</u>

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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, 2016. 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.

Blended Component Unit

Blended component units are legally separate organizations that are so intertwined with the County that they are, in substance, the same as the County and, therefore, are reported as if they were part of the County. Big Stone County has one blended component unit reported as part of the General Fund.

Component Unit	Component Unit Included in Reporting Entity Because	Separate Financial Statements
Big Stone County Economic Development Authority (EDA) provides services pursuant to Minn. Stat. §§ 469.090-.1082.	The County appoints all of the EDA Board members and is financially responsible for funding its projects.	Separate financial statements are not prepared.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures and Related Organizations

The County participates in several joint ventures described in Note 5.C. The County also participates in a related organization described in Note 5.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.

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.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds and blended component unit. 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.
- 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 fiduciary fund type:

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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 full accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Big Stone County considers all revenues as available if collected within 30 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. 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, 2016, using a market approach. 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 2016 were \$19,410.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

1. Deposits and Investments (Continued)

Big Stone County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The investment in the pool is measured at the net asset value per share provided by the pool.

2. Receivables and Payables

Activity 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.

Special assessments receivable consist of delinquent special assessments payable in the years 2005 through 2016 and deferred special assessments payable in 2017 and after. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments.

No allowance for uncollectible taxes/special assessments has been provided because such amounts are not expected to be material.

The County had no accounts receivable scheduled to be collected beyond one year.

**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)

3. 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.

4. 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 acquisition value (entry price) on 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)

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated vacation, sick leave, and comp time 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 is calculated using a trend analysis of current usage of vacation. The resulting percentage is then used to determine the current portion for vacation, vested sick leave, and comp time. The noncurrent portion consists of the remaining amount of vacation, total vested sick leave, and comp time.

6. 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, if material, are deferred and amortized over the life of the bonds using the straight-line 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)

7. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value. The pension liability is liquidated through the General Fund and other governmental funds that have personal services.

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports 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. The County has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date, changes in actuarial assumptions, and also the differences between projected and actual earnings on pension plan investments and, accordingly, are reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports 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 two types of deferred inflows. The governmental funds report unavailable revenue from delinquent taxes receivable, delinquent and deferred special assessments receivable, interest receivable, and grant monies receivable, for amounts that are not considered to be available to liquidate liabilities of the current period. Unavailable revenue arises only under the modified accrual

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Deferred Outflows/Inflows of Resources (Continued)

basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The County also has deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

9. Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received but not yet earned.

10. 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)

11. 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

11. 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.

12. Minimum Fund Balance

Big Stone County has adopted a minimum fund balance policy for its governmental funds. The General Fund, the Highway Special Revenue Fund, and the Family Services Special Revenue Fund are all 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, 2016, the County's unrestricted fund balance was at or above the minimum fund balance level, with the exception of the Family Services Special Revenue Fund.

13. Use of Estimates

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Deficit Fund Balance

The Ditch Special Revenue Fund had a deficit fund balance of \$66,585 at December 31, 2016. This was due to 5 of the 21 drainage systems having deficit fund balances. These deficits will be eliminated with future special assessment levies against benefited properties.

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

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	\$ 7,990,253
Investments	372,700
Statement of fiduciary net position	
Cash and pooled investments	<u>274,272</u>
 Total Cash and Investments	 <u>\$ 8,637,225</u>

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

a. Deposits (Continued)

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, 2016, the County's deposits in banks were entirely covered by federal depository insurance or by collateral in accordance with Minnesota statutes.

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;

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

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

Credit Risk

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

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.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

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, 2016, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

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

The following table presents the County's cash and deposit balances at December 31, 2016. The County has no investments subject to investment risks.

Checking	\$ 965,519
Savings	3,163,143
MAGIC Fund	3,005,168
Non-negotiable certificates of deposit	1,500,000
Petty cash	<u>3,395</u>
Total Cash and Investments	<u>\$ 8,637,225</u>

Fair Value of Investments

All investments held by the County are in MAGIC Fund. MAGIC is a local government investment pool which is quoted at a net asset value (NAV). The County invests in this pool for the purpose of the joint investment of the County's money with those of other counties to enhance the investment earnings accruing to each member.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

Fair Value of Investments (Continued)

The MAGIC Portfolio is valued using amortized cost. Shares of the MAGIC Portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as the County has a sufficient number of shares to meet their redemption request. The MAGIC Fund's Board of Trustees can suspend the right of withdrawal or postpone the date of payment if the Trustees determine that there is an emergency that makes the sale of a Portfolio's securities or determination of its net asset value not reasonably practical.

2. Receivables

Receivables as of December 31, 2016, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 31,823	\$ -
Special assessments	147,722	113,742
Accounts receivable	82,389	-
Loans receivable	3,931,139	3,921,139
Interest	3,289	-
Due from other governments	1,537,381	-
Advance to other governments	12,333	7,089
Total Governmental Activities	\$ 5,746,076	\$ 4,041,970

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.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

2. Receivables

Loans Receivable (Continued)

On June 2, 2015, the County Board approved a \$3,921,139 loan to Federated Telephone Cooperative from the proceeds of the issuance of abatement bonds to assist with the financing of a portion of the cost of the acquisition, construction, and installation of a broadband communications network and related facilities in the County. The loan is to be repaid at 3.759 percent interest over 20 years.

Loan activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Historical Society loan	\$ 20,000	\$ -	\$ 10,000	\$ 10,000
Federated Telephone loan	3,921,139	-	-	3,921,139
Total	<u>\$ 3,941,139</u>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 3,931,139</u>

3. Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 297,590	\$ -	\$ -	\$ 297,590
Gravel pits	345,589	-	-	345,589
Right-of-way	47,695	236,897	-	284,592
Construction in progress	-	8,040	-	8,040
Intangible assets	16,983	-	-	16,983
Total capital assets not depreciated	<u>\$ 707,857</u>	<u>\$ 244,937</u>	<u>\$ -</u>	<u>\$ 952,794</u>
Capital assets depreciated				
Buildings	\$ 4,299,053	\$ 69,827	\$ -	\$ 4,368,880
Land improvements	298,352	15,176	-	313,528
Machinery and equipment	4,956,242	336,719	241,712	5,051,249
Infrastructure	48,238,756	940,631	175,165	49,004,222
Total capital assets depreciated	<u>\$ 57,792,403</u>	<u>\$ 1,362,353</u>	<u>\$ 416,877</u>	<u>\$ 58,737,879</u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings	\$ 2,085,292	\$ 77,260	\$ -	\$ 2,162,552
Land improvements	125,820	13,536	-	139,356
Machinery and equipment	2,927,714	260,827	233,871	2,954,670
Infrastructure	<u>25,878,141</u>	<u>1,635,052</u>	<u>34,228</u>	<u>27,478,965</u>
Total accumulated depreciation	<u>\$ 31,016,967</u>	<u>\$ 1,986,675</u>	<u>\$ 268,099</u>	<u>\$ 32,735,543</u>
Total capital assets depreciated, net	<u>\$ 26,775,436</u>	<u>\$ (624,322)</u>	<u>\$ 148,778</u>	<u>\$ 26,002,336</u>
Capital Assets, Net	<u>\$ 27,483,293</u>	<u>\$ (379,385)</u>	<u>\$ 148,778</u>	<u>\$ 26,955,130</u>

Construction in progress consists of the amount completed on a highway lighting project.

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

Governmental Activities	
General government	\$ 102,084
Public safety	48,707
Highways and streets, including depreciation of infrastructure assets	1,808,622
Sanitation	428
Human services	15,221
Culture and recreation	<u>11,613</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,986,675</u>

There was no depletion expense charged to the highway function of the County in 2016.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

Advances To/From Other Funds

The composition of interfund balances as of December 31, 2016, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Special Revenue Fund	\$ 238,600
	Taxes and Penalties Agency Fund	5,244
Total Advances To/From Other Funds		\$ 243,844

The Ditch Special Revenue Fund advance is to provide working capital to ditch systems 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.

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2016, were as follows:

	Governmental Activities
Accounts payable	\$ 174,072
Salaries payable	148,103
Due to other governments	85,362
Total Payables	\$ 407,537

2. 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.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

2. Long-Term Debt (Continued)

On June 2, 2015, Big Stone County issued General Obligation Abatement Bonds, Series 2015A, in the amount of \$4,000,000, with interest rates of 3.0 percent to 4.0 percent, to assist with the financing of a portion of the cost of the acquisition, construction, and installation of a broadband communications network and related facilities in the County.

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2016
General obligation bonds					
2009 G.O. Capital Improvement Bonds	2025	\$40,000 - \$85,000	1.5 - 4.0	\$ 1,000,000	\$ 670,000
2015 G.O. Abatement Bonds	2035	\$170,000 - \$300,000	3.0 - 4.0	4,000,000	4,000,000
Total General Obligation Bonds				<u>\$ 5,000,000</u>	<u>\$ 4,670,000</u>

3. Debt Service Requirements

Debt payments on the capital improvement bonds are made from the Debt Service Fund. Debt service requirements at December 31, 2016, were as follows:

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2017	\$ 65,000	\$ 23,310
2018	65,000	21,360
2019	70,000	19,195
2020	70,000	16,815
2021	75,000	14,219
2022 - 2025	325,000	26,606
Total	<u>\$ 670,000</u>	<u>\$ 121,505</u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

3. Debt Service Requirements (Continued)

Debt payments on the abatement bonds are made from the General Fund. Debt service requirements at December 31, 2016, were as follows:

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2017	\$ -	\$ 141,193
2018	170,000	138,642
2019	175,000	133,468
2020	180,000	128,142
2021	185,000	122,668
2022 - 2026	995,000	526,063
2027 - 2031	1,175,000	341,265
2032 - 2035	1,120,000	92,200
Total	<u>\$ 4,000,000</u>	<u>\$ 1,623,641</u>

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds					
Capital improvement	\$ 730,000	\$ -	\$ 60,000	\$ 670,000	\$ 65,000
Abatement	4,000,000	-	-	4,000,000	-
Compensated absences	633,192	330,314	290,838	672,668	84,297
Long-Term Liabilities	<u>\$ 5,363,192</u>	<u>\$ 330,314</u>	<u>\$ 350,838</u>	<u>\$ 5,342,668</u>	<u>\$ 149,297</u>

For the governmental activities, compensated absences are liquidated by the General Fund, the Highway Special Revenue Fund, and the Family Services Special Revenue Fund.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

5. Unearned Revenues/Deferred Inflows of Resources

Unearned revenues and deferred inflows of resources consist of special assessments, taxes, state grants, and interest not collected soon enough after year-end to pay liabilities of the current period, and other receivables received but not yet earned. Unearned revenues and deferred inflows of resources at December 31, 2016, are summarized below by fund:

	Special Assessments	Taxes	Grants	Interest	Other	Total
Major governmental funds						
General	\$ 7,614	\$ 19,601	\$ -	\$ 3,289	\$ 11,822	\$ 42,326
Highway	-	6,107	1,218,655	-	62,951	1,287,713
Family Services	-	5,499	367,500	-	13,500	386,499
Ditch	140,108	-	-	-	-	140,108
Debt Service	-	616	-	-	-	616
Total	\$ 147,722	\$ 31,823	\$ 1,586,155	\$ 3,289	\$ 88,273	\$ 1,857,262
Liability						
Unearned revenue	\$ -	\$ -	\$ 300,000	\$ -	\$ -	\$ 300,000
Deferred inflows of resources						
Unavailable revenue	147,722	31,823	1,286,155	3,289	88,273	1,557,262
Total	\$ 147,722	\$ 31,823	\$ 1,586,155	\$ 3,289	\$ 88,273	\$ 1,857,262

D. Fund Balance

Fund Balances	General	Highway	Family Services	Ditch	Debt Service	Total
Nonspendable						
Advances	\$ 243,844	\$ -	\$ -	\$ -	\$ -	\$ 243,844
Loans receivable	3,921,139	-	-	-	-	3,921,139
Inventory	-	125,947	-	-	-	125,947
Restricted for						
Law library	1,433	-	-	-	-	1,433
Recorder's Technology Fund	83,265	-	-	-	-	83,265
Recorder's Compliance Fund	36,742	-	-	-	-	36,742
Gravel pit restoration	-	203,592	-	-	-	203,592
Permit to carry	29,801	-	-	-	-	29,801
Unspent grant monies	258,037	-	52,283	-	-	310,320
Federated	50,000	-	-	-	-	50,000
Debt service	-	-	-	-	111,193	111,193
Ditch maintenance and repairs	-	-	-	170,922	-	170,922
Woodland Centers	-	-	100,000	-	-	100,000

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds

D. Fund Balance (Continued)

Fund Balances	General	Highway	Family Services	Ditch	Debt Service	Total
Committed to						
Capital projects	249,602	-	-	-	-	249,602
Building maintenance	593,999	-	-	-	-	593,999
County road projects	-	408,919	-	-	-	408,919
Fuel pumps	-	3,116	-	-	-	3,116
Out-of-home placements	-	-	150,000	-	-	150,000
Assigned to						
Library capital	3,875	-	-	-	-	3,875
Environmental	11,000	-	-	-	-	11,000
Toqua Park	10,500	-	-	-	-	10,500
Economic development	9,000	-	-	-	-	9,000
Cost allocation	1,700	-	-	-	-	1,700
Highway	-	1,231,589	-	-	-	1,231,589
Family Services	-	-	1,285,799	-	-	1,285,799
Subsequent year expenditures	131,450	2,245	-	-	-	133,695
Unassigned	2,726,692	-	-	(237,507)	-	2,489,185
Total Fund Balances	\$ 8,362,079	\$ 1,975,408	\$ 1,588,082	\$ (66,585)	\$ 111,193	\$ 11,970,177

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. 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 Plan and the Public Employees Police and Fire Plan, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which 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 Plan (accounted for in the Police and Fire Fund). For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after 10 years and increasing 5 percent for each year of service until fully vested after 20 years.

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

The benefit provisions stated in the following paragraph 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 their public service.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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 General Employees Retirement Plan Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive 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. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. 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. Only Method 2 is used for members hired after June 30, 1989. Minneapolis Employees Retirement Fund members have an annuity accrual rate of 2.0 percent of average salary for each of the first ten years of service and 2.5 percent for each remaining year. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0 percent of average salary for each year of service.

For General Employees Retirement Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. For Public Employees Police and Fire Plan members, normal retirement age is 55, and for members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. Contributions

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. General Employees Retirement Plan Basic members, Coordinated members, and Minneapolis Employees Retirement Fund members were required to

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

3. Contributions (Continued)

contribute 9.10 percent, 6.50 percent, and 9.75 percent, respectively, of their annual covered salary in 2016. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2016.

In 2016, the County was required to contribute the following percentages of annual covered salary:

General Employees Retirement Plan	
Basic Plan members	11.78%
Coordinated Plan members	7.50
Minneapolis Employees Retirement Fund members	9.75
Public Employees Police and Fire Plan	16.20

The employee and employer contribution rates did not change from the previous year.

The County's contributions for the year ended December 31, 2016, to the pension plans were:

General Employees Retirement Plan	\$ 211,326
Public Employees Police and Fire Plan	56,636

The contributions are equal to the contractually required contributions as set by state statute.

4. Pension Costs

General Employees Retirement Plan

At December 31, 2016, the County reported a liability of \$3,596,940 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

PERA's participating employers. At June 30, 2016, the County's proportion was 0.0443 percent. It was 0.0455 percent measured as of June 30, 2015. The County recognized pension expense of \$482,801 for its proportionate share of the General Employees Retirement Plan's pension expense.

The County also recognized \$14,014 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

County's proportionate share of the net pension liability	\$	3,596,940
State of Minnesota's proportionate share of the net pension liability associated with the County		47,000
Total	\$	3,643,940

The County reported its proportionate share of the General Employees Retirement Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 294,288
Difference between projected and actual investment earnings	687,130	-
Changes in actuarial assumptions	704,284	-
Changes in proportion	-	128,849
Contributions paid to PERA subsequent to the measurement date	107,300	-
Total	\$ 1,498,714	\$ 423,137

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

The \$107,300 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2017	\$ 252,539
2018	252,539
2019	333,271
2020	129,928

Public Employees Police and Fire Plan

At December 31, 2016, the County reported a liability of \$1,404,611 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.035 percent. It was 0.035 percent measured as of June 30, 2015. The County recognized pension expense of \$239,062 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

The County also recognized \$3,150 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Plan. Legislation requires the State of Minnesota to contribute \$9 million to the Public Employees Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

The County reported its proportionate share of the Public Employees Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 161,136
Difference between projected and actual investment earnings	214,353	-
Changes in actuarial assumptions	773,019	-
Contributions paid to PERA subsequent to the measurement date	29,360	-
Total	\$ 1,016,732	\$ 161,136

The \$29,360 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

Year Ended December 31	Pension Expense Amount
2017	\$ 177,716
2018	177,716
2019	177,716
2020	160,394
2021	132,694

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2016, was \$721,863.

5. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014 tables, while mortality rates for Public Employees Police and Fire Plan were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, cost of living benefit increases for retirees are assumed to be 1.0 percent.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was for the period 2008 through 2015. The experience study for the Public Employees Police and Fire Plan was for the period 2004 through 2009.

On August 16, 2016, an updated experience study was done for PERA's Public Employees Police and Fire Plan for the period 2011 through 2015, which would result in a larger pension liability. However, PERA will implement the changes in assumptions for its June 30, 2017, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.5 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2016, a reduction of the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption,

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

6. Discount Rate (Continued)

the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. In the Public Employees Police and Fire Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056. Beginning in fiscal year ended June 30, 2057, when projected benefit payments exceed the Plan's projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60 percent for the Public Employees Police and Fire Plan was determined that produced approximately the same present value of the projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits through the point of asset depletion and 2.85 percent thereafter.

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions (Continued)

Public Employees Police and Fire Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

8. Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	Proportionate Share of the			
	General Employees Retirement Plan		Public Employees Police and Fire Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 5,108,721	4.60%	\$ 1,966,269
Current	7.50	3,596,940	5.60	1,404,611
1% Increase	8.50	2,351,644	6.60	945,694

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

9. Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

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 contributes 5.00 percent of salary, which is matched by the employer. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by Big Stone County during the year ended December 31, 2016, were:

	Employee	Employer
Contribution amount	\$ 3,084	\$ 3,084
Percentage of covered payroll	5%	5%

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (Continued)

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 of \$970. 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.

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 4 elected officials and 19 employees eligible for this benefit in 2016. The cost from this program totaled \$122,617 (\$10,847 for elected officials and \$111,770 for employees) in 2016.

The annual OPEB cost (expense) is allocated based on the County's contributions to retiree premiums through the General Fund, Highway Special Revenue Fund, and Family Services Special Revenue Fund.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

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	\$	313,725
Interest on net OPEB obligation		42,596
Adjustment to ARC		<u>(66,144)</u>
Annual OPEB cost (expense)	\$	290,177
Contributions made during the year		<u>(122,617)</u>
Increase in net OPEB obligation	\$	167,560
Net OPEB Obligation - Beginning of Year		<u>1,064,912</u>
Net OPEB Obligation - End of Year	\$	<u>1,232,472</u>

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, 2014, 2015, and 2016, 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, 2014	\$ 322,304	\$ 132,730	41.2%	\$ 886,931
December 31, 2015	296,789	118,808	40.0	1,064,912
December 31, 2016	290,177	122,617	42.3	1,232,472

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial accrued liability for benefits was \$3,880,410, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,880,410. The covered payroll (annual payroll of active employees covered by the plan) was \$2,441,543, and the ratio of the UAAL to the covered payroll was 158.9 percent.

Actuarial Methods and Assumptions

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

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, 2015, 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.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

The annual health care cost trend is 7.25 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 9 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, 2016, was 22 years.

5. Summary of Significant Contingencies 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 and 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.

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 \$500,000 per claim in 2016 and \$500,000 in 2017. 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.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

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

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.

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 2016 was \$58,427.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Countryside Public Health Service (Continued)

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.

PrimeWest Rural Minnesota Health Care Access Initiative

The PrimeWest Central County-Based Purchasing Initiative (since renamed PrimeWest Rural Minnesota Health Care Access Initiative) was established in December 1998 by a joint powers agreement with Big Stone, 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 Rural Minnesota Health Care Access Initiative. Pipestone County has since joined Southwest Health and Human Services for public health and human services functions. The partnership 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 the PrimeWest Rural Minnesota Health Care Access Initiative 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 Rural Minnesota Health Care Access Initiative 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**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

PrimeWest Rural Minnesota Health Care Access Initiative (Continued)

Complete financial information can be obtained from its administrative office at PrimeWest Rural Minnesota Health Care Access Initiative, 2209 Jefferson Street, Suite 101, 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.

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

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

The Central Minnesota Emergency Services Board has no long-term debt. Financing is provided by the appropriations from member parties and by state and federal grants. During 2016, Big Stone County contributed \$9,294 to the Board.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Central Minnesota Emergency Services Board (Continued)

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

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, Big Stone County contributed \$69,582 to the System. In addition, the County contributed \$14,125 towards capital expenditures in 2016.

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

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 2016.

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Court Services - Big Stone, Grant, Stevens, Traverse, and Wilkin Counties

Big Stone, Grant, Stevens, Traverse, and Wilkin Counties participate in a joint venture to provide corrections services to the five-county area. The joint powers agreement was effective June 1, 1962.

Court services are headquartered in Wheaton, Minnesota, with office locations at the county seats of the member counties.

The two probation officers for the five-county area are appointed by three area judges, who also set the probation officer salaries. The Minnesota Department of Corrections reimburses Traverse County for a portion of the probation officer salaries. The remaining expenses are allocated to each participating county based on population. During 2016, Big Stone County contributed \$44,432 to the entity.

Traverse County acts as fiscal agent. Traverse County reports the probation activity in a separate department within its General Fund.

Woodland Centers

Woodland Centers is a private nonprofit corporation which began operations in 1958 under the Minnesota Community Mental Health Act to provide comprehensive mental health services to meet varied community needs in Chippewa, Kandiyohi, Lac qui Parle, Meeker, Renville, and Swift Counties. Each county appoints two representatives to serve on the Centers' Board of Directors.

In 2016, Big Stone County received a \$300,000 grant from PrimeWest to facilitate a new Woodland Centers clinic in Big Stone County. In 2017, Big Stone County will contribute an additional \$100,000, for a total contribution of \$400,000, and will appoint two Big Stone County representatives to serve on the Centers' Board of Directors. The Big Stone County clinic is expected to be operational in July 2017.

Woodland Centers is headquartered in Willmar, Minnesota, with office locations in each of the member counties. Separate financial information can be obtained from Woodland Centers, 1125 - 6th Street Southeast, Willmar, Minnesota 56201.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

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

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.

F. Tax Abatements

On November 1, 2011, the County Board approved an economic development tax abatement pursuant to Minn. Stat. §§ 469.1812-.1815 to reimburse a portion of the costs incurred to construct an agribusiness facility in Graceville Township by the Wheaton-Dumont Co-Op Elevator. The abatement period is ten years and shall not exceed \$50,000 per year. Abatement reimbursement began in 2014 and will continue through 2023. For the year ending December 31, 2016, Big Stone County abated property taxes totaling \$50,000.

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, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,964,935	\$ 2,964,935	\$ 2,802,539	\$ (162,396)
Special assessments	118,000	118,000	116,704	(1,296)
Licenses and permits	18,400	18,400	26,252	7,852
Intergovernmental	613,892	613,892	882,510	268,618
Charges for services	163,350	163,350	181,836	18,486
Investment earnings	12,000	12,000	28,208	16,208
Miscellaneous	137,850	137,850	337,124	199,274
Total Revenues	\$ 4,028,427	\$ 4,028,427	\$ 4,375,173	\$ 346,746
Expenditures				
Current				
General government				
Commissioners	\$ 156,815	\$ 156,815	\$ 152,621	\$ 4,194
Law library	6,000	6,000	5,137	863
Auditor	244,190	244,190	255,245	(11,055)
Treasurer	100,274	100,274	97,835	2,439
Accounting and auditing	35,360	35,360	38,824	(3,464)
Information technology	249,358	249,358	246,839	2,519
Human resources	108,546	108,546	100,734	7,812
General administration	135,000	135,000	100,547	34,453
Elections	55,095	55,095	42,116	12,979
Attorney	87,327	87,327	87,916	(589)
Recorder	192,528	192,528	189,306	3,222
Assessor	262,544	262,544	222,693	39,851
Planning and zoning	84,034	84,034	63,770	20,264
Buildings and plant	221,416	221,416	230,678	(9,262)
Veterans service officer	126,674	126,674	113,309	13,365
Total general government	\$ 2,065,161	\$ 2,065,161	\$ 1,947,570	\$ 117,591
Public safety				
Sheriff	\$ 878,297	\$ 878,297	\$ 801,634	\$ 76,663
Boat and water safety	2,024	2,024	1,255	769
Coroner	5,000	5,000	5,750	(750)
Probation	48,000	48,000	44,300	3,700
Emergency management	49,663	49,663	38,198	11,465
E-911 system	128,500	128,500	127,286	1,214
Total public safety	\$ 1,111,484	\$ 1,111,484	\$ 1,018,423	\$ 93,061

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	\$ 197,446	\$ 197,446	\$ 201,618	\$ (4,172)
Health				
Public health	\$ 53,967	\$ 53,967	\$ 53,717	\$ 250
Culture and recreation				
Culture and recreation	\$ 115,832	\$ 115,832	\$ 117,595	\$ (1,763)
Historical society	35,000	35,000	35,000	-
Toqua Park	42,000	42,000	35,621	6,379
Total culture and recreation	\$ 192,832	\$ 192,832	\$ 188,216	\$ 4,616
Conservation of natural resources				
Extension	\$ 120,153	\$ 120,153	\$ 119,893	\$ 260
Conservation	84,716	84,716	84,716	-
Feedlot management	21,337	21,337	16,526	4,811
Water planning	125,344	125,344	68,796	56,548
Total conservation of natural resources	\$ 351,550	\$ 351,550	\$ 289,931	\$ 61,619
Economic development				
Other	\$ 62,344	\$ 62,344	\$ 48,407	\$ 13,937
Intergovernmental				
Health	\$ 56,243	\$ 56,243	\$ 58,427	\$ (2,184)
Debt service				
Interest	\$ -	\$ -	\$ 155,312	\$ (155,312)
Administrative (fiscal) charges	-	-	450	(450)
Total debt service	\$ -	\$ -	\$ 155,762	\$ (155,762)
Total Expenditures	\$ 4,091,027	\$ 4,091,027	\$ 3,962,071	\$ 128,956

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Excess of Revenues Over (Under) Expenditures	\$ (62,600)	\$ (62,600)	\$ 413,102	\$ 475,702
Other Financing Sources (Uses)				
Proceeds from the sale of capital assets	<u>2,000</u>	<u>2,000</u>	<u>1,525</u>	<u>(475)</u>
Net Change in Fund Balance	\$ (60,600)	\$ (60,600)	\$ 414,627	\$ 475,227
Fund Balance - January 1	<u>7,947,452</u>	<u>7,947,452</u>	<u>7,947,452</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 7,886,852</u>	<u>\$ 7,886,852</u>	<u>\$ 8,362,079</u>	<u>\$ 475,227</u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
HIGHWAY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 980,000	\$ 980,000	\$ 945,998	\$ (34,002)
Licenses and permits	-	-	1,455	1,455
Intergovernmental	2,730,000	2,730,000	2,626,935	(103,065)
Charges for services	142,000	142,000	211,996	69,996
Investment earnings	2,000	2,000	745	(1,255)
Miscellaneous	31,500	31,500	32,483	983
Total Revenues	\$ 3,885,500	\$ 3,885,500	\$ 3,819,612	\$ (65,888)
Expenditures				
Current				
Highways and streets				
Administration	\$ 367,091	\$ 367,091	\$ 431,447	\$ (64,356)
Other - highways and streets	17,200	17,200	13,044	4,156
Construction	1,670,595	1,670,595	1,104,641	565,954
Maintenance	897,715	897,715	1,093,774	(196,059)
Equipment and maintenance shops	720,200	720,200	676,257	43,943
Material and services for resale	19,015	19,015	35,115	(16,100)
Total highways and streets	\$ 3,691,816	\$ 3,691,816	\$ 3,354,278	\$ 337,538
Intergovernmental				
Highways and streets	195,000	195,000	200,603	(5,603)
Total Expenditures	\$ 3,886,816	\$ 3,886,816	\$ 3,554,881	\$ 331,935
Excess of Revenues Over (Under) Expenditures	\$ (1,316)	\$ (1,316)	\$ 264,731	\$ 266,047
Other Financing Sources (Uses)				
Proceeds from the sale of capital assets	1,000	1,000	22,321	21,321
Net Change in Fund Balance	\$ (316)	\$ (316)	\$ 287,052	\$ 287,368
Fund Balance - January 1	1,768,747	1,768,747	1,768,747	-
Increase (decrease) in inventories	-	-	(80,391)	(80,391)
Fund Balance - December 31	\$ 1,768,431	\$ 1,768,431	\$ 1,975,408	\$ 206,977

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 807,705	\$ 807,705	\$ 762,859	\$ (44,846)
Intergovernmental	1,253,851	1,253,851	1,403,061	149,210
Charges for services	377,750	377,750	469,607	91,857
Miscellaneous	27,960	27,960	19,462	(8,498)
Total Revenues	\$ 2,467,266	\$ 2,467,266	\$ 2,654,989	\$ 187,723
Expenditures				
Current				
Human services				
Income maintenance	\$ 720,103	\$ 720,103	\$ 731,615	\$ (11,512)
Social services	1,747,163	1,747,163	2,049,874	(302,711)
Total Expenditures	\$ 2,467,266	\$ 2,467,266	\$ 2,781,489	\$ (314,223)
Net Change in Fund Balance	\$ -	\$ -	\$ (126,500)	\$ (126,500)
Fund Balance - January 1	1,714,582	1,714,582	1,714,582	-
Fund Balance - December 31	\$ 1,714,582	\$ 1,714,582	\$ 1,588,082	\$ (126,500)

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 165,500	\$ 165,500	\$ 203,538	\$ 38,038
Expenditures				
Current				
Conservation of natural resources				
Other	89,228	89,228	179,007	(89,779)
Net Change in Fund Balance	\$ 76,272	\$ 76,272	\$ 24,531	\$ (51,741)
Fund Balance - January 1	(91,116)	(91,116)	(91,116)	-
Fund Balance - December 31	\$ (14,844)	\$ (14,844)	\$ (66,585)	\$ (51,741)

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2016**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (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	0.00%	\$ 2,461,776	143.90%
January 1, 2012	-	3,991,730	3,991,730	0.00	2,695,105	148.11
January 1, 2015	-	3,880,410	3,880,410	0.00	2,441,543	158.93

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT A-6

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Big Stone County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.0443%	\$ 3,596,940	\$ 47,000	\$ 3,643,940	\$ 2,749,712	130.81%	68.91%
2015	0.0455	2,358,046	N/A	2,358,046	2,676,328	88.11	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.
N/A - Not Applicable

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT A-7

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 211,326	\$ 211,326	\$ -	\$ 2,817,681	7.50%
2015	203,456	203,456	-	2,712,747	7.50

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The County's year-end is December 31.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT A-8

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2016**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.035%	\$ 1,404,611	\$ 338,552	414.89%	63.88%
2015	0.035	397,682	318,794	124.75	86.61

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT A-9

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2016**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 56,636	\$ 56,636	\$ -	\$ 349,607	16.20%
2015	54,831	54,831	-	338,462	16.20

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016

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.

No expenditure budgets were amended for 2016.

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

Fund	Expenditures	Budget	Excess
Family Services Special Revenue	\$ 2,781,489	\$ 2,467,266	\$ 314,223
Ditch Special Revenue	179,007	89,228	89,779

**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.

See Note 4.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

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

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.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

6. Other Postemployment Benefits - Changes in Significant Plan Provisions and Actuarial Assumptions (Continued)

2015

Plan Provisions

- Maximum pre-Medicare reimbursement rates limited to Minnesota Health Insurance Exchange (MNSure) rates rather than MCHA rates.

Actuarial Assumptions

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality tables have been updated to the RP-2014 tables, including the MP-2014 generational improvement scale.
- Retirees with lifetime benefits are assumed to receive their current subsidy indexed for medical trend rather than the maximum allowable subsidy.

7. Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30, 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

7. Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions (Continued)

Public Employees Police and Fire Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

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, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 93,750	\$ 93,750	\$ 88,533	\$ (5,217)
Intergovernmental	-	-	5,557	5,557
Total Revenues	\$ 93,750	\$ 93,750	\$ 94,090	\$ 340
Expenditures				
Debt service				
Principal	\$ 60,000	\$ 60,000	\$ 60,000	\$ -
Interest	25,035	25,035	25,035	-
Administrative (fiscal) fees	1,400	1,400	1,200	200
Total Expenditures	\$ 86,435	\$ 86,435	\$ 86,235	\$ 200
Net Change in Fund Balance	\$ 7,315	\$ 7,315	\$ 7,855	\$ 540
Fund Balance - January 1	103,338	103,338	103,338	-
Fund Balance - December 31	\$ 110,653	\$ 110,653	\$ 111,193	\$ 540

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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, 2016**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>FAMILY SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 86,339	\$ 88,579	\$ 46,758	\$ 128,160
<u>Liabilities</u>				
Due to other governments	\$ 86,339	\$ 88,579	\$ 46,758	\$ 128,160
<u>SOCIAL WELFARE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 18,840	\$ 118,321	\$ 130,365	\$ 6,796
<u>Liabilities</u>				
Accounts payable	\$ 18,840	\$ 118,321	\$ 130,365	\$ 6,796
<u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 18,027	\$ 581,244	\$ 582,570	\$ 16,701
<u>Liabilities</u>				
Due to other governments	\$ 18,027	\$ 581,244	\$ 582,570	\$ 16,701

**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, 2016**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 108,222	\$ 12,496,015	\$ 12,481,622	\$ 122,615
<u>Liabilities</u>				
Due to other governments	\$ 95,905	\$ 12,496,015	\$ 12,474,549	\$ 117,371
Advance from other funds	12,317	-	7,073	5,244
Total Liabilities	\$ 108,222	\$ 12,496,015	\$ 12,481,622	\$ 122,615
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 231,428	\$ 13,284,159	\$ 13,241,315	\$ 274,272
<u>Liabilities</u>				
Accounts payable	\$ 18,840	\$ 118,321	\$ 130,365	\$ 6,796
Due to other governments	200,271	13,165,838	13,103,877	262,232
Advance from other funds	12,317	-	7,073	5,244
Total Liabilities	\$ 231,428	\$ 13,284,159	\$ 13,241,315	\$ 274,272

OTHER SCHEDULE

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**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2016**

Shared Revenue

State

Highway users tax	\$ 2,572,735
County program aid	104,751
PERA rate reimbursement	11,447
Disparity reduction aid	120,288
Police aid	41,344
Enhanced 911	75,107
Market value credit	154,133
Aquatic invasive species aid	83,506
	83,506

Total shared revenue **\$ 3,163,311**

Reimbursement for Services

Minnesota Department of Human Services	\$ 229,892
	229,892

Payments

Local

Payments in lieu of taxes	\$ 150,214
Local contributions	2,400
	2,400

Total payments **\$ 152,614**

Grants

State

Minnesota Department/Board/Office of	
Corrections	\$ 7,296
Human Services	512,176
Natural Resources	28,646
Water and Soil Resources	76,405
Veterans Affairs	7,500
Peace Officer Standards and Training Board	1,876
Pollution Control Agency	76,210
	76,210

Total state **\$ 710,109**

Federal

Department of	
Agriculture	\$ 58,217
Health and Human Services	589,684
Homeland Security	14,236
	14,236

Total federal **\$ 662,137**

Total state and federal grants **\$ 1,372,246**

Total Intergovernmental Revenue **\$ 4,918,063**

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
Big Stone County
Ortonville, Minnesota

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, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated April 5, 2017.

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.

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. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

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*.

The *Minnesota Legal Compliance Audit Guide for Counties*, 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 administers no tax increment financing districts.

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 Counties*. 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.

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 Counties* 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

April 5, 2017

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016**

PREVIOUSLY REPORTED ITEM RESOLVED

2014-001 Audit Adjustment

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**REPRESENTATION OF BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Finding Number: 2014-001

Finding Title: Audit Adjustment

Summary of Condition: During the 2015 audit, an adjustment of \$116,151 was proposed and recorded to the Ditch Special Revenue Fund, which resulted in a reduction of the receivable for special assessments. This adjustment was individually material to this opinion unit and was necessary to fairly present assets and related deferred inflows of resources in Big Stone County's financial statements.

Summary of Corrective Action Previously Reported: The County will review its financial statement closing procedures and journal entries in detail to ensure adjustments are appropriately made to the financial statements.

Status: Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X