STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

STEVENS COUNTY
MORRIS, MINNESOTA

YEAR ENDED DECEMBER 31, 2010

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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STEVENS COUNTY
MORRIS, MINNESOTA

Year Ended December 31, 2010

Audit Practice Division
Office of the State Auditor
State of Minnesota

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STEVENS COUNTY
MORRIS, MINNESOTA

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STEVENS COUNTY
MORRIS, MINNESOTA

ORGANIZATION
DECEMBER 31, 2010

			Term Expires
Elected			
Commissioners			
Board Member	Paul Watzke	District 1	January 2013
Board Member	Herb Kloos*	District 2	January 2011
Board Member	Ron Staples	District 3	January 2013
Chair	Larry Sayre	District 4	January 2013
Board Member	Don Munsterman**	District 5	January 2011
Attorney	Charles Glasrud		January 2011
Auditor/Treasurer	Neil Wiese		January 2011
County Recorder	Virginia Mahoney		January 2011
Registrar of Titles	Virginia Mahoney		January 2011
County Sheriff	Randy Willis		January 2011
Appointed			
Assessor	Judy Thorstad		December 2012
County Coordinator	Brian Giese		Indefinite
Coroner	Michael Busian, M.D.		Indefinite
Highway Engineer	Brian Giese		Indefinite
Human Services Director	Joanie Murphy		Indefinite
Veterans Service Officer	Hugh Reimers		Indefinite

*Replaced by Jeanne Ennen effective January 1, 2011.
**Replaced by Phil Gausman effective January 1, 2011.

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Financial Section

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Stevens County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Stevens County, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Stevens County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Stevens County as of December 31, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Stevens County's basic financial statements as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, 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. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 12, 2011, on our consideration of Stevens County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 12, 2011

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010

Assets		
Cash and pooled investments	$	8,226,652
Taxes receivable		
Current - net		26,306
Prior - net		12,897
Special assessments receivable		
Current - net		3,482
Delinquent - net		10,479
Deferred - net		225,362
Accounts receivable - net		31,047
Accrued interest receivable		41,518
Due from other governments		1,989,900
Inventories		111,657
Capital assets		
Non-depreciable		11,445,688
Depreciable - net of accumulated depreciation		25,326,938
Total Assets	**$**	**47,451,926**
Liabilities		
Accounts payable	$	212,411
Salaries payable		113,652
Contracts payable		1,126,540
Due to other governments		177,366
Permit deposits		3,400
Unearned revenue		19,093
Long-term liabilities		
Due within one year		210,036
Due in more than one year		7,136,584
Total Liabilities	**$**	**8,999,082**
Net Assets		
Invested in capital assets - net of related debt	$	29,892,330
Restricted for		
General government		220,856
Public safety		347,491
Highways and streets		735,971
Human services		4,524
Held in trust for other purposes		892
Unrestricted		7,250,780
Total Net Assets	**$**	**38,452,844**

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

STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT 2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

		Program Revenues		
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Functions/Programs				
Primary government				
Governmental activities				
General government	$ 2,455,117	$ 398,550	$ 136,964	$ (1,919,603)
Public safety	1,533,020	31,461	445,228	(1,056,331)
Highways and streets	3,218,836	385,765	2,489,584	(343,487)
Sanitation	336,207	85,988	55,950	(194,269)
Human services	2,458,465	257,635	1,125,243	(1,075,587)
Health	118,047	-	13,000	(105,047)
Culture and recreation	187,473	-	70,923	(116,550)
Conservation of natural resources	425,975	-	135,602	(290,373)
Economic development	59,000	15,252	-	(43,748)
Interest	190,746	-	-	(190,746)
Total Governmental Activities	**$ 10,982,886**	**$ 1,174,651**	**$ 4,472,494**	**$ (5,335,741)**
General Revenues				
Property taxes				$ 4,543,396
Grants and contributions not restricted to specific programs				1,116,529
Payments in lieu of tax				50,373
Investment income				165,466
Total general revenues				**$ 5,875,764**
Change in net assets				**$ 540,023**
Net Assets - Beginning				**37,912,821**
Net Assets - Ending				**$ 38,452,844**

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

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

STEVENS COUNTY
MORRIS, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	General	Road and Bridge
Assets		
Cash and pooled investments	$ 4,026,200	$ 1,266,494
Petty cash and change funds	5,450	50
Undistributed cash in agency funds	37,888	9,334
Cash with fiscal agent	30,000	-
Taxes receivable		
Current	15,436	4,422
Prior	7,074	2,264
Special assessments		
Current	-	-
Delinquent	-	-
Deferred	-	-
Accounts receivable	527	141
Accrued interest receivable	41,518	-
Due from other funds	32,509	6,031
Due from other governments	569,890	1,228,621
Advance to other funds	148,000	-
Inventories	-	111,657
Total Assets	**$ 4,914,492**	**$ 2,629,014**

EXHIBIT 3

Human Services	Ditch	Solid Waste Nonmajor Fund	Total
$ 2,125,056	$ 287,291	$ 422,645	$ 8,127,686
-	-	-	5,500
13,621	1,377	1,246	63,466
-	-	-	30,000
6,448	-	-	26,306
3,559	-	-	12,897
-	3,482	-	3,482
-	10,479	-	10,479
-	225,362	-	225,362
28,426	-	1,953	31,047
-	-	-	41,518
-	-	-	38,540
178,490	12,899	-	1,989,900
-	-	-	148,000
-	-	-	111,657
$ 2,355,600	**$ 540,890**	**$ 425,844**	**$ 10,865,840**

STEVENS COUNTY
MORRIS, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	General	Road and Bridge
Liabilities and Fund Balances		
Liabilities		
Accounts payable	$ 121,807	$ 20,924
Salaries payable	45,384	43,479
Contracts payable	1,126,540	-
Due to other funds	818	10,737
Due to other governments	152,977	768
Deferred revenue - unavailable	31,108	740,244
Deferred revenue - unearned	-	-
Permit deposits	-	3,400
Advance from other funds	-	-
Total Liabilities	**$ 1,478,634**	**$ 819,552**
Fund Balances		
Reserved for		
Encumbrances	$ 221,312	$ -
Advance to other funds	148,000	-
Inventories	-	111,657
Real estate tax shortfall	84,496	-
HAVA	217	-
DARE	15,963	-
Veteran's van	25,173	-
Missing heirs	892	-
Social service youth	4,524	-
Recorder's compliance fund	53,184	-
Law library	1,684	-
Recorder's equipment purchases	38,059	-
Handgun permits	9,185	-
Enhanced 911	94,434	-
Sheriff's contingency	3,434	-
Sheriff's forfeited property	13,996	-
Attorney's forfeited property	7,210	-
Unreserved		
Designated for		
Future expenditures	300,000	150,000
Cash flows	2,208,082	1,380,113
Compensated absences	206,013	167,692
Undesignated	-	-
Unreserved, reported in nonmajor		
Special revenue funds	-	-
Total Fund Balances	**$ 3,435,858**	**$ 1,809,462**
Total Liabilities and Fund Balances	**$ 4,914,492**	**$ 2,629,014**

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

EXHIBIT 3
(Continued)

Human Services	Ditch	Solid Waste Nonmajor Fund	Total
$ 62,992	$ 200	$ 6,488	$ 212,411
24,789	-	-	113,652
-	-	-	1,126,540
21,937	4,680	368	38,540
23,621	-	-	177,366
43,817	238,898	1,501	1,055,568
19,093	-	-	19,093
-	-	-	3,400
-	148,000	-	148,000
$ 196,249	**$ 391,778**	**$ 8,357**	**$ 2,894,570**
$ -	$ -	$ -	$ 221,312
-	-	-	148,000
-	-	-	111,657
-	-	-	84,496
-	-	-	217
-	-	-	15,963
-	-	-	25,173
-	-	-	892
-	-	-	4,524
-	-	-	53,184
-	-	-	1,684
-	-	-	38,059
-	-	-	9,185
-	-	-	94,434
-	-	-	3,434
-	-	-	13,996
-	-	-	7,210
150,000	-	-	600,000
1,212,071	-	-	4,800,266
92,619	-	-	466,324
704,661	149,112	-	853,773
-	-	417,487	417,487
$ 2,159,351	**$ 149,112**	**$ 417,487**	**$ 7,971,270**
$ 2,355,600	**$ 540,890**	**$ 425,844**	**$ 10,865,840**

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EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010

Fund balance - total governmental funds (Exhibit 3)		**$ 7,971,270**
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		36,772,626
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,055,568
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Capital leases	$ (6,880,296)	
Compensated absences	(466,324)	(7,346,620)
Net Assets of Governmental Activities (Exhibit 1)		**$ 38,452,844**

STEVENS COUNTY
MORRIS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	General	Road and Bridge
Revenues		
Taxes	$ 2,676,761	$ 756,943
Special assessments	-	-
Licenses and permits	7,940	-
Intergovernmental	1,651,368	2,816,029
Charges for services	159,637	221,146
Fines and forfeits	-	-
Investment earnings	167,528	-
Miscellaneous	87,445	172,549
Total Revenues	**$ 4,750,679**	**$ 3,966,667**
Expenditures		
Current		
General government	$ 2,368,036	$ -
Public safety	1,646,301	-
Highways and streets	-	3,579,768
Sanitation	271,599	-
Human services	-	-
Health	118,047	-
Culture and recreation	187,473	-
Conservation of natural resources	271,472	-
Economic development	59,000	-
Intergovernmental		
Highways and streets	224,513	-
Capital outlay	7,360,390	-
Debt service		
Interest	-	-
Total Expenditures	**$ 12,506,831**	**$ 3,579,768**
Excess of Revenues Over (Under) Expenditures	**$ (7,756,152)**	**$ 386,899**
Other Financing Sources (Uses)		
Transfers in	$ 78,531	$ -
Transfers out	-	-
Capital lease issued	4,588,065	-
Total Other Financing Sources (Uses)	**$ 4,666,596**	**$ -**
Change in Fund Balance	**$ (3,089,556)**	**$ 386,899**
Fund Balance - January 1	**6,525,414**	**1,502,630**
Increase (decrease) in reserved for inventories	**-**	**(80,067)**
Fund Balance - December 31	**$ 3,435,858**	**$ 1,809,462**

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

EXHIBIT 5

Human Services	Ditch	Nonmajor Governmental Funds	Total
$ 1,103,945	$ -	$ -	$ 4,537,649
-	124,794	-	124,794
-	-	-	7,940
1,402,287	-	-	5,869,684
112,046	-	85,788	578,617
11,162	-	-	11,162
-	2,723	-	170,251
134,427	-	190,746	585,167
$ 2,763,867	**$ 127,517**	**$ 276,534**	**$ 11,885,264**
$ -	$ -	$ -	$ 2,368,036
-	-	-	1,646,301
-	-	-	3,579,768
-	-	57,216	328,815
2,424,141	-	-	2,424,141
-	-	-	118,047
-	-	-	187,473
-	154,422	-	425,894
-	-	-	59,000
-	-	-	224,513
-	-	-	7,360,390
-	-	190,746	190,746
$ 2,424,141	**$ 154,422**	**$ 247,962**	**$ 18,913,124**
$ 339,726	**$ (26,905)**	**$ 28,572**	**$ (7,027,860)**
$ -	$ -	$ -	$ 78,531
-	-	(78,531)	(78,531)
-	-	-	4,588,065
$ -	**$ -**	**$ (78,531)**	**$ 4,588,065**
$ 339,726	**$ (26,905)**	**$ (49,959)**	**$ (2,439,795)**
1,819,625	**176,017**	**467,446**	**10,491,132**
-	**-**	**-**	**(80,067)**
$ 2,159,351	**$ 149,112**	**$ 417,487**	**$ 7,971,270**

STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT 6

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2010

Net change in fund balance - total governmental funds (Exhibit 5)		**$ (2,439,795)**
Amounts reported for governmental activities in the statement of activities are different because:		
In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.		
Deferred revenue - December 31	$ 1,055,568	
Deferred revenue - January 1	(1,417,923)	(362,355)
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, the net book value of assets disposed of is expensed, while not reported in the fund statements.		
Expenditures for general capital assets and infrastructure	$ 9,487,654	
Net book value of assets disposed of	(214,394)	
Current year depreciation	(1,229,574)	8,043,686
Capital leases issued provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		
Capital lease issued		(4,588,065)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Change in compensated absences	$ (33,381)	
Change in inventories	(80,067)	(113,448)
Change in Net Assets of Governmental Activities (Exhibit 2)		**$ 540,023**

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

FIDUCIARY FUNDS

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STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2010

		Agency Funds
Assets		
Cash and pooled investments	**$**	**526,419**
Liabilities		
Due to other governments	$	514,627
Advance taxes		11,792
Total Liabilities	**$**	**526,419**

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

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2010. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

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

Additionally, the County reports the following fund types:

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

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

C. Measurement Focus and Basis of Accounting

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

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2010, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2010 were $170,251.

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

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

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

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

All receivables are shown net of an allowance for uncollectibles.

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

3. Inventories

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

4. Capital Assets

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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

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

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

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

5. Compensated Absences

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

6. Deferred Revenue

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

1. Summary of Significant Accounting Policies

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

7. Long-Term Obligations

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

8. Fund Equity

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

9. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

Ditch Fund Deficits

Of 30 drainage systems, 5 have incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund balances of the Ditch Special Revenue Fund as of December 31, 2010.

Account balances	$	244,538
Account deficits		(95,426)
Fund Balance	$	149,112

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

Ditch Fund Deficits (Continued)

For internal purposes, the County accounts for its ditches on the accrual basis. Under the full accrual basis where revenues are recognized when earned, the Ditch Special Revenue Fund reports a positive fund balance of $388,010, with four ditches reporting a deficit.

B. Excess of Expenditures Over Budget

	Expenditures	Budget	Excess
General Fund	$ 12,506,831	$ 4,648,328	$ 7,858,503
Human Services Special Revenue Fund	2,424,141	2,385,942	38,199

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Cash and pooled investments	
Governmental activities	$ 8,226,652
Fiduciary funds - agency funds	526,419
Total Cash and Investments	$ 8,753,071

a. Deposits

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

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2010, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

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

3. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments

         b. Investments (Continued)

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

(4) bankers' acceptances of United States banks;

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

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

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

Interest Rate Risk

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

3. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments

         b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2010, $55,173 of marketable certificates of deposit, $3,088,967 of repurchase agreements, and $3,939,315 of government securities were exposed to custodial credit risk because they were held by the counterparty.

Concentration of Credit Risk

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

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table represents the County's cash and investment balances at December 31, 2010, and information relating to potential investment risks:

	Credit Risk		Concentration Risk	Interest Rate Risk		
Investment Type	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date		Carrying (Fair) Value
U.S. government agency securities						
Federal National Mortgage Association	Aaa	Moody's		07/01/2011	$	47,498
Federal National Mortgage Association	Aaa	Moody's		02/25/2013		250,893
Federal National Mortgage Association	Aaa	Moody's		12/21/2018		427,214
Federal National Mortgage Association	Aaa	Moody's		05/20/2020		251,345
Federal National Mortgage Association	Aaa	Moody's		06/16/2020		500,970
Federal National Mortgage Association	Aaa	Moody's		06/23/2025		502,060
Total Federal National Mortgage Association			23.2%		$	1,979,980
Federal Home Loan Mortgage Corporation	Aaa	Moody's		05/01/2014	$	36,209
Federal Home Loan Mortgage Corporation	Aaa	Moody's		08/25/2015		389,637
Federal Home Loan Mortgage Corporation	Aaa	Moody's		03/28/2016		202,408
Federal Home Loan Mortgage Corporation	Aaa	Moody's		09/01/2018		51,479
Federal Home Loan Mortgage Corporation	Aaa	Moody's		08/18/2020		250,213
Federal Home Loan Mortgage Corporation	Aaa	Moody's		08/22/2022		102,582
Federal Home Loan Mortgage Corporation	Aaa	Moody's		04/11/2023		252,545
Federal Home Loan Mortgage Corporation	Aaa	Moody's		07/12/2030		500,515
Total Federal Home Loan Mortgage Corporation			20.9%		$	1,785,588
Federal Home Loan Bank	Aaa	Moody's	<5.0%	01/27/2014	$	249,805
Federal Farm Credit Bank	Aaa	Moody's	<5.0%	05/02/2018	$	101,240
Small Business Administration Loan Pool	N/R	N/A		09/25/2012	$	15,091
Small Business Administration Loan Pool	N/R	N/A		06/25/2020		61,833
Small Business Administration Loan Pool	N/R	N/A		07/25/2020		16,002
Small Business Administration Loan Pool	N/R	N/A		11/25/2021		26,459
Small Business Administration Loan Pool	N/R	N/A		07/25/2023		51,401
Small Business Administration Loan Pool	N/R	N/A		07/25/2023		18,624
Small Business Administration Loan Pool	N/R	N/A		04/25/2024		5,751
Small Business Administration Loan Pool	N/R	N/A		04/25/2024		79,454
Small Business Administration Loan Pool	N/R	N/A		10/25/2024		55,495
Small Business Administration Loan Pool	N/R	N/A		11/25/2025		58,524
Small Business Administration Collateralized Mortgage Obligation	N/R	N/A		02/10/2018		266,038
Total Small Business Administration			7.7%		$	654,672

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Over 5 Percent of Portfolio	Interest Rate Risk: Maturity Date		Carrying (Fair) Value
Municipal bonds						
Virginia State Housing Development Authority Rental Housing Bonds	Aa1	Moody's		03/01/2029	$	250,975
Mahtomedi Minnesota School District Bonds	AAA	S&P		02/01/2029		245,483
Total municipal bonds			5.8%		$	496,458
Investment pools/mutual funds						
MAGIC Fund	N/A	N/A	N/A		$	26
Negotiable certificates of deposit	N/A	N/A	N/A		$	193,207
Repurchase agreements	N/A	N/A	N/A		$	3,088,967
Total investments					$	8,549,943
Deposits						196,972
Cash with broker						656
Change funds						5,500
Total Cash and Investments					$	8,753,071

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

2. Receivables

Receivables as of December 31, 2010, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

		Total Receivables		Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities				
Taxes	$	39,203	$	-
Special assessments		239,323		66,751
Accounts		31,047		-
Interest		41,518		-
Due from other governments		1,989,900		-
Total Governmental Activities	$	2,340,991	$	66,751

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 883,026	$ 155,576	$ -	$ 1,038,602
Construction in progress	4,639,372	7,471,692	1,703,978	10,407,086
Total capital assets not depreciated	$ 5,522,398	$ 7,627,268	$ 1,703,978	$ 11,445,688
Capital assets depreciated				
Improvements other than buildings	$ 142,212	$ -	$ -	$ 142,212
Building improvements	14,945	-	-	14,945
Buildings	2,910,331	-	-	2,910,331
Machinery, furniture, and equipment	4,144,929	593,328	671,140	4,067,117
Infrastructure	33,416,720	2,971,036	-	36,387,756
Total capital assets depreciated	$ 40,629,137	$ 3,564,364	$ 671,140	$ 43,522,361
Less: accumulated depreciation for				
Improvements other than buildings	$ 52,942	$ 6,198	$ -	$ 59,140
Building improvements	2,858	1,197	-	4,055
Buildings	1,963,739	59,405	-	2,023,144
Machinery, furniture, and equipment	2,929,983	373,975	456,746	2,847,212
Infrastructure	12,473,073	788,799	-	13,261,872
Total accumulated depreciation	$ 17,422,595	$ 1,229,574	$ 456,746	$ 18,195,423
Total capital assets depreciated, net	$ 23,206,542	$ 2,334,790	$ 214,394	$ 25,326,938
Governmental Activities Capital Assets, Net	$ 28,728,940	$ 9,962,058	$ 1,918,372	$ 36,772,626

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

Governmental Activities	
General government	$ 138,985
Public safety	96,443
Highways and streets, including depreciation of infrastructure assets	969,506
Human services	19,096
Sanitation	5,544
Total Depreciation Expense - Governmental Activities	$ 1,229,574

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2010, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Road and Bridge	$ 10,737
	Human Services	21,772
Total due to General Fund		$ 32,509
Road and Bridge	General	$ 818
	Human Services	165
	Ditch	4,680
	Solid Waste	368
Total due to Road and Bridge Fund		$ 6,031
Total Due To/From Other Funds		$ 38,540

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

2. Advance From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch	$ 148,000

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

3. Detailed Notes on All Funds

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

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2010, consisted of the following:

Transfer to General Fund from Solid Waste Special Revenue Fund	$ 78,531	Provide funding for recycling activities

C. Liabilities

1. Payables

Payables of governmental activities at December 31, 2010, were as follows:

Accounts	$ 212,411
Salaries	113,652
Contracts	1,126,540
Due to other governments	177,366
Permit deposits	3,400
Total Payables	$ 1,633,369

2. Deferred Revenue

Deferred revenue as of December 31, 2010, for the County's governmental funds is as follows:

	Deferred Unavailable	Deferred Unearned
Governmental funds		
Taxes and special assessments	$ 265,236	$ -
State-aid highway allotments	735,971	-
Grants	37,328	19,093
Interest	17,033	-
Total Governmental Funds	$ 1,055,568	$ 19,093

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Construction and Other Significant Commitments

The County has active construction projects as of December 31, 2010.

	Spent-to-Date	Remaining Commitment
Governmental Activities		
General government		
Courthouse remodel/construction	$ 1,336,294	$ 10,833
Public safety		
Dispatch console	-	210,479
Total Governmental Activities	$ 1,336,294	$ 221,312

4. Capital Lease

Stevens County has entered into a lease arrangement with the Housing and Redevelopment Authority of Stevens County (HRA). The HRA agreed to issue $7,685,000 in Public Project Revenue Bonds in order to finance the construction/remodel of the courthouse. The proceeds of the sale of these bonds were placed into an escrow account. As the County requests construction reimbursements, the funds will be transferred from escrow to the HRA, which will subsequently transfer the funds to the County. The County's lease payment is essentially equal to the principal and interest on the bonds for the year. At December 31, 2010, the County has made reimbursement requests totaling $6,880,296. The County recognizes a lease obligation only up to the amount of the reimbursement requests instead of the outstanding bond balance.

Type of Indebtedness	Maturity	Installment Amounts	Interest Rate %	Original	Balance
Courthouse lease	2031	$265,000 - $575,000	3.0 to 4.7	$ 6,880,296	$ 6,880,296

3. Detailed Notes on All Funds

C. Liabilities

4. Capital Lease (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2010, were as follows:

Year Ending December 31	Governmental Activities
2011	$ 323,909
2012	584,934
2013	586,834
2014	583,509
2015	578,609
2016 - 2020	2,865,774
2021 - 2025	2,868,951
2026 - 2030	2,913,652
2031	588,512
Total future minimum lease payments	$ 11,894,684
Less: amount representing interest	(4,209,684)
Face value of HRA Public Project Revenue Bonds	$ 7,685,000
Less:	
Issuance costs paid from escrow	(61,790)
Net discount	(76,850)
Reserve fund in HRA's name	(301,013)
Bond fund in HRA's name	(370,528)
Interest earned on escrow account included in proceeds	5,477
Present Value of Minimum Lease Payments	$ 6,880,296

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital leases	$ 2,292,231	$ 4,588,065	$ -	$ 6,880,296	$ -
Compensated absences	446,433	401,480	381,589	466,324	210,036
Total Long-Term Liabilities	$ 2,738,664	$ 4,989,545	$ 381,589	$ 7,346,620	$ 210,036

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

4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

4. Pension Plans

   A. Defined Benefit Plans

      Plan Description (Continued)

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

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

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

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

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.4 percent.

The County is required to contribute the following percentages of annual covered payroll in 2010:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.00
Public Employees Police and Fire Fund	14.10

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2010, 2009, and 2008, for the General Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	2010	2009	2008
General Employees Retirement Fund	$ 302,075	$ 328,820	$ 302,198
Public Employees Police and Fire Fund	50,556	67,134	43,819

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

B. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

4. Pension Plans

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2010, were:

	Employee	Employer
Contribution amount	$ 5,701	$ 5,701
Percentage of covered payroll	5.0%	5.0%

Required contribution rates were 5.0 percent.

5. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $450,000 per claim in 2010 and 2011. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

6. Conduit Debt

In 2007, Riverview Dairy of MN, LLP, issued $6,000,000 Solid Waste Disposal Revenue Bonds, Series 2007, to finance solid waste disposal components of the company's addition to its dairy facility. The project is deemed to be in the public interest. Neither the County, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as a liability in the accompanying financial statements. As of December 31, 2010, the outstanding principal amount was $6,000,000.

7. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

B. Claims and Litigation

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

C. Joint Ventures

West Central Area Agency on Aging

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

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

West Central Area Agency on Aging (Continued)

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

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

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

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

Complete financial information can be obtained from:

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

Mid-State Community Health Services

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

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

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Mid-State Community Health Services (Continued)

Complete financial information can be obtained from:

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

Stevens Traverse Grant Public Health Nursing Service

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

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

Financing is provided by state grants; appropriations from Stevens, Traverse, and Grant Counties; and charges for services. Stevens County's contribution for 2010 was $115,306 based on a Cost Allocation Plan developed by Director, Sandy Tubbs.

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

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

Rainbow Rider Transit Board

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

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Rainbow Rider Transit Board (Continued)

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

Complete financial information can be obtained from:

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

Minnesota River Basin Joint Powers Board

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

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

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

During 2010, Stevens County did not contribute any funds to the Joint Powers Board. Complete financial information can be obtained from:

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

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

PrimeWest Central County-Based Purchasing Initiative

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

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

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

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

Complete financial information can be obtained from:

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

Regional Fitness Center

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

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Regional Fitness Center (Continued)

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

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

Financing is provided by the 1998 Minnesota legislative appropriation of $2,500,000 to the University of Minnesota and contributions in the amount of $2,500,000 from the other parties to this agreement. Stevens County's share, $200,000, was paid over a period of five years. Operational and maintenance expenses will be covered by membership fees and other income generated by the Regional Fitness Center. During 2010, Stevens County did not contribute any funds to the Regional Fitness Center.

Complete financial information can be obtained from:

Morris Area Schools
201 South Columbia Avenue
Morris, Minnesota 56267

Pomme de Terre River Association

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

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Pomme de Terre River Association (Continued)

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

During 2010, Stevens County did not contribute any funds to the Joint Powers Board.

Complete financial information can be obtained from:

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

Supporting Hands Nurse Family Partnership Board

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

Complete financial information can be obtained from:

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

Central Minnesota Regional Radio Board

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

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Central Minnesota Regional Radio Board (Continued)

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

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

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

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

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

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

D. Jointly-Governed Organizations

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

Western Area City/County Co-op

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

District IV Transportation Planning

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

Stevens County Family Services Collaborative

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

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

7. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Stevens County Family Services Collaborative (Continued)

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

Financing is provided by state and federal grants and contributions from its member parties. Stevens County, in an agent capacity, reports the cash transactions of the Stevens County Family Services Collaborative as an agency fund on its financial statements. During 2010, the County did not contribute any funds to the Collaborative.

E. Related Organization

Stevens County Housing and Redevelopment Authority

The County Board chair appoints a voting majority on the Stevens County Housing and Redevelopment Authority (HRA). In 2010, Stevens County did not appropriate any funds to the HRA. The County's accountability for the organization does not extend beyond making the appointment.

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REQUIRED SUPPLEMENTARY INFORMATION

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EXHIBIT A-1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 2,893,109	$ 2,893,109	$ 2,676,761	$ (216,348)
Licenses and permits	10,950	10,950	7,940	(3,010)
Intergovernmental	768,979	768,979	1,651,368	882,389
Charges for services	321,300	321,300	159,637	(161,663)
Fines and forfeits	13,500	13,500	-	(13,500)
Investment earnings	200,100	200,100	167,528	(32,572)
Miscellaneous	219,500	219,500	87,445	(132,055)
Total Revenues	**$ 4,427,438**	**$ 4,427,438**	**$ 4,750,679**	**$ 323,241**
Expenditures				
Current				
General government				
Commissioners	$ 264,435	$ 264,435	$ 277,276	$ (12,841)
Law library	9,250	9,250	10,007	(757)
County coordinator	129,975	129,975	108,119	21,856
County auditor/treasurer	412,996	412,996	411,964	1,032
County assessor	219,453	219,453	217,179	2,274
Elections	34,700	34,700	37,121	(2,421)
Accounting and auditing	50,000	50,000	66,628	(16,628)
Data processing	268,140	268,140	268,865	(725)
Attorney	198,904	198,904	196,436	2,468
Recorder	239,907	239,907	280,453	(40,546)
Planning and zoning	25,819	25,819	24,208	1,611
Buildings and plant	276,107	276,107	197,572	78,535
Veterans service officer	36,638	36,638	46,448	(9,810)
Unallocated	136,700	136,700	225,760	(89,060)
Total general government	**$ 2,303,024**	**$ 2,303,024**	**$ 2,368,036**	**$ (65,012)**
Public safety				
Sheriff	$ 1,282,590	$ 1,282,590	$ 1,242,288	$ 40,302
Safety coordinator	33,175	33,175	33,177	(2)
Coroner	25,000	25,000	41,486	(16,486)
E-911 system	43,000	43,000	26,001	16,999
Probation and parole	101,441	101,441	113,346	(11,905)
Civil defense	75,618	75,618	190,003	(114,385)
Total public safety	**$ 1,560,824**	**$ 1,560,824**	**$ 1,646,301**	**$ (85,477)**
Sanitation				
Recycling	$ 133,531	$ 133,531	$ 154,560	$ (21,029)
Hazardous waste	76,631	76,631	117,039	(40,408)
Total sanitation	**$ 210,162**	**$ 210,162**	**$ 271,599**	**$ (61,437)**

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

STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Health				
Nursing service	**$ 115,306**	**$ 115,306**	**$ 118,047**	**$ (2,741)**
Culture and recreation				
Historical society	$ 60,000	$ 60,000	$ 60,000	$ -
Regional library	53,439	53,439	53,439	-
Snowmobile trails	-	-	74,034	(74,034)
Total culture and recreation	**$ 113,439**	**$ 113,439**	**$ 187,473**	**$ (74,034)**
Conservation of natural resources				
County extension	$ 140,198	$ 140,198	$ 125,371	$ 14,827
Soil and water conservation	110,000	110,000	110,000	-
Agricultural inspections	-	-	392	(392)
Agricultural society/County fair	34,875	34,875	34,875	-
Predator control	1,500	1,500	834	666
Total conservation of natural resources	**$ 286,573**	**$ 286,573**	**$ 271,472**	**$ 15,101**
Economic development				
Industrial development	**$ 59,000**	**$ 59,000**	**$ 59,000**	**$ -**
Intergovernmental				
Highways and streets	**$ -**	**$ -**	**$ 224,513**	**$ (224,513)**
Capital outlay				
General government	**$ -**	**$ -**	**$ 7,360,390**	**$ (7,360,390)**
Total Expenditures	**$ 4,648,328**	**$ 4,648,328**	**$ 12,506,831**	**$ (7,858,503)**
Excess of Revenues Over (Under) Expenditures	**$ (220,890)**	**$ (220,890)**	**$ (7,756,152)**	**$ (7,535,262)**
Other Financing Sources (Uses)				
Transfers in	$ 78,531	$ 78,531	$ 78,531	$ -
Capital lease	-	-	4,588,065	4,588,065
Total Other Financing Sources (Uses)	**$ 78,531**	**$ 78,531**	**$ 4,666,596**	**$ 4,588,065**
Net Change in Fund Balance	**$ (142,359)**	**$ (142,359)**	**$ (3,089,556)**	**$ (2,947,197)**
Fund Balance - January 1	**6,525,414**	**6,525,414**	**6,525,414**	**-**
Fund Balance - December 31	**$ 6,383,055**	**$ 6,383,055**	**$ 3,435,858**	**$ (2,947,197)**

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

STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT A-2

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 821,137	$ 821,137	$ 756,943	$ (64,194)
Intergovernmental	2,610,988	2,610,988	2,816,029	205,041
Charges for services	158,500	158,500	221,146	62,646
Miscellaneous	95,200	95,200	172,549	77,349
Total Revenues	**$ 3,685,825**	**$ 3,685,825**	**$ 3,966,667**	**$ 280,842**
Expenditures				
Current				
Highways and streets				
Administration	$ 245,875	$ 245,875	$ 275,184	$ (29,309)
Maintenance	1,028,025	1,028,025	1,008,118	19,907
Construction	1,918,700	1,918,700	1,613,139	305,561
Equipment maintenance and shop	626,350	626,350	673,602	(47,252)
Materials and services for resale	6,875	6,875	9,725	(2,850)
Total Expenditures	**$ 3,825,825**	**$ 3,825,825**	**$ 3,579,768**	**$ 246,057**
Excess of Revenues Over (Under) Expenditures	**$ (140,000)**	**$ (140,000)**	**$ 386,899**	**$ 526,899**
Fund Balance - January 1	**1,502,630**	**1,502,630**	**1,502,630**	**-**
Increase (decrease) in reserved for inventories	**-**	**-**	**(80,067)**	**(80,067)**
Fund Balance - December 31	**$ 1,362,630**	**$ 1,362,630**	**$ 1,809,462**	**$ 446,832**

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

STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT A-3

BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,197,483	$ 1,197,483	$ 1,103,945	$ (93,538)
Intergovernmental	1,092,214	1,092,214	1,402,287	310,073
Charges for services	65,245	65,245	112,046	46,801
Fines and forfeits	-	-	11,162	11,162
Miscellaneous	31,000	31,000	134,427	103,427
Total Revenues	**$ 2,385,942**	**$ 2,385,942**	**$ 2,763,867**	**$ 377,925**
Expenditures				
Current				
Human services				
Income maintenance	$ 479,796	$ 479,796	$ 512,339	$ (32,543)
Social services	1,906,146	1,906,146	1,911,802	(5,656)
Total Expenditures	**$ 2,385,942**	**$ 2,385,942**	**$ 2,424,141**	**$ (38,199)**
Excess of Revenues Over (Under) Expenditures	**$ -**	**$ -**	**$ 339,726**	**$ 339,726**
Fund Balance - January 1	**1,819,625**	**1,819,625**	**1,819,625**	**-**
Fund Balance - December 31	**$ 1,819,625**	**$ 1,819,625**	**$ 2,159,351**	**$ 339,726**

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

STEVENS COUNTY
MORRIS, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2010

1. Budgetary Information

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

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

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

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The following is a summary of the major funds with expenditures in excess of budgeted expenditures for the year ended December 31, 2010.

	Expenditures	Final Budget	Excess
General Fund	$ 12,506,831	$ 4,648,328	$ 7,858,503
Human Services Special Revenue Fund	2,424,141	2,385,942	38,199

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SUPPLEMENTARY INFORMATION

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STEVENS COUNTY
MORRIS, MINNESOTA

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

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

DEBT SERVICE FUND

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

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STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT B-1

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Solid Waste Special Revenue	HRA Courthouse Lease Debt Service	Total (Exhibit 5)
Revenues			
Charges for services	$ 85,788	$ -	$ 85,788
Miscellaneous	-	190,746	190,746
Total Revenues	**$ 85,788**	**$ 190,746**	**$ 276,534**
Expenditures			
Current			
Sanitation	$ 57,216	$ -	$ 57,216
Debt service			
Interest	-	190,746	190,746
Total Expenditures	**$ 57,216**	**$ 190,746**	**$ 247,962**
Excess of Revenues Over (Under) Expenditures	**$ 28,572**	**$ -**	**$ 28,572**
Other Financing Sources (Uses)			
Transfers out	(78,531)	-	(78,531)
Net Change in Fund Balance	**$ (49,959)**	**$ -**	**$ (49,959)**
Fund Balance - January 1	**467,446**	**-**	**467,446**
Fund Balance - December 31	**$ 417,487**	**$ -**	**$ 417,487**

STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT B-2

BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Charges for services	**$ 85,140**	**$ 85,140**	**$ 85,788**	**$ 648**
Expenditures				
Current				
Sanitation				
Solid waste	$ 6,300	$ 6,300	$ 7,048	$ (748)
Tipping fees	67,020	67,020	50,168	16,852
Total Expenditures	**$ 73,320**	**$ 73,320**	**$ 57,216**	**$ 16,104**
Excess of Revenues Over (Under) Expenditures	**$ 11,820**	**$ 11,820**	**$ 28,572**	**$ 16,752**
Other Financing Sources (Uses)				
Transfers out	(78,531)	(78,531)	(78,531)	-
Net Change in Fund Balance	**$ (66,711)**	**$ (66,711)**	**$ (49,959)**	**$ 16,752**
Fund Balance - January 1	**467,446**	**467,446**	**467,446**	**-**
Fund Balance - December 31	**$ 400,735**	**$ 400,735**	**$ 417,487**	**$ 16,752**

FIDUCIARY FUNDS

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STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT C-1

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Balance January 1	Additions	Deductions	Balance December 31
MID-STATE COMMUNITY HEALTH SERVICE				
Assets				
Cash and pooled investments	$ 88,335	$ -	$ 88,335	$ -
Liabilities				
Due to other governments	$ 88,335	$ -	$ 88,335	$ -
SCHOOL DISTRICTS				
Assets				
Cash and pooled investments	$ -	$ 3,837,916	$ 3,837,916	$ -
Liabilities				
Due to other governments	$ -	$ 3,837,916	$ 3,837,916	$ -
STATE REVENUE				
Assets				
Cash and pooled investments	$ 22,800	$ 1,002,929	$ 987,513	$ 38,216
Liabilities				
Due to other governments	$ 22,800	$ 1,002,929	$ 987,513	$ 38,216

STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT C-1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Balance January 1	Additions	Deductions	Balance December 31
STEVENS COUNTY FAMILY SERVICES COLLABORATIVE				
Assets				
Cash and pooled investments	**$ 130,900**	**$ 28,341**	**$ 76,765**	**$ 82,476**
Liabilities				
Due to other governments	**$ 130,900**	**$ 28,341**	**$ 76,765**	**$ 82,476**
STEVENS TRAVERSE GRANT PUBLIC HEALTH NURSING SERVICE				
Assets				
Cash and pooled investments	**$ 320,486**	**$ 1,675,043**	**$ 1,680,378**	**$ 315,151**
Liabilities				
Due to other governments	**$ 320,486**	**$ 1,675,043**	**$ 1,680,378**	**$ 315,151**
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	**$ 81,420**	**$ 7,433,203**	**$ 7,431,111**	**$ 83,512**
Liabilities				
Due to other governments	$ 60,567	$ 7,421,411	$ 7,410,258	$ 71,720
Advance taxes	20,853	11,792	20,853	11,792
Total Liabilities	**$ 81,420**	**$ 7,433,203**	**$ 7,431,111**	**$ 83,512**

STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT C-1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Balance January 1	Additions	Deductions	Balance December 31
TOWNS AND CITIES				
Assets				
Cash and pooled investments	$ -	$ 2,742,455	$ 2,742,455	$ -
Liabilities				
Due to other governments	$ -	$ 2,742,455	$ 2,742,455	$ -
WATERSHED				
Assets				
Cash and pooled investments	$ -	$ 87,271	$ 87,271	$ -
Liabilities				
Due to other governments	$ -	$ 87,271	$ 87,271	$ -
WEST CENTRAL SPECIAL WEAPONS AND TACTICS TEAM				
Assets				
Cash and pooled investments	$ 6,806	$ 5,467	$ 5,209	$ 7,064
Liabilities				
Due to other governments	$ 6,806	$ 5,467	$ 5,209	$ 7,064

STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT C-1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Balance January 1	Additions	Deductions	Balance December 31
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	**$ 650,747**	**$ 16,812,625**	**$ 16,936,953**	**$ 526,419**
Liabilities				
Due to other governments	$ 629,894	$ 16,800,833	$ 16,916,100	$ 514,627
Advance taxes	20,853	11,792	20,853	11,792
Total Liabilities	**$ 650,747**	**$ 16,812,625**	**$ 16,936,953**	**$ 526,419**

SCHEDULES

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STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT D-1

SCHEDULE OF DEPOSITS AND INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Number	Interest Rate (%)	Maturity Dates	Fair Value
Cash and Pooled Investments				
Interest-bearing checking	One	0.05	Continuous	$ 82,476
Repurchase agreements	Two	Variable	Continuous	3,088,967
Certificates of deposit	Two	3.68 to 4.25	February 28, 2011 to March 14, 2011	193,207
Deposits with broker	One	N/A	Continuous	656
Minnesota Association of Governments Investing for Counties (MAGIC) Fund	One	Variable	Continuous	26
Federal Home Loan Mortgage Corporation	Eight	0.63 to 6.05	May 1, 2014 to July 12, 2030	1,785,588
Federal Home Loan Bank	One	0.75	January 27, 2014	249,805
Federal National Mortgage Association	Six	2.25 to 4.50	July 1, 2011 to June 23, 2025	1,979,980
Small Business Administration	Eleven	Variable	September 25, 2012 to November 25, 2025	654,672
Municipal Bonds	Two	5.45 to 6.75	February 1, 2029 to March 1, 2029	496,458
Federal Farm Credit Bank	One	4.85	May 2, 2018	101,240
Total cash and pooled investments				**$ 8,633,075**
Designated Investments				
Fish and Wildlife certificate of deposit	One	1.00	December 3, 2011	84,496
Total Deposits and Investments				**$ 8,717,571**

STEVENS COUNTY
MORRIS, MINNESOTA

BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2010

	Assets					
			Special Assessments Receivable			Due from Other
	Cash	Undistributed Cash	Current	Delinquent	Deferred	Governments
County Ditches						
1	$ 32,390	$ 275	$ 34	$ -	$ 5,006	$ -
2	6,792	4	145	-	7,789	-
3	11,757	-	-	-	2,618	-
4	4,511	-	-	-	15,912	-
5	10,035	-	-	-	2,500	-
6	2,950	8	-	-	3,500	-
7	5,302	-	37	-	500	-
8	4,711	52	-	-	500	-
10	18,081	34	22	-	2,799	-
11	3,041	-	-	-	15,354	-
12	2,120	-	-	-	250	-
13	16,070	-	-	-	4,170	-
14	1,721	-	-	-	2,224	-
15	14,494	316	-	-	25,002	-
16	7,526	-	-	-	3,000	-
17	13,057	-	-	-	2,000	-
18	30,327	56	-	-	12,193	-
20	4,241	9	-	-	1,000	-
21	5,014	-	3,057	10,479	40,136	-
22	7,055	-	-	-	1,000	-
25	14,265	48	56	-	7,713	-
27	5,401	-	-	-	500	-
29	8,962	-	-	-	1,000	-
30	18,731	-	67	-	1,000	-
31	10,125	205	-	-	1,655	-
38	5,194	-	-	-	309	-
43	12,042	-	-	-	15,000	-
Judicial Ditches						
2	3,126	-	-	-	10,000	12,899
9	5,802	370	64	-	40,732	-
10/11	2,448	-	-	-	-	-
Total	**$ 287,291**	**$ 1,377**	**$ 3,482**	**$ 10,479**	**$ 225,362**	**$ 12,899**

EXHIBIT D-2

	Liabilities					Fund	Total
Total	Accounts Payable	Due to Other Funds	Deferred Revenue	Advance from Other Funds	Total	Fund Balance Unreserved Undesignated	Total Liabilities and Fund Balance
$ 37,705	$ 30	$ 675	$ 5,006	$ -	$ 5,711	$ 31,994	$ 37,705
14,730	18	405	7,789	-	8,212	6,518	14,730
14,375	6	135	2,618	-	2,759	11,616	14,375
20,423	8	360	15,912	23,000	39,280	(18,857)	20,423
12,535	3	68	2,500	-	2,571	9,964	12,535
6,458	3	67	3,500	-	3,570	2,888	6,458
5,839	2	45	500	-	547	5,292	5,839
5,263	2	45	500	-	547	4,716	5,263
20,936	8	180	2,799	-	2,987	17,949	20,936
18,395	7	158	15,354	-	15,519	2,876	18,395
2,370	1	22	250	-	273	2,097	2,370
20,240	2	45	4,170	-	4,217	16,023	20,240
3,945	1	23	2,224	-	2,248	1,697	3,945
39,812	28	630	25,002	50,000	75,660	(35,848)	39,812
10,526	3	67	3,000	-	3,070	7,456	10,526
15,057	3	68	2,000	-	2,071	12,986	15,057
42,576	22	495	12,193	-	12,710	29,866	42,576
5,250	2	45	1,000	-	1,047	4,203	5,250
58,686	14	315	53,672	-	54,001	4,685	58,686
8,055	2	45	1,000	-	1,047	7,008	8,055
22,082	16	360	7,713	-	8,089	13,993	22,082
5,901	1	22	500	-	523	5,378	5,901
9,962	2	45	1,000	-	1,047	8,915	9,962
19,798	8	180	1,000	-	1,188	18,610	19,798
11,985	6	135	1,655	-	1,796	10,189	11,985
5,503	1	22	309	-	332	5,171	5,503
27,042	1	23	15,000	35,000	50,024	(22,982)	27,042
26,025	-	-	10,000	30,000	40,000	(13,975)	26,025
46,968	-	-	40,732	10,000	50,732	(3,764)	46,968
2,448	-	-	-	-	-	2,448	2,448
$ 540,890	**$ 200**	**$ 4,680**	**$ 238,898**	**$ 148,000**	**$ 391,778**	**$ 149,112**	**$ 540,890**

STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT D-3

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2010

	Governmental Funds
Shared Revenue	
State	
Highway users tax	$ 2,809,755
County program aid	816,465
PERA rate reimbursement	21,742
Police aid	39,710
Market value credit	228,060
Disparity reduction aid	50,262
Total shared revenue	**$ 3,965,994**
Reimbursement for Services	
State	
Minnesota Department of Human Services	**$ 232,555**
Payments	
Local	
Payments in lieu of taxes	**$ 50,373**
Grants	
State	
Minnesota Department/Board of	
Public Safety	$ 140,305
Natural Resources	70,923
Human Services	451,185
Corrections	16,844
Water and Soil Resources	65,880
Transportation	4,219
Pollution Control Agency	55,950
Peace Officer Standards and Training Board	2,868
Total state	**$ 808,174**
Federal	
Department of	
Agriculture	$ 52,783
Commerce	62,641
Energy	39,270
Health and Human Services	446,055
Homeland Security	211,839
Total federal	**$ 812,588**
Total state and federal grants	**$ 1,620,762**
Total Intergovernmental Revenue	**$ 5,869,684**

EXHIBIT D-4

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster		
State Administrative Matching Grants for SNAP	10.561	$ 51,546
State Administrative Matching Grants for SNAP - ARRA	10.561	1,237
Total U.S. Department of Agriculture		**$ 52,783**
U.S. Department of Commerce		
Passed Through Minnesota Department of Public Safety and the City of St. Cloud		
Public Safety Interoperable Communications Grant Program	11.555	**$ 62,641**
U.S. Department of Energy		
Passed Through Minnesota Department of Commerce		
Energy Efficiency and Conservation Block Grant Program	81.128	**$ 39,270**
U.S. Election Assistance Commission		
Passed Through Minnesota Secretary of State		
Help America Vote Act Requirements Payments	90.401	**$ 2,323**
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health and West Central Area Agency on Aging		
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	$ 13,000
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	5,617
Temporary Assistance for Needy Families (TANF)	93.558	38,894
Child Support Enforcement Cluster		
Child Support Enforcement	93.563	92,481
Child Support Enforcement - ARRA	93.563	4,507
Refugee and Entrant Assistance - State-Administered Programs	93.566	64
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	16,289
Child Welfare Services - State Grants	93.645	1,769
Foster Care Title IV-E	93.658	31,278
Social Services Block Grant	93.667	83,634
Chafee Foster Care Independence Program	93.674	2,015
State Children's Insurance Program	93.767	40
Medical Assistance Program	93.778	153,057
Total U.S. Department of Health and Human Services		**$ 442,645**

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

STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT D-4
(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	$ 15,634
Emergency Management Performance Grants	97.042	17,733
Homeland Security Grant Program	97.067	139,942
Passed Through Minnesota Department of Public Safety and the City of St. Cloud		
Emergency Preparedness Demonstration Program	97.001	2,321
Homeland Security Grant Program	97.067	8,359
Passed Through Minnesota Department of Public Safety and West Central Minnesota EMS Corporation		
Homeland Security Grant Program	97.067	27,850
Total U.S. Department of Homeland Security		**$ 211,839**
Total Federal Awards		**$ 811,501**

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

STEVENS COUNTY
MORRIS, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Stevens County under programs of the federal government for the year ended December 31, 2010. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Stevens County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Stevens County.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	$ 812,588
Grants received in 2006, recognized in 2010	
Help America Vote Act Requirements Payments	2,323
Grants received more than 60 days after year-end, deferred in 2010	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	664
Medical Assistance Program	126
Grants deferred in 2009, recognized as revenue in 2010	
Child Support Enforcement – ARRA	(4,200)
Expenditures Per Schedule of Expenditures of Federal Awards	$ 811,501

5. Subrecipients

Stevens County did not pass any federal awards through to subrecipients in 2010.

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.

Management and
Compliance Section

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STEVENS COUNTY
MORRIS, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010

I. SUMMARY OF AUDITOR'S RESULTS

A. Our report expresses unqualified opinions on the basic financial statements of Stevens County.

B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Stevens County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." One of the significant deficiencies is a material weakness.

C. No instances of noncompliance material to the financial statements of Stevens County were disclosed during the audit.

D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133."

E. The Auditor's Report on Compliance for the major federal award programs for Stevens County expresses an unqualified opinion.

F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

G. The major programs are:

State Administrative Matching Grants for Supplemental Nutrition Assistance Program (SNAP) Cluster	
State Administrative Matching Grants for SNAP	CFDA #10.561
State Administrative Matching Grants for SNAP - ARRA	CFDA #10.561
Public Safety Interoperable Communications Grant Program	CFDA #11.555
Child Support Enforcement Cluster	
Child Support Enforcement	CFDA #93.563
Child Support Enforcement - ARRA	CFDA #93.563
Social Services Block Grant	CFDA #93.667
Medical Assistance Program	CFDA #93.778

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

I. Stevens County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-4 Segregation of Duties

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

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

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

Client's Response:

The County's management is aware of the situation and continues to monitor it to ensure that internal control policies and procedures are being followed. We have formed a committee to look for areas that we can improve on in regards to these issues.

06-1 Preparation of Financial Statements

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

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

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

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

Client's Response:

The Auditor/Treasurer continues to obtain training needed to prepare the financial statements and has recommended to the County Board that if the Chief Auditor/Treasurer position is filled due to the retirement of the current person that this person have the capabilities needed to perform these duties. However, if the Board chooses not to fill the position it will not be possible to prepare such statements internally due to time constraints and we will have to rely on the OSA or a CPA firm to do so.

06-2 Audit Adjustments

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

During our audit, we proposed numerous adjustments that resulted in significant changes to the County's financial statements.

- An adjustment was made in the General Fund to record additional capital outlay for contracts payable in the amount of $712,572 not recognized by the County.

- Also, in the General Fund, adjustments were made to reflect additional receivables from the Housing and Redevelopment Authority in the amount of $398,510 and to reclassify construction reimbursements from capital lease in the amount of $6,481,786 incorrectly posted as miscellaneous revenue. These entries result in an overall change in capital lease issued in the amount of $6,880,296 for construction expenditures relating to the courthouse remodeling project.

- Adjustments were made in the General Fund to recognize an additional receivable for the Homeland Security Grant Program in the amount of $133,162, reclassify intergovernmental revenue for state and federal grants incorrectly posted as miscellaneous revenue in the amount of $232,098, and reclassify intergovernmental revenue for state grants incorrectly posted as charges for services in the amount of $96,034. These adjustments corrected posting errors which would have understated federal revenues by $150,000 and state revenues by $310,399.

- We also identified material adjustments in the General Fund to correct entries made for closing the Ambulance Enterprise Fund into the General Fund. The Ambulance operations were sold in December 2009, and for financial statement purposes, the fund was closed; however, the general ledger was not adjusted to show the closing of the fund as of December 31, 2009. Activity for the Ambulance Services continued to be posted to the Ambulance Enterprise Fund for several months into 2010, at which time a transfer was made. Adjustments were necessary to decrease transfers out by $933,277, increase transfers in by $177,471, decrease general government expenditures by $61,846, and increase miscellaneous revenue by $247,406, resulting in a decrease to fund balance of $925,188.

- Adjustments were made to the Ditch Special Revenue Fund to correct a reversing entry incorrectly made to advances from other funds for repayments made in 2009 in the amount of $56,000 and to reclassify the repayment posted as an expenditure in 2010 in the amount of $54,500. Total expenditures and liabilities were reduced $110,500.

Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements. However, the inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements would not be fairly presented.

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

Client's Response:

The Auditor/Treasurer continues to obtain training needed to prepare the financial statements and has recommended to the County Board that if the Chief Auditor/Treasurer position is filled due to the retirement of the current person that this person have the capabilities needed to perform these duties. However, if the Board chooses not to fill the position it will not be possible to prepare such statements internally due to time constraints and we will have to rely on the OSA or a CPA firm to do so.

08-1 Documenting and Monitoring Internal Controls

County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided. Although the County may informally assess risks and adjust internal control procedures to address those risks, there are no formal procedures or documentation of those procedures in place.

At a minimum, the following significant internal control areas should be documented:

- cash and investment activities;
- capital assets (capitalization process and related depreciation);
- major funding sources (taxes, intergovernmental revenues, charges for services, and miscellaneous items);
- expenditure/expense processing;
- payroll; and
- inventories.

We recommend that County management document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize the risks. We also recommend that a formal plan be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

The county committee that was formed to address the issues will meet more regularly and proceed as recommended to address these issues and document our progress.

ITEM ARISING THIS YEAR

10-1 Preparation of the Schedule of Expenditures of Federal Awards

The Office of Management and Budget's (OMB) Circular A-133**,** *Audits of States, Local Governments, and Non-Profit Organizations, Auditee responsibilities* subpart C § .300 requires, "The auditee shall (a) identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity; and (d) shall prepare appropriate financial statements, including the schedule of expenditures of federal awards in accordance with subpart C § .310."

Stevens County does not prepare a Schedule of Expenditures of Federal Awards (SEFA), nor does it adequately identify federal programs by amount received and expended, federal grantor agency, pass-through agency, and Catalog of Federal Domestic Assistance (CFDA) title and number as required under OMB Circular A-133.

This condition results in a deficiency in internal control over financial statement preparation and the reporting of federal financial assistance by the County. Since the County has not developed procedures for properly identifying all federal financial assistance, the County relies on its auditors for assistance with preparing the SEFA. Independent auditors cannot be considered part of the County's internal control over financial reporting.

We recommend that Stevens County management develop a process, including written procedures that will allow staff to adequately identify federal revenues and accumulate the information needed to prepare the SEFA. Specific measures could include having departments informing accounting/finance when they have received a grant award, holding in suspense accounts until properly identified as to nature and source any intergovernmental revenue receipts, and comparison of the prior year SEFA to the current year. For each federal award identified, the County should determine the correct program

CFDA title and number, award number and year, federal grantor agency, pass-through agency, amount received and expended, and whether American Recovery and Reinvestment Act (ARRA) funding is involved. The federal CFDA website is available to assist in this process. Those responsible for compiling the SEFA should obtain the training necessary (through courses or reference materials) to understand the components of the SEFA and properly gather the correct information and maintain supporting documentation. The County should also reconcile the SEFA amounts to the general ledger and financial statements.

Client's Response:

We will follow the recommendation to prepare this schedule in the future and note that we were not informed of this requirement until the audit was nearing completion.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-1 Publishing Board Minutes and Claims Paid

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

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

The County Board should comply with the above-noted statutes and publish the County Board minutes with vendor payments.

Client's Response:

The County Board was informed by the Auditor/Treasurer of the approximate cost of publishing the vendor payments but made no motion to publish this list at this time.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

05-1 Ditch Fund Balance Deficits

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

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

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

Client's Response:

Stevens County's Administration and Ditch Authority continue to work towards resolution of the finding by levying.

C. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for Stevens County for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance are reserved, unreserved-designated, and unreserved-undesignated. Statement 54 replaces these components with nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).

- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.

- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.

- *Unassigned* - spendable amounts not contained in the other classifications.

The County should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The County can start with the following steps:

- review the requirements of GASB Statement 54;

- review current fund balances and compare to the new classifications;

- reclassify January 1, 2011, fund balance using the new classifications;

- review/update/prepare a comprehensive fund balance policy;

- prepare appropriate Board resolutions to commit fund balance; and

- if the Board of County Commissioners intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in the new standard. The new definition for a special revenue fund could have significant impact on the County's current fund classifications.

GASB Statement 54 provides a new and clearer description of when it is appropriate to account for an activity using a special revenue fund. Special revenue funds are used to report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects, where the restricted or committed revenue sources comprise a substantial portion of the fund's resources, and are expected to continue to do so in the future. The standard does not define substantial portion; however, most recommendations are generally that the restricted or committed revenues should comprise at least 35 to 50 percent of total fund revenues. Under this definition, it is possible that some current special revenue funds will no longer meet the requirements for special revenue fund treatment. The County's management should review the County's special revenue funds to ensure these funds continue to warrant treatment as special revenue funds.

The County's management should perform the following steps prior to December 31, 2011:

- prepare a list of the County's special revenue funds;
- determine the sources of revenues for each of those funds;
- identify whether any of those revenues are restricted or committed;
- determine if these restricted or committed revenues represent a substantial portion of the fund's revenues and are expected to continue to be a substantial source of revenues;
    - if yes, the fund may continue to be classified as a special revenue fund;
    - if not, determine whether the County will combine that fund with the general fund or with a similar purpose special revenue fund that meets the new definition;
- code revenues in the general ledger by source constraints--restricted, committed, assigned, or unassigned; and
- determine if there needs to be a restatement of beginning fund balances.

Additional implementation steps could include: informing any component units that they also will need to meet the requirements; deciding on how fund balance will be presented in the financials, such as detailed vs. aggregate methods; and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at: http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf.

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

Board of County Commissioners
Stevens County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Stevens County as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 12, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-4, 06-1, 08-1, and 10-1 to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because Stevens County has no tax increment financing districts.

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

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

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

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

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

July 12, 2011

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Stevens County

Compliance

We have audited Stevens County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. Stevens County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Stevens County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

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

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

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

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

/s/Rebecca Otto *s/Greg Hierlinger*

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 12, 2011