

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA

YEAR ENDED DECEMBER 31, 2011

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.

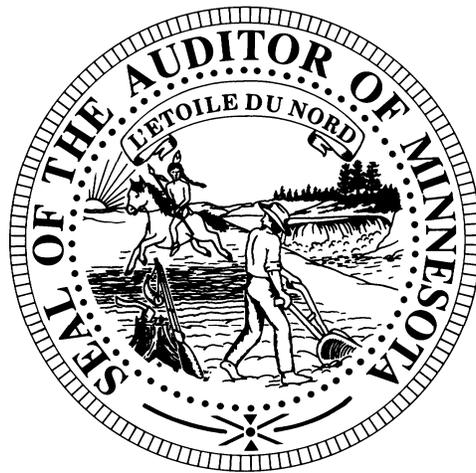
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Year Ended December 31, 2011



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

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

ORGANIZATION
2011

| <u>Office</u> | <u>Name</u> | <u>Term Expires</u> |
|--------------------------|-------------------------------|---------------------|
| Commissioners | | |
| 1st District | Greg Renneke | January 2015 |
| 2nd District | Dick Wambeke ¹ | January 2015 |
| 3rd District | Gary Lee Johnson ² | January 2013 |
| 4th District | Ronald Antony | January 2015 |
| 5th District | Louis Sherlin | January 2013 |
| Officers | | |
| Elected | | |
| Attorney | Keith Helgeson | January 2015 |
| District Judge | Dwayne Knutsen | January 2015 |
| Sheriff | Bill Flaten | January 2015 |
| Appointed | | |
| Administrator | Ryan Krosch | Indefinite |
| Auditor-Treasurer | Lois Bonde | Indefinite |
| Assessor | Connie Erickson | Indefinite |
| Coroner | Kenneth Carter, M.D. | Indefinite |
| Highway Engineer | Andrew Sander | Indefinite |
| Planning and Zoning | Randy Jacobson | Indefinite |
| Recorder | Kay Zempel | Indefinite |
| Veterans Service Officer | Michelle Gatz | Indefinite |

¹Chair 2011

²Chair 2012

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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
Yellow Medicine County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Yellow Medicine County as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Yellow Medicine 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; 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 Yellow Medicine County as of December 31, 2011, 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.

As discussed in Note 1.D.10. to the financial statements, during the year ended December 31, 2011, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Yellow Medicine 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, 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 presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2012, on our consideration of Yellow Medicine 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 20, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011
(Unaudited)**

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of the County's financial activities for the fiscal year ended December 31, 2011. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

Governmental activities' total net assets are \$74,839,507, of which \$58,577,146 is invested in capital assets, net of related debt, and \$2,299,170 is restricted to specific purposes. The \$13,963,191 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

The County's net assets increased by \$2,465,970 for the year ended December 31, 2011. A large part of the increase is attributable to the County's investing in Road and Bridge Special Revenue Fund capital assets.

The net cost of governmental activities for the current fiscal year was \$6,438,674. General revenues and other items totaling \$8,904,644 funded the net cost.

The fund balances of the governmental funds decreased by \$1,203,531. The decrease was largely due to Road and Bridge Special Revenue Fund revenues being \$1,336,556 less than expenditures. This decrease plus the net decreases in the Human Services Special Revenue Fund and Ditch Special Revenue Fund of \$27,918 and \$172,917, respectively, and the increase of \$344,695 to the General Fund and of \$23,570 in the Debt Service Fund accounted for the decrease in total fund balance for all funds.

For the year ended December 31, 2011, the unrestricted fund balance of the General Fund was \$5,274,913, or 90.7 percent, of the total General Fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

The County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Ditch Special Revenue Fund, and Debt Service Fund. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with this budget.

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

Fiduciary funds are used to account for resources held for the benefit of parties outside of the County. Fiduciary funds are not reflected in the government-wide statements because the resources of these funds are not available to support the County's own programs or activities. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on Exhibits 7 and 8.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$74,839,507 at the close of 2011. The largest portion of the net assets (78.3 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure such as roads and bridges), less any related outstanding debt used to acquire those assets. However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

| | Net Assets | |
|---|--------------------------------|------------------|
| | (in Thousands) | |
| | <u>Governmental Activities</u> | |
| | <u>2011</u> | <u>2010</u> |
| Assets | | |
| Current and other assets | \$ 18,611 | \$ 19,042 |
| Capital assets | <u>61,098</u> | <u>58,327</u> |
| Total Assets | <u>\$ 79,709</u> | <u>\$ 77,369</u> |
| Liabilities | | |
| Long-term liabilities | \$ 3,893 | \$ 4,142 |
| Other liabilities | <u>977</u> | <u>853</u> |
| Total Liabilities | <u>\$ 4,870</u> | <u>\$ 4,995</u> |
| Net Assets | | |
| Invested in capital assets, net of related debt | \$ 58,577 | \$ 55,409 |
| Restricted | 2,299 | 4,211 |
| Unrestricted | <u>13,963</u> | <u>12,754</u> |
| Total Net Assets | <u>\$ 74,839</u> | <u>\$ 72,374</u> |

Unrestricted net assets--the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--is 18.7 percent of the net assets.

Governmental Activities

The County's governmental activities increased net assets by 3.4 percent (\$2,465,970 for 2011 compared to \$1,769,345 for 2010). Key elements in this increase in net assets are as follows:

| | Governmental Activities | |
|---|-------------------------|------------------|
| | 2011 | 2010 |
| Changes in Net Assets (in Thousands) | | |
| Revenues | | |
| Program revenues | | |
| Fees, charges, fines, and other | \$ 1,625 | \$ 1,116 |
| Operating grants and contributions | 6,075 | 5,856 |
| Capital grants and contributions | 513 | 20 |
| General revenues | | |
| Property taxes | 7,431 | 7,236 |
| Other | 1,473 | 1,632 |
| Total Revenues | <u>\$ 17,117</u> | <u>\$ 15,860</u> |
| Expenses | | |
| General government | \$ 2,529 | \$ 2,423 |
| Public safety | 2,326 | 2,225 |
| Highways and streets | 4,877 | 4,728 |
| Sanitation | 158 | 107 |
| Human services | 3,512 | 3,343 |
| Health | 99 | 91 |
| Culture and recreation | 240 | 270 |
| Conservation of natural resources | 776 | 745 |
| Economic development | 16 | 21 |
| Interest | 118 | 137 |
| Total Expenses | <u>\$ 14,651</u> | <u>\$ 14,090</u> |
| Excess of Revenues Over (Under) Expenses | \$ 2,466 | \$ 1,770 |
| Net Assets - January 1 | <u>72,374</u> | <u>70,604</u> |
| Net Assets - December 31 | <u>\$ 74,840</u> | <u>\$ 72,374</u> |

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$14,857,094, a decrease of \$1,203,531 in comparison with the prior year. Of the combined ending fund balances, \$12,967,966 represents unrestricted fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been restricted for various reasons either by state law, grant agreements, or bond covenants.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unrestricted fund balance of \$5,274,913. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total expenditures. The General Fund's unrestricted fund balance represents 90.7 percent of total General Fund expenditures. During 2011, the ending fund balance increased by \$344,695. The primary reason for this increase was due to more revenues from taxes and special assessments of \$3,924,688 and \$160,994, respectively, and the receipt of insurance dividends for expenses of prior years.

The Road and Bridge Special Revenue Fund had an unrestricted fund balance of \$3,842,974 at fiscal year-end, representing 52.2 percent of its annual expenditures. The ending fund balance decreased \$1,370,961 during 2011, primarily due to expended state aid funds for a two-year road project.

The Human Services Special Revenue Fund had an unrestricted fund balance of \$3,850,079 at fiscal year-end, representing 110.2 percent of its annual expenditures. The ending fund balance decreased \$27,918 during 2011, primarily due to lower than anticipated intergovernmental revenues from state grants and aid.

The Ditch Special Revenue Fund had an unrestricted fund balance of \$0 at fiscal year-end. The entire fund balance was restricted for at fiscal year-end. The ending fund balance decreased \$172,917 during 2011, primarily due to ditch repairs being higher than anticipated.

The Debt Service Fund had an unrestricted fund balance of \$0 at fiscal year-end. The entire fund balance was restricted to be used for ongoing debt service costs. The ending fund balance increased \$23,570 during 2011, primarily due to the bond covenant's requirement to levy 105 percent of the amount needed to make the subsequent year's principal and interest payments.

Governmental Activities

The County's total revenues were \$17,116,986. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2011.

**Table 1
Total County Revenues - 2011**

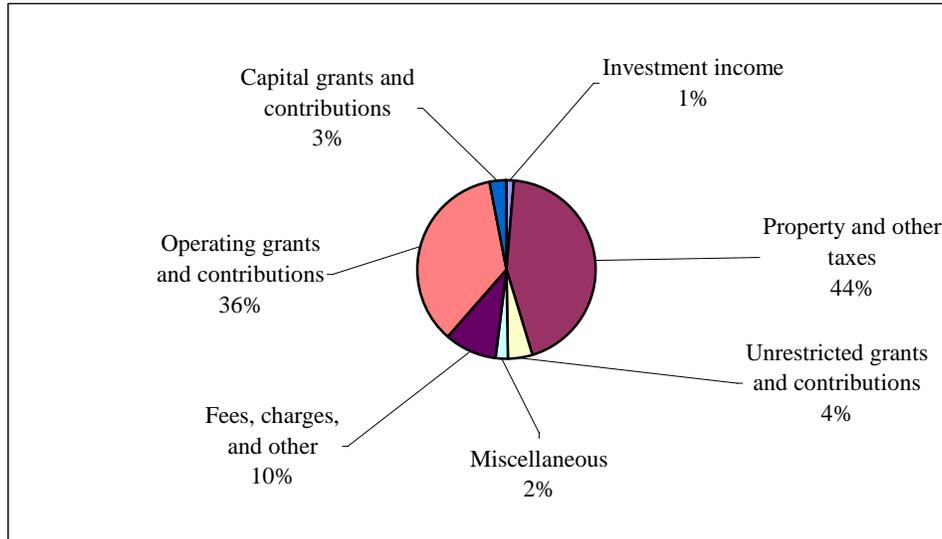
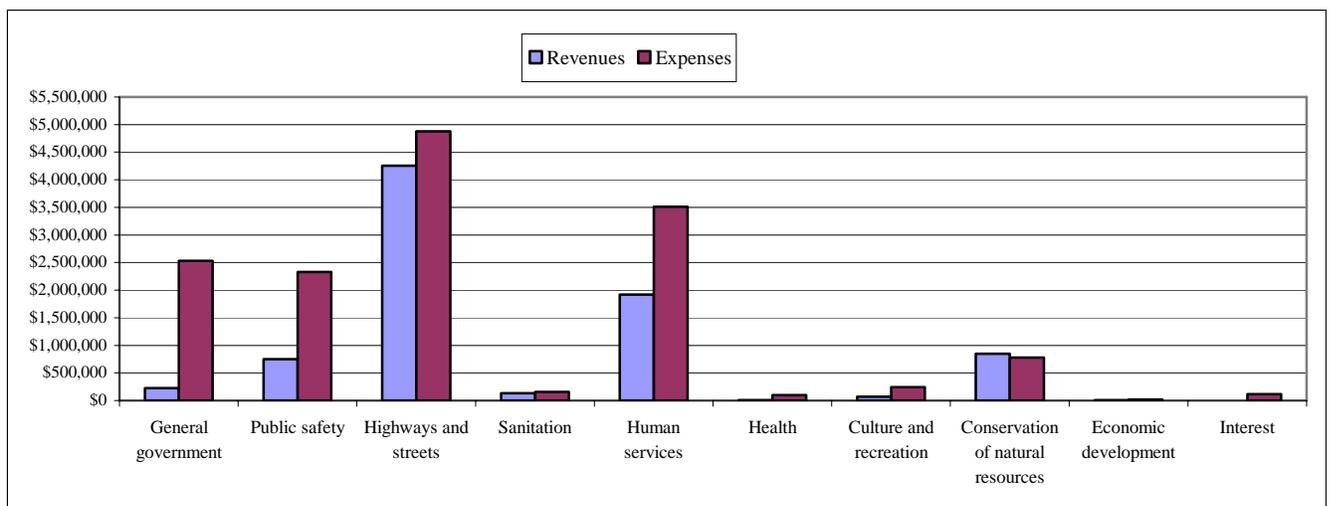


Table 2 presents the cost and revenue of each program as well as the County's general revenues. Total revenues for the County were \$17,116,986, while total expenses were \$14,651,016. This reflects a \$2,465,970 increase in net assets for the year ended December 31, 2011.

**Table 2
Expenses and Program Revenues - 2011**



The costs of all governmental activities this year were \$14,651,016. However, as shown on the Statement of Activities on Exhibit 2, the amount that taxpayers ultimately financed for these activities through County taxes was only \$7,431,046 because some of the costs were paid by those who directly benefited from the programs (\$1,624,700) or by other governments, organizations, and individuals that subsidized certain programs with grants and contributions (\$6,587,642). The County paid for the remaining “public benefit” portion of governmental activities with \$8,904,644 in general revenues, primarily taxes (some of which could only be used for certain programs) and other revenues, such as grants and contributions not restricted to specific programs and interest.

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

| | Governmental Activities (in Thousands) | | | |
|----------------------|---|------------------|----------------------|-----------------|
| | Total Cost of Services | | Net Cost of Services | |
| | 2011 | 2010 | 2011 | 2010 |
| Highways and streets | \$ 4,877 | \$ 4,728 | \$ 623 | \$ 989 |
| Human services | 3,512 | 3,343 | 1,591 | 1,339 |
| Public safety | 2,326 | 2,225 | 1,577 | 1,785 |
| General government | 2,529 | 2,422 | 2,302 | 2,163 |
| All others | 1,407 | 1,372 | 346 | 823 |
| Totals | <u>\$ 14,651</u> | <u>\$ 14,090</u> | <u>\$ 6,439</u> | <u>\$ 7,099</u> |

General Fund Budgetary Highlights

Over the course of the year, the County Board revised the General Fund budget. These budget amendments fall into three categories: new information changing original budget estimates, greater than anticipated revenues and/or costs, and new grant awards.

With these adjustments, the actual charges to appropriations (expenditures) were \$343,271 below the final budget amounts. The most significant positive variance (\$226,243) occurred in general government where central services were \$121,475 less than anticipated, Attorney’s Office supplies and forfeiture expenditures were \$9,524 less than anticipated, as well as various other costs were less than anticipated. This \$226,243 variance resulted in a 3.7 percent reduction in expected expenditures. Reasons for other significant variances of actual expenditures to final budget include less than anticipated expenditures of supplies and services in the Jail (\$11,067), lower than anticipated wage and health insurance costs in the Sheriff’s Office (\$26,330), and several other departments also spent less than anticipated.

On the other hand, resources available for appropriation were \$284,094 above the final budgeted amount. The most significant positive variances (\$160,347) occurred in miscellaneous revenue due to receiving a larger MCIT dividend than anticipated; there were also greater than anticipated charges for services and investment earnings.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2011, totaled \$61,098,051 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets, net of depreciation, increased \$2,770,713, or 4.8 percent, from the previous year. The major capital asset events were:

- \$4,779,611 construction of highways and streets,
- \$362,721 purchase of radio and dispatch equipment, and
- \$189,935 purchase of highway equipment.

Capital Assets at Year-End Net of Depreciation (in Thousands)

| | 2011 | 2010 |
|---------------------------------------|-----------|-----------|
| Land | \$ 827 | \$ 827 |
| Infrastructure | 53,530 | 50,221 |
| Buildings | 3,959 | 4,074 |
| Improvements other than buildings | 279 | 290 |
| Machinery and equipment | 2,185 | 1,951 |
| Works of art and historical treasures | 126 | 126 |
| Construction in progress | 192 | 838 |
| Total | \$ 61,098 | \$ 58,327 |

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

Long-Term Debt

At the end of the current fiscal year, the County had total net outstanding debt of \$2,505,309, which was backed by the full faith and credit of the government.

| | Outstanding Debt (in Thousands) | |
|--------------------------|--|-----------------|
| | <u>2011</u> | <u>2010</u> |
| General obligation bonds | \$ 2,271 | \$ 2,434 |
| General obligation notes | 233 | 463 |
| Capital leases | <u>1</u> | <u>3</u> |
| Total | <u>\$ 2,505</u> | <u>\$ 2,900</u> |

The County's debt related to general obligation bonds decreased by \$165,000 (6.7 percent) during the fiscal year.

Minnesota statutes limit the amount of debt a county may levy to three percent of its total market value. At the end of 2011, the County's outstanding debt was 0.13 percent of its total estimated market value.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County's elected and appointed officials considered many factors when setting the 2012 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Yellow Medicine County at the end of 2011 was 4.9 percent. This compares with the state and federal unemployment rates of 5.7 percent and 8.5 percent, respectively, but shows a 0.8 percent decrease from the County's 5.7 percent rate of one year ago. This rate of unemployment could impact the level of services requested by County residents.
- The County has a strong agricultural base. New construction added \$15.7 million to the base for spreading future taxes. Keeping the County's tax base vital and healthy is very important to the County's overall financial health and condition.

- The rapid rising cost of health insurance has a large impact on the budgeting process.
- General Fund expenditures for 2012 are budgeted to increase 5.3 percent (\$300,873) over the 2011 original budget. The 2012 anticipated revenues, other than tax levy, special assessments, state county program aid, and state market value credits, are budgeted to increase 15.6 percent (\$162,481) over the 2011 original budget.
- The 2012 gross property tax levy for the County increased 2.89 percent (\$236,989) from 2011; but after reducing the levy by state county program aid (\$264,763), the net tax levy (the amount spread to taxpayers) increased 2.99 percent (\$236,989) over the net tax levy for 2011.
- Considering cost-effective and efficient means for delivery of County programs and services will influence the development of future budgets.
- Additional grant awards in Veteran's Services, Restorative Justice, and Drug Free Communities have contributed to additional services provided to the public, which is having a positive impact on the current budgets as well as future budgets.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Yellow Medicine County's finances. If you have questions concerning any of the information provided in this report or requests for additional financial information, address them to the County's Finance Manager, Michelle A. May, Yellow Medicine County Courthouse, 415 Ninth Avenue, Suite 102, Granite Falls, Minnesota 56241.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011**

Assets

| | |
|--|-----------------------------|
| Cash and pooled investments | \$ 13,602,589 |
| Investments | 1,151,124 |
| Receivables - net | 3,535,416 |
| Inventories | 126,233 |
| Prepaid items | 169,302 |
| Deferred charges | 26,342 |
| Capital assets | |
| Non-depreciable capital assets | 1,144,211 |
| Depreciable capital assets - net of accumulated depreciation | <u>59,953,840</u> |
| Total Assets | <u>\$ 79,709,057</u> |

Liabilities

| | |
|--|----------------------------|
| Accounts payable and other current liabilities | \$ 938,088 |
| Accrued interest payable | 38,926 |
| Long-term liabilities | |
| Due within one year | 566,760 |
| Due in more than one year | <u>3,325,776</u> |
| Total Liabilities | <u>\$ 4,869,550</u> |

Net Assets

| | |
|--|-----------------------------|
| Invested in capital assets - net of related debt | \$ 58,577,146 |
| Restricted for | |
| Highways and streets | 921,276 |
| Public safety | 310,217 |
| Human services | 26,285 |
| Debt service | 643,959 |
| Conservation of natural resources | 172,055 |
| Other purposes | 225,378 |
| Unrestricted | <u>13,963,191</u> |
| Total Net Assets | <u>\$ 74,839,507</u> |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | Program Revenues | | | Net (Expense) |
|--|---------------------------------------|--|--|---|
| Expenses | Fees, Charges, Fines, and Other | Operating Grants and Contributions | Capital Grants and Contributions | Revenue and Changes in Net Assets |
| <u>Functions/Programs</u> | | | | |
| Governmental activities | | | | |
| General government | \$ 2,529,240 | \$ 167,194 | \$ 60,253 | \$ - |
| Public safety | 2,326,298 | 205,742 | 232,386 | 311,080 |
| Highways and streets | 4,877,164 | 85,888 | 3,966,461 | 201,672 |
| Sanitation | 158,459 | 78,082 | 55,950 | - |
| Human services | 3,511,865 | 268,353 | 1,652,199 | - |
| Health | 98,572 | 808 | 7,004 | - |
| Culture and recreation | 239,727 | 15,081 | 52,819 | - |
| Conservation of natural resources | 775,987 | 803,552 | 43,875 | - |
| Economic development | 16,125 | - | 3,943 | - |
| Interest | 117,579 | - | - | - |
| Total Governmental Activities | \$ 14,651,016 | \$ 1,624,700 | \$ 6,074,890 | \$ 512,752 |
| General Revenues | | | | |
| Property taxes | | | | \$ 7,431,046 |
| Mortgage registry and deed tax | | | | 6,752 |
| Payments in lieu of tax | | | | 77,014 |
| Grants and contributions not restricted to specific programs | | | | 739,637 |
| Unrestricted investment earnings | | | | 246,838 |
| Miscellaneous | | | | 403,357 |
| Total general revenues | | | | \$ 8,904,644 |
| Change in net assets | | | | \$ 2,465,970 |
| Net Assets - Beginning | | | | 72,373,537 |
| Net Assets - Ending | | | | \$ 74,839,507 |

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

| | <u>General</u> | <u>Road and Bridge</u> | <u>Human Services</u> | <u>Ditch</u> | <u>Debt Service</u> | <u>Total</u> |
|---|----------------------------|----------------------------|----------------------------|--------------------------|--------------------------|-----------------------------|
| <u>Assets</u> | | | | | | |
| Cash and pooled investments | \$ 5,681,765 | \$ 3,790,763 | \$ 3,944,800 | \$ 22,596 | \$ 372 | \$ 13,440,296 |
| Undistributed cash in agency funds | 90,484 | 31,362 | 26,134 | 3,692 | 9,221 | 160,893 |
| Petty cash and change funds | 1,350 | 50 | - | - | - | 1,400 |
| Investments | 320,668 | - | - | 165,498 | 664,958 | 1,151,124 |
| Taxes receivable | | | | | | |
| Prior | 65,528 | 30,057 | 26,865 | - | 8,333 | 130,783 |
| Special assessments receivable | | | | | | |
| Prior | 10,364 | - | - | 2,006 | - | 12,370 |
| Noncurrent | 587,882 | - | - | 616,275 | - | 1,204,157 |
| Accounts receivable | 9,601 | 1,262 | 11,524 | - | - | 22,387 |
| Accrued interest receivable | 101,708 | - | - | - | - | 101,708 |
| Due from other funds | 16,335 | - | - | 2,960 | - | 19,295 |
| Due from other governments | 118,012 | 1,699,415 | 203,283 | 43,301 | - | 2,064,011 |
| Inventories | - | 126,233 | - | - | - | 126,233 |
| Prepaid items | 80,291 | 30,880 | 51,554 | 6,577 | - | 169,302 |
| Total Assets | <u>\$ 7,083,988</u> | <u>\$ 5,710,022</u> | <u>\$ 4,264,160</u> | <u>\$ 862,905</u> | <u>\$ 682,884</u> | <u>\$ 18,603,959</u> |
| <u>Liabilities and Fund Balances</u> | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 102,591 | \$ 24,937 | \$ 110,368 | \$ 27,020 | \$ - | \$ 264,916 |
| Salaries payable | 128,990 | 48,622 | 69,647 | 1,614 | - | 248,873 |
| Contracts payable | 11,892 | 242,796 | - | - | - | 254,688 |
| Due to other funds | 2,960 | - | 16,335 | - | - | 19,295 |
| Due to other governments | 21,404 | 10,874 | 113,027 | 24,306 | - | 169,611 |
| Deferred revenue - unavailable | 753,297 | 1,382,706 | 26,865 | 618,281 | 8,333 | 2,789,482 |
| Total Liabilities | <u>\$ 1,021,134</u> | <u>\$ 1,709,935</u> | <u>\$ 336,242</u> | <u>\$ 671,221</u> | <u>\$ 8,333</u> | <u>\$ 3,746,865</u> |
| Fund Balances | | | | | | |
| Nonspendable | \$ 80,291 | \$ 157,113 | \$ 51,554 | \$ 6,577 | \$ - | \$ 295,535 |
| Restricted | 707,650 | - | 26,285 | 185,107 | 674,551 | 1,593,593 |
| Committed | 40,828 | - | - | - | - | 40,828 |
| Assigned | - | 3,842,974 | 3,850,079 | - | - | 7,693,053 |
| Unassigned | 5,234,085 | - | - | - | - | 5,234,085 |
| Total Fund Balances | <u>\$ 6,062,854</u> | <u>\$ 4,000,087</u> | <u>\$ 3,927,918</u> | <u>\$ 191,684</u> | <u>\$ 674,551</u> | <u>\$ 14,857,094</u> |
| Total Liabilities and Fund Balances | <u>\$ 7,083,988</u> | <u>\$ 5,710,022</u> | <u>\$ 4,264,160</u> | <u>\$ 862,905</u> | <u>\$ 682,884</u> | <u>\$ 18,603,959</u> |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011**

Fund balance - total governmental funds (Exhibit 3) \$ 14,857,094

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. 61,098,051

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. 2,789,482

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.

| | | | |
|--|----|-------------|-------------|
| General obligation bonds | \$ | (2,285,000) | |
| Capital equipment notes | | (235,000) | |
| Capital leases | | (905) | |
| Loans payable | | (760,242) | |
| Compensated absences | | (566,704) | |
| Net OPEB liability | | (60,281) | |
| Unamortized discount on general obligation refunding bonds | | 14,379 | |
| Unamortized discount on capital equipment notes | | 1,217 | |
| Deferred debt issuance charges | | 26,342 | |
| Accrued interest payable | | (38,926) | |
| | | (3,905,120) | (3,905,120) |

Net Assets of Governmental Activities (Exhibit 1) \$ 74,839,507

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | <u>General</u> | <u>Road and Bridge</u> | <u>Human Services</u> | <u>Ditch</u> | <u>Debt Service</u> | <u>Total</u> |
|---|---------------------|----------------------------|---------------------------|---------------------|-------------------------|-----------------------|
| Revenues | | | | | | |
| Taxes | \$ 3,924,688 | \$ 1,655,267 | \$ 1,379,225 | \$ - | \$ 486,561 | \$ 7,445,741 |
| Special assessments | 160,994 | - | - | 136,007 | - | 297,001 |
| Licenses and permits | 36,861 | - | - | - | - | 36,861 |
| Intergovernmental | 886,096 | 4,234,209 | 1,817,705 | 44,071 | 27,957 | 7,010,038 |
| Charges for services | 282,274 | 28,596 | 179,365 | - | - | 490,235 |
| Fines and forfeits | 11,985 | - | - | - | - | 11,985 |
| Gifts and contributions | 5,515 | - | - | - | - | 5,515 |
| Investment earnings | 258,465 | 609 | - | 4,755 | 2,798 | 266,627 |
| Miscellaneous | 440,906 | 89,118 | 88,988 | 16,959 | - | 635,971 |
| Total Revenues | \$ 6,007,784 | \$ 6,007,799 | \$ 3,465,283 | \$ 201,792 | \$ 517,316 | \$ 16,199,974 |
| Expenditures | | | | | | |
| Current | | | | | | |
| General government | \$ 2,427,890 | \$ - | \$ - | \$ - | \$ - | \$ 2,427,890 |
| Public safety | 2,164,058 | - | - | - | - | 2,164,058 |
| Highways and streets | - | 6,992,233 | - | - | - | 6,992,233 |
| Sanitation | 170,502 | - | - | - | - | 170,502 |
| Human services | - | - | 3,493,201 | - | - | 3,493,201 |
| Health | 8,275 | - | - | - | - | 8,275 |
| Culture and recreation | 237,105 | - | - | - | - | 237,105 |
| Conservation of natural resources | 434,337 | - | - | 374,709 | - | 809,046 |
| Economic development | 16,125 | - | - | - | - | 16,125 |
| Intergovernmental | 273,503 | 365,072 | - | - | - | 638,575 |
| Debt service | | | | | | |
| Principal | 75,036 | - | - | - | 395,000 | 470,036 |
| Interest | 10,227 | - | - | - | 98,321 | 108,548 |
| Administrative (fiscal) fees | - | - | - | - | 425 | 425 |
| Total Expenditures | \$ 5,817,058 | \$ 7,357,305 | \$ 3,493,201 | \$ 374,709 | \$ 493,746 | \$ 17,536,019 |
| Excess of Revenues Over (Under) Expenditures | \$ 190,726 | \$ (1,349,506) | \$ (27,918) | \$ (172,917) | \$ 23,570 | \$ (1,336,045) |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

***EXHIBIT 5
(Continued)***

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | <u>General</u> | <u>Road and Bridge</u> | <u>Human Services</u> | <u>Ditch</u> | <u>Debt Service</u> | <u>Total</u> |
|---|---------------------|----------------------------|---------------------------|-------------------|-------------------------|----------------------|
| Other Financing Sources (Uses) | | | | | | |
| Loans issued | \$ 153,969 | \$ - | \$ - | \$ - | \$ - | \$ 153,969 |
| Proceeds from the sale of capital assets | - | 12,950 | - | - | - | 12,950 |
| Total Other Financing Sources (Uses) | <u>\$ 153,969</u> | <u>\$ 12,950</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 166,919</u> |
| Net Change in Fund Balance | \$ 344,695 | \$ (1,336,556) | \$ (27,918) | \$ (172,917) | \$ 23,570 | \$ (1,169,126) |
| Fund Balance - January 1 | 5,718,159 | 5,371,048 | 3,955,836 | 364,601 | 650,981 | 16,060,625 |
| Increase (decrease) in inventories | - | (34,405) | - | - | - | (34,405) |
| Fund Balance - December 31 | <u>\$ 6,062,854</u> | <u>\$ 4,000,087</u> | <u>\$ 3,927,918</u> | <u>\$ 191,684</u> | <u>\$ 674,551</u> | <u>\$ 14,857,094</u> |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, 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, 2011**

Net change in fund balance - total governmental funds (Exhibit 5) \$ (1,169,126)

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 | \$ 2,789,482 | |
| Deferred revenue - January 1 | <u>(2,195,235)</u> | 594,247 |

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

| | | |
|--|--------------------|-----------|
| Expenditures for general capital assets and infrastructure | \$ 4,851,112 | |
| Current year depreciation | <u>(2,064,094)</u> | 2,787,018 |

Debt issuance proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The net proceeds for debt issuance are:

| | | |
|---------------------|--|-----------|
| Debt issued - loans | | (153,969) |
|---------------------|--|-----------|

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

| | | |
|--------------------------|--------------|---------|
| Principal payments | | |
| General obligation bonds | \$ 395,000 | |
| Loans payable | 72,493 | |
| Capital leases | <u>2,543</u> | 470,036 |

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

| | | |
|---|-----------------|-----------------|
| Change in accrued interest payable | \$ 4,082 | |
| Change in long-term loans payable | (5,292) | |
| Amortization of discounts and deferred issuance charges | (7,396) | |
| Change in compensated absences payable | (4,581) | |
| Change in net OPEB liability | (14,644) | |
| Change in inventories | <u>(34,405)</u> | <u>(62,236)</u> |

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 2,465,970

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FIDUCIARY FUNDS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2011**

| | Cemetery Investment Trust | Agency |
|--|--|-------------------|
| <u>Assets</u> | | |
| Cash and pooled investments | \$ - | \$ 257,211 |
| Investments | 10,250 | - |
| Accrued interest receivable | 105 | - |
| Total Assets | \$ 10,355 | \$ 257,211 |
| <u>Liabilities</u> | | |
| Accounts payable | \$ 105 | \$ - |
| Due to other governments | - | 257,211 |
| Total Liabilities | \$ 105 | \$ 257,211 |
| <u>Net Assets</u> | | |
| Net assets, held in trust for pool participant | \$ 10,250 | |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | <u>Cemetery Investment Trust</u> |
|---------------------------------|--|
| <u>Additions</u> | |
| Investment earnings | \$ 190 |
| <u>Deductions</u> | |
| Distributions to participant | <u>190</u> |
| Changes in Net Assets | \$ - |
| Net Assets - January 1 | <u>10,250</u> |
| Net Assets - December 31 | <u><u>\$ 10,250</u></u> |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Yellow Medicine County was established March 6, 1871, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. § 373.01. As required by accounting principles generally accepted in the United States of America, these financial statements present Yellow Medicine County. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Administrator serves as the clerk of the Board of Commissioners but has no vote.

Blended Component Unit

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

| <u>Component Unit</u> | <u>Component Unit Included in Reporting Entity Because</u> | <u>Separate Financial Statements</u> |
|---|--|---|
| Yellow Medicine County Economic Development Authority (EDA) provides services pursuant to Minn. Stat. §§ 469.090-.1081. | County Commissioners are the members of the EDA Board. | Separate financial statements are not prepared. |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in several joint ventures described in Note 5.C. The County also participates in jointly-governed organizations described in Note 5.D.

B. Basic Financial Statements

1. Government-Wide Statements

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

In the government-wide statement of net assets, the governmental activities are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net assets are reported in three parts: (1) invested in capital assets, 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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as committed property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Human Services Special Revenue Fund accounts for restricted revenue resources from the federal, state, and other oversight agencies, as well as committed property tax revenues used for economic assistance and community social services programs.

The Ditch Special Revenue Fund accounts for special assessments revenues levied against benefited property restricted to finance the cost of constructing and maintaining an agricultural drainage ditch system.

The Debt Service Fund is used to account for the financial resources restricted for payment of long-term debt principal, interest, and related costs.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fiduciary fund types:

The Cemetery Investment Trust Fund is used to account for specific investments held by the County for Union (Doncastor) Cemetery Association, a legally separate entity that is not part of the County's financial reporting entity.

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.

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Finance Manager for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2011, 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 2011 were \$251,365.

Yellow Medicine 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 satisfy the requirements of Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7), as amended. The investment in the pool is measured at the net asset value per share provided by the pool.

Included in total cash and investments are the assets held for Union (Doncastor) Cemetery Association in an external investment pool. For the purposes of financial reporting, the Cemetery Association's portion of the County's pool of cash and investments is reported as an investment trust fund. Assets in the pool are reported at fair value based on quoted market prices. The pool is not subject to regulatory oversight, and the fair value of the position in the pool is the same as the pool shares. Fair value amounts are determined at year-end. The County has not provided or obtained any legally binding guarantees to support the value of the pool.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

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

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in applicable governmental funds to indicate that they are not in spendable form.

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 in the prior year. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15 or November 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

3. Inventories and Prepaid Items

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

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Restricted Assets

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

5. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure (such as roads, bridges, sidewalks, and similar items) and intangible assets, are reported in the governmental activities column in the government-wide financial statements.

Capital assets are defined by the County as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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.

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

| <u>Assets</u> | <u>Years</u> |
|------------------------------|--------------|
| Buildings | 15 - 40 |
| Land improvements | 5 - 40 |
| Public domain infrastructure | 20 - 80 |
| Machinery and equipment | 3 - 20 |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. 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.

7. Deferred Revenue

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

8. Long-Term Obligations

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

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Classification of Net Assets

Net assets in the government-wide and proprietary fund financial statements are classified in the following categories:

Invested in capital assets, net of related debt - the amount of net assets representing capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net assets - the amount of net assets for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets - the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

10. Classification of Fund Balances

In 2011, the County implemented the requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement requires retroactive restatement of fund balance for the reclassifications made to conform to this statement. Total fund balance did not change. Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - the nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

10. Classification of Fund Balances (Continued)

Restricted - fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed - the committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned - amounts in the assigned fund balance classification the County intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Administrator who has been delegated that authority by the Board.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Minimum Fund Balance

Yellow Medicine County has adopted a minimum fund balance policy for the General Fund. The General Fund is heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined it needs to maintain a minimum unrestricted fund balance (committed, assigned, and unassigned) of no less than five months of operating expenditures. The fund balance policy was adopted by the County Board on December 20, 2011. At December 31, 2011, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

12. Use of Estimates

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

13. Reclassifications

Several account balances were reclassified as of and for the year ended December 31, 2010, as previously reported due to implementation of GASB 54. These reclassifications were required for comparability to the financial statements as of and for the year ended December 31, 2011. Although comparative statements for 2010 are not presented here, these reclassifications must be considered when comparing the financial statements of this report with those of prior reports.

E. Potential Impact of New Accounting Standards on Current Period Financial Statements

The GASB has approved Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Application of GASB Statement 63 may restate portions of these financial statements.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

2. Stewardship, Compliance, and Accountability

At December 31, 2011, there were no expenditures in excess of budget in the governmental funds.

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:

| | |
|---|--------------------------|
| Government-wide statement of net assets | |
| Governmental activities | |
| Cash and pooled investments | \$ 13,602,589 |
| Investments | 1,151,124 |
| Statement of fiduciary net assets | |
| Cash and pooled investments | 257,211 |
| Investments | <u>10,250</u> |
| Total Cash and Investments | <u>\$ 15,021,174</u> |

a. Deposits

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

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has adopted a policy for custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2011, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County has adopted a policy to eliminate investment

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

custodial credit risk by permitting brokers that obtain investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available and that they qualify under Minn. Stat. § 118A.06 to hold investments. Securities purchased that exceed available SIPC coverage or are purchased by a broker that does not qualify under Minn. Stat. § 118A.06 to hold investments shall be transferred to the County's custodian. At December 31, 2011, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

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

The following table presents the County's cash and investment balances at December 31, 2011, and information relating to potential investment risks:

| Investment Type | Credit Risk | | Concentration | Interest | Market Value |
|--|---------------|---------------|-----------------------------|-------------------------|--------------|
| | Credit Rating | Rating Agency | Over 5 Percent of Portfolio | Rate Risk Maturity Date | |
| U.S. government agency securities | | | | | |
| Federal Home Loan Bank Bonds | AA+ | S&P | <5% | 07/26/2018 | \$ 200,034 |
| Federal Home Loan Mortgage Corp. Notes | AA+ | S&P | <5% | 07/27/2021 | 200,012 |
| Federal National Mortgage Assoc. Notes | AA+ | S&P | <5% | 07/20/2021 | 199,916 |
| Illinois State Taxable Bond | A+ | S&P | <5% | 01/01/2013 | 204,478 |
| Investment pools | | | | | |
| MAGIC Fund | N/R | N/A | <5% | N/A | 949 |
| Negotiable certificates of deposit | N/R | N/A | <5% | Varies | 485,000 |
| Total investments | | | | | \$ 1,290,389 |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

| Investment Type | Credit Risk | | Concentration Risk | Interest Rate Risk | Market Value |
|----------------------------|---------------|---------------|-----------------------------|--------------------|----------------------|
| | Credit Rating | Rating Agency | Over 5 Percent of Portfolio | Maturity Date | |
| Checking | | | | | 419,014 |
| Savings | | | | | 5,400,121 |
| Certificates of deposit | | | | | 7,910,250 |
| Petty cash | | | | | 1,400 |
| Total Cash and Investments | | | | | <u>\$ 15,021,174</u> |

N/R - Not Rated
N/A - Not Applicable
S&P - Standard & Poor's
<5% - Concentration is less than 5% of investments

2. Receivables

Receivables as of December 31, 2011, 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 | \$ 130,783 | \$ - |
| Special assessments | 1,216,527 | 486,356 |
| Due from other governments | 2,064,011 | - |
| Accounts | 22,387 | - |
| Interest | 101,708 | - |
| Total Governmental Activities | <u>\$ 3,535,416</u> | <u>\$ 486,356</u> |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|--|----------------------|---------------------|-------------------|----------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 826,544 | \$ - | \$ - | \$ 826,544 |
| Construction in progress | 838,535 | 150,305 | 796,967 | 191,873 |
| Works of art and historical treasures | 125,794 | - | - | 125,794 |
| Total capital assets not depreciated | \$ 1,790,873 | \$ 150,305 | \$ 796,967 | \$ 1,144,211 |
| Capital assets depreciated | | | | |
| Buildings | \$ 6,120,309 | \$ 47,511 | \$ - | \$ 6,167,820 |
| Land improvements | 391,410 | - | - | 391,410 |
| Machinery and equipment | 5,090,729 | 654,347 | 70,281 | 5,674,795 |
| Infrastructure | 68,678,995 | 4,779,611 | - | 73,458,606 |
| Total capital assets depreciated | \$ 80,281,443 | \$ 5,481,469 | \$ 70,281 | \$ 85,692,631 |
| Less: accumulated depreciation for | | | | |
| Buildings | \$ 2,045,743 | \$ 163,221 | \$ - | \$ 2,208,964 |
| Land improvements | 100,984 | 11,381 | - | 112,365 |
| Machinery and equipment | 3,139,882 | 419,782 | 70,281 | 3,489,383 |
| Infrastructure | 18,458,369 | 1,469,710 | - | 19,928,079 |
| Total accumulated depreciation | \$ 23,744,978 | \$ 2,064,094 | \$ 70,281 | \$ 25,738,791 |
| Total capital assets depreciated, net | \$ 56,536,465 | \$ 3,417,375 | \$ - | \$ 59,953,840 |
| Capital Assets, Net | \$ 58,327,338 | \$ 3,567,680 | \$ 796,967 | \$ 61,098,051 |

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

| | |
|---|---------------------|
| Governmental Activities | |
| General government | \$ 186,230 |
| Public safety | 109,478 |
| Highways and streets, including depreciation of infrastructure assets | 1,750,730 |
| Sanitation | 2,826 |
| Human services | 9,359 |
| Culture and recreation | 2,622 |
| Conservation of natural resources | 2,849 |
| Total Depreciation Expense - Governmental Activities | \$ 2,064,094 |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2011, was as follows:

Due To/From Other Funds

| Receivable Fund | Payable Fund | Amount |
|-----------------|----------------|-----------|
| General | Human Services | \$ 16,335 |
| Ditch | General | 2,960 |
| Total | | \$ 19,295 |

The amounts due to the General Fund from the Human Services Special Revenue Fund and due to the Ditch Special Revenue Fund from the General Fund resulted from the time lag between the dates the interfund goods and services were provided and reimbursable expenditures occurred, and when transactions are recorded in the accounting system and when the funds are repaid. All balances are expected to be liquidated in the subsequent year.

C. Liabilities

1. Payables

Payables at December 31, 2011, were as follows:

| | |
|--------------------------|------------|
| Accounts | \$ 264,916 |
| Salaries | 248,873 |
| Contracts | 254,688 |
| Due to other governments | 169,611 |
| Total | \$ 938,088 |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Capital Leases

Yellow Medicine County has a lease agreement that qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The capital lease consisted of the following at December 31, 2011:

| <u>Lease</u> | <u>Final Maturity</u> | <u>Installment</u> | <u>Payment Amount</u> | <u>Original Issue Amount</u> | <u>Outstanding Balance December 31, 2011</u> |
|----------------------|---------------------------|--------------------|---------------------------|--------------------------------------|--|
| 2007 postage machine | 2012 | Monthly | \$ 231 | \$ 10,885 | <u>\$ 905</u> |

Capital lease payments for the postage machine are paid from the General Fund. The lease will be paid off in 2012. The future minimum lease obligations and the net present value of the minimum lease payments as of December 31, 2011, were as follows:

| <u>Year Ending December 31</u> | <u>Lease Payments</u> |
|------------------------------------|---------------------------|
| 2012 | \$ 924 |
| Less: amount representing interest | <u>(19)</u> |
| Capital Leases Payable | <u>\$ 905</u> |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Loans Payable

Beginning in 2003, the County entered into loan agreements with the Minnesota Pollution Control Agency for financing of clean water projects. The loans are secured by special assessments placed on the individual parcels requesting funding of a project. Loan payments are reported in the General Fund.

| Type of Indebtedness | Final Maturity | Semi-Annual Installment Amount | Interest Rate (%) | Original Issue Amount | Outstanding Balance December 31, 2011 |
|--|----------------|--------------------------------|-------------------|-----------------------|---------------------------------------|
| Yellow Medicine River Watershed | 2014 | \$ 12,446 | 2.00 | \$ 224,595 | \$ 60,406 |
| Redwood River Watershed Project Continuation | 2021 | 2,910 | 2.00 | 52,514 | 36,427 |
| Yellow Medicine River Watershed Continuation | 2018 | 11,853 | 2.00 | 213,887 | 143,817 |
| Lac qui Parle River Mainstem Water Quality Enhancement | 2019 | 14,578 | 2.00 | 321,004 | 277,385 |
| AG BMP Septic Loans | 2022 | Varies | N/A | 242,207 | 242,207 |
| Total Loans Payable | | | | <u>\$ 1,054,207</u> | <u>\$ 760,242</u> |

N/A - Not Applicable

4. Bonds Payable

Payments on the refunding bonds are made by the Debt Service Fund.

| Type of Indebtedness | Final Maturity | Installment Amount | Average Interest Rate (%) | Original Issue Amount | Outstanding Balance December 31, 2011 |
|---|----------------|--------------------------|---------------------------|-----------------------|---------------------------------------|
| General obligation bonds 2005 G.O. Refunding Bonds, Series 2005 | 2022 | \$165,000 - \$250,000 | 3.9532 | <u>\$ 2,615,000</u> | \$ 2,285,000 |
| Less: unamortized discount | | | | | <u>(14,379)</u> |
| Total General Obligation Bonds, Net | | | | | <u>\$ 2,270,621</u> |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Notes Payable

Payments on the capital equipment notes are made by the Debt Service Fund.

| Type of Indebtedness | Final Maturity | Installment Amount | Average Interest Rate (%) | Original Issue Amount | Outstanding Balance December 31, 2011 |
|---|-------------------|--------------------------|------------------------------------|-----------------------------|--|
| General obligation capital equipment notes | | | | | |
| G.O. Capital Equipment Notes, Series 2009 | 2012 | \$230,000 - \$235,000 | 2.00 | <u>\$ 695,000</u> | \$ 235,000 |
| Less: unamortized discount | | | | | <u>(1,217)</u> |
| Total General Obligation Bonds, Net | | | | | <u>\$ 233,783</u> |

6. Debt Service Requirements

Payments on the refunding bonds and capital equipment notes are made by the Debt Service Fund. Debt service requirements at December 31, 2011, were as follows:

| Year Ending December 31 | General Obligation Bonds | | General Obligation Notes | |
|----------------------------|--------------------------|-------------------|--------------------------|-----------------|
| | Principal | Interest | Principal | Interest |
| 2012 | \$ 170,000 | \$ 85,330 | \$ 235,000 | \$ 2,644 |
| 2013 | 180,000 | 79,420 | - | - |
| 2014 | 185,000 | 72,985 | - | - |
| 2015 | 190,000 | 66,093 | - | - |
| 2016 | 195,000 | 58,776 | - | - |
| 2017 - 2021 | 1,115,000 | 168,406 | - | - |
| 2022 | 250,000 | 5,188 | - | - |
| Total | <u>\$ 2,285,000</u> | <u>\$ 536,198</u> | <u>\$ 235,000</u> | <u>\$ 2,644</u> |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

6. Debt Service Requirements (Continued)

Debt payments on the loans payable are made from the General Fund. Debt service requirements at December 31, 2011, were as follows:

| Year Ending December 31 | Loans Payable | |
|----------------------------|-------------------|------------------|
| | Principal | Interest |
| 2012 | \$ 93,148 | \$ 8,732 |
| 2013 | 97,919 | 7,227 |
| 2014 | 90,663 | 5,693 |
| 2015 | 80,173 | 4,502 |
| 2016 | 82,048 | 3,413 |
| 2017 - 2021 | 244,686 | 4,037 |
| 2022 | 8,774 | - |
| Total | <u>\$ 697,411</u> | <u>\$ 33,604</u> |

Loans of \$62,831 for Lac qui Parle River Mainstem Water Quality Enhancement are not included in the debt service requirements because fixed repayment schedules are not available.

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|-------------|-------------------|---------------------|------------------------|
| Bonds payable | | | | | |
| General obligation bonds | | | | | |
| Refunding Bonds of 2005 | \$ 2,450,000 | \$ - | \$ 165,000 | \$ 2,285,000 | \$ 170,000 |
| Less: deferred amounts for issuance discounts | (15,687) | - | (1,308) | (14,379) | - |
| Total bonds payable | <u>\$ 2,434,313</u> | <u>\$ -</u> | <u>\$ 163,692</u> | <u>\$ 2,270,621</u> | <u>\$ 170,000</u> |
| Notes payable | | | | | |
| General obligation notes | | | | | |
| Capital Equipment Notes of 2009 | \$ 465,000 | \$ - | \$ 230,000 | \$ 235,000 | \$ 235,000 |
| Less: deferred amounts for issuance discounts | (2,433) | - | (1,216) | (1,217) | - |
| Total notes payable | <u>\$ 462,567</u> | <u>\$ -</u> | <u>\$ 228,784</u> | <u>\$ 233,783</u> | <u>\$ 235,000</u> |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Changes in Long-Term Liabilities (Continued)

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|-------------------------------|----------------------|-------------------|-------------------|---------------------|------------------------|
| Total bonds and notes payable | \$ 2,896,880 | \$ - | \$ 392,476 | \$ 2,504,404 | \$ 405,000 |
| Loans payable | 679,201 | 153,534 | 72,493 | 760,242 | 101,880 |
| Lease purchase | 3,448 | - | 2,543 | 905 | 905 |
| Compensated absences | 562,123 | 4,581 | - | 566,704 | 58,975 |
| Net OPEB liability | 45,637 | 37,179 | 22,535 | 60,281 | - |
| Long-Term Liabilities | <u>\$ 4,187,289</u> | <u>\$ 195,294</u> | <u>\$ 490,047</u> | <u>\$ 3,892,536</u> | <u>\$ 566,760</u> |

D. Fund Balances

Fund balances for the year ended December 31, 2011, were as follows:

| | General Fund | Road and Bridge Special Revenue Fund | Human Services Special Revenue Fund | Ditch Special Revenue Fund | Debt Service Fund | Total |
|----------------------------------|-------------------|--|---|-------------------------------|----------------------|---------------------|
| Nonspendable | | | | | | |
| Inventories | \$ - | \$ 126,233 | \$ - | \$ - | \$ - | \$ 126,233 |
| Prepaid items | 80,291 | 30,880 | 51,554 | 6,577 | - | 169,302 |
| Total nonspendable | <u>\$ 80,291</u> | <u>\$ 157,113</u> | <u>\$ 51,554</u> | <u>\$ 6,577</u> | <u>\$ -</u> | <u>\$ 295,535</u> |
| Restricted | | | | | | |
| Recorder's technology | \$ 82,942 | - | - | - | - | \$ 82,942 |
| Recorder's compliance | 63,654 | - | - | - | - | 63,654 |
| Enhanced 911 | 251,313 | - | - | - | - | 251,313 |
| Debt service | - | - | - | - | 674,551 | 674,551 |
| Ditch | - | - | - | 185,107 | - | 185,107 |
| Sheriff's contingency | 5,000 | - | - | - | - | 5,000 |
| Sheriff's forfeited property | 25,215 | - | - | - | - | 25,215 |
| Inmate social welfare | 17,529 | - | - | - | - | 17,529 |
| Attorney's forfeited property | 6,104 | - | - | - | - | 6,104 |
| Gun permit fees | 11,160 | - | - | - | - | 11,160 |
| Election equipment | 66,843 | - | - | - | - | 66,843 |
| Unspent grant monies | 5,614 | - | 26,285 | - | - | 31,899 |
| Veterans Memorial | 5,835 | - | - | - | - | 5,835 |
| Septic/sewer loan repayment | 166,441 | - | - | - | - | 166,441 |
| Total restricted | <u>\$ 707,650</u> | <u>\$ -</u> | <u>\$ 26,285</u> | <u>\$ 185,107</u> | <u>\$ 674,551</u> | <u>\$ 1,593,593</u> |
| Committed | | | | | | |
| Recycling bins | \$ 40,828 | - | - | - | - | \$ 40,828 |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

D. Fund Balances (Continued)

| | General Fund | Road and Bridge Special Revenue Fund | Human Services Special Revenue Fund | Ditch Special Revenue Fund | Debt Service Fund | Total |
|---------------------|-----------------|--|---|-------------------------------|----------------------|---------------|
| Assigned | | | | | | |
| Road and Bridge | \$ - | \$ 3,842,974 | \$ - | \$ - | \$ - | \$ 3,842,974 |
| Human Services | - | - | 3,850,079 | - | - | 3,850,079 |
| Total assigned | \$ - | \$ 3,842,974 | \$ 3,850,079 | \$ - | \$ - | \$ 7,693,053 |
| Unassigned | \$ 5,234,085 | \$ - | \$ - | \$ - | \$ - | \$ 5,234,085 |
| Total Fund Balances | \$ 6,062,854 | \$ 4,000,087 | \$ 3,927,918 | \$ 191,684 | \$ 674,551 | \$ 14,857,094 |

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Yellow Medicine 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, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional 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).

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description (Continued)

Employees Correctional 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 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. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional 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 Public Employees Correctional 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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

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, the Public Employees Police and Fire Fund, and the Public Employees Correctional 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 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2011:

| | |
|---------------------------------------|--------|
| General Employees Retirement Fund | |
| Basic Plan members | 11.78% |
| Coordinated Plan members | 7.25 |
| Public Employees Police and Fire Fund | 14.40 |
| Public Employees Correctional Fund | 8.75 |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

| | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|---------------------------------------|-------------|-------------|-------------|
| General Employees Retirement Fund | \$ 285,061 | \$ 269,347 | \$ 254,943 |
| Public Employees Police and Fire Fund | 68,904 | 67,960 | 64,646 |
| Public Employees Correctional Fund | 40,615 | 41,192 | 43,561 |

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

B. Defined Contribution Plan

Three employees or commissioners of Yellow Medicine 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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

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, 2011, were:

| | <u>Employee</u> | <u>Employer</u> |
|-------------------------------|-----------------|-----------------|
| Contribution amount | \$ 4,334 | \$ 4,334 |
| Percentage of covered payroll | 5% | 5% |

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

Yellow Medicine County provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Yellow Medicine County Board of Commissioners. Retirees are required to pay 100 percent of the premium costs.

The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2011, there were approximately 105 participants in the plan, including 3 retirees. The implicit rate subsidy amount was determined by an actuarial study to be \$20,138 for 2011.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

| | | |
|---|----|-----------------|
| ARC | \$ | 35,582 |
| Interest on net OPEB obligation | | 1,597 |
| Adjustment to ARC | | <u>(2,397)</u> |
| | | |
| Annual OPEB cost (expense) | \$ | 34,782 |
| Contributions made | | <u>(20,138)</u> |
| | | |
| Increase in net OPEB obligation | \$ | 14,644 |
| Net OPEB Obligation - Beginning of Year | | <u>45,637</u> |
| | | |
| Net OPEB Obligation - End of Year | \$ | <u>60,281</u> |

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2009, 2010, and 2011, were as follows:

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Employer Contribution</u> | <u>Percentage Contributed</u> | <u>Net OPEB Obligation</u> |
|--------------------------|-------------------------|------------------------------|-------------------------------|----------------------------|
| December 31, 2009 | \$ 19,262 | \$ 3,407 | 17.69% | \$ 31,199 |
| December 31, 2010 | 19,262 | 6,472 | 33.60 | 45,637 |
| December 31, 2011 | 34,707 | 20,138 | 58.02 | 60,281 |

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$337,942, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$337,942. The covered payroll (annual payroll of active employees covered by the plan) was \$4,789,562, and the ratio of the UAAL to the covered payroll was 7.1 percent.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2011, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.5 percent investment rate of return (net of investment expenses), which is Yellow Medicine County's implicit rate of return on the General Fund.

The annual health care cost trend is 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 6 years. Both rates included a 1.0 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2011, was 28 years.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors 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 all other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$450,000 per claim in 2011 and \$460,000 per claim in 2012. 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.

The Southwest/West Central Service Cooperative (Service Cooperative) is a joint powers entity which sponsors a plan to provide group employee health benefits to its participating members. All members pool premiums and losses; however, a particular member may receive increases or decreases depending on a good or bad year of claims experience. Premiums are determined annually by the Service Cooperative and are based partially on the experience of the County and partially on the experience of the group. The Service Cooperative solicits proposals from carriers and negotiates the contracts.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

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

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds.

The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

Lincoln-Pipestone Rural Water System

At December 31, 2011, the Lincoln-Pipestone Rural Water System had \$36,595,000 of general obligation bonds outstanding through 2052. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

The debt is paid by the Lincoln-Pipestone Rural Water System from special assessments levied against property benefited by the applicable expansion, extension, or enlargement of the system and from the net revenues. The bonds are general obligations of the issuing counties for which their full faith, credit, and unlimited taxing powers are pledged. The participating counties (Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, and Yellow Medicine) have adopted board resolutions and have signed joint powers agreements to define their liability for a proportional share of the debt should the issuing counties make any debt service payments. In such a situation, each of the other counties will promptly reimburse the paying counties in proportion to the percentage of Lincoln-Pipestone Rural Water System customers located in such county, in accordance with Minn. Stat. § 116A.24, subd. 3. The outstanding bonds are reported as liabilities in the annual financial statements of the Lincoln-Pipestone Rural Water System and are not reported as liabilities in the financial statements of any of the nine participating counties. The participating counties disclose a contingent liability due to the guarantee of indebtedness.

In 2012, Lincoln County issued a General Obligation Water System Refunding Bond for \$1,050,000 on behalf of the Lincoln-Pipestone Rural Water System to crossover advance refund the General Obligation Water System Refunding Bonds, Series 2003.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

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

C. Joint Ventures

Lincoln-Pipestone Rural Water System

Yellow Medicine County, along with Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, and Rock Counties, jointly established the Lincoln-Pipestone Rural Water System, pursuant to Minn. Stat. ch. 116A. The Rural Water System is responsible for storing, treating, and distributing water for domestic, commercial, and industrial use within the area it serves. The cost of providing these services is recovered through user charges.

The Lincoln-Pipestone Rural Water System is governed by the District Court. The Rural Water System's Board is solely responsible for the budgeting and financing of the Rural Water System.

Bonds were issued by Lincoln, Nobles, and Yellow Medicine Counties to finance the construction of the Rural Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2011, were \$36,595,000.

The Lincoln-Pipestone Rural Water System's 2011 financial report shows total net assets of \$48,544,818, including unrestricted net assets of \$19,843,138. The increase in net assets for the year ended December 31, 2011, was \$6,120,627. Complete financial statements of the Lincoln-Pipestone Rural Water System can be obtained at East Highway 14, P. O. Box 188, Lake Benton, Minnesota 56149-0188.

Countryside Public Health Service

Yellow Medicine County participates with Big Stone, Chippewa, Lac qui Parle, and Swift Counties in a joint venture to provide community health services. The governing board consists of 11 members, 3 from Yellow Medicine County and 2 from each of the other participating counties. Yellow Medicine County's contribution to the Countryside Public Health Service of \$90,297 is shown as an intergovernmental expenditure in the General Fund. Countryside Public Health Service has no long-term debt. Complete financial statements of the Health Service can be obtained at P. O. Box 313, Benson, Minnesota 56215.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Region 6W Community Corrections

Yellow Medicine County participates with Chippewa, Lac qui Parle, and Swift Counties to provide community corrections services. Region 6W Community Corrections develops and implements humane and effective methods of prevention, control, punishment, and rehabilitation of offenders.

The county boards of the participating counties have direct authority over and responsibility for the Community Corrections' activities.

Yellow Medicine County's contribution of \$183,206 to Region 6W Community Corrections is shown as an intergovernmental expenditure in the General Fund. Complete financial statements of Region 6W Community Corrections can be obtained at 1215 Black Oak Avenue, P. O. Box 551, Montevideo, Minnesota 56265.

Kandiyohi-Region 6W Community Corrections Agencies Detention Center (Prairie Lakes Youth Programs) (PLYP)

The County entered into a joint powers agreement to create and operate the Kandiyohi-Region 6W Community Corrections Agencies Detention Center (commonly referred to as the Prairie Lakes Youth Programs), pursuant to Minn. Stat. § 471.59. The PLYP provides detention services to juveniles under the jurisdiction of the counties that are parties to the agreement (Chippewa, Lac qui Parle, Swift, and Yellow Medicine-- which are served by Region 6W Community Corrections) and Kandiyohi County.

Control of the PLYP is vested in a joint board composed of one Commissioner from each participating county. An advisory board has also been established composed of the directors of the Kandiyohi County Community Corrections Agency and Region 6W Community Corrections and the directors of the family services or human services departments of the counties participating in the agreement. The PLYP is located at the Willmar Regional Treatment Center in space rented from the State of Minnesota.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Kandiyohi-Region 6W Community Corrections Agencies Detention Center (Prairie Lakes Youth Programs) (PLYP) (Continued)

Financing for the PLYP is provided by charges for services to member and nonmember counties. Kandiyohi County, under a separate agreement with the PLYP, provides accounting and payroll services and, in an agent capacity, reports the cash transactions of the PLYP as an agency fund on its financial statements. Complete financial information can be obtained from the Kandiyohi County Auditor/Treasurer's Office or the PLYP's Office, P. O. Box 894, Willmar, Minnesota 56201.

Southwestern Minnesota Adult Mental Health Consortium Board

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

The following is a summary of the Board's annual financial report for the year ended December 31, 2009 (the most recent information available):

| | |
|----------------------|--------------|
| Total assets | \$ 2,304,308 |
| Total liabilities | 327,637 |
| Total net assets | 1,976,671 |
| Total revenues | 4,271,686 |
| Total expenditures | 4,327,451 |
| Change in net assets | (55,765) |

The Board reported no long-term obligations at December 31, 2009.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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

Supporting Hands Nurse Family Partnership

The Supporting Hands Nurse Family Partnership was established in July 2007 by a joint powers agreement among 12 counties under the authority of Minn. Stat. §§ 471.59 and 145A.17. Yellow Medicine County is part of Countryside Public Health and is required to have this joint agreement. The purpose of this agreement is to organize, govern, plan, and administer a multi-county-based Nurse Family Partnership Program specifically within the jurisdictional boundaries of the counties involved.

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2011, Yellow Medicine County did not make a contribution to the Partnership as a contribution was made by Countryside Public Health.

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

Southwest Minnesota Regional Radio Board

The Southwest Minnesota Regional Radio Board Joint Powers Board was established April 22, 2008, between Yellow Medicine County, the City of Marshall, the City of Worthington, and 12 other counties under authority of Minn. Stat. §§ 471.59 and 403.39. The purpose of the agreement is to formulate a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwest Minnesota Regional Radio Board (Continued)

Control is vested in a Joint Powers Board consisting of one County Commissioner or one City Council member for each party to the agreement. The members representing counties and cities shall be appointed by their respective governing bodies. In addition, voting members of the Board include a member of the Southwest Minnesota Regional Advisory Committee, a member of the Southwest Minnesota Regional Radio System User Committee, and a member of the Southwest Minnesota Owners and Operators Committee.

During 2011, Yellow Medicine County contributed \$2,905 to the Joint Powers Board.

D. Jointly-Governed Organizations

Yellow Medicine County, in conjunction with other local governments, has formed joint powers boards to provide a variety of services. The County participates along with other governments in the following organizations:

Area II Minnesota River Basin Project

The Area II Minnesota River Basin Project provides programs for flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County paid \$15,391 of the County levy to the Project.

Redwood-Cottonwood Rivers Control Area (RCRCA)

The RCRCA promotes orderly water quality improvement and management within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. During the year, the County made \$660 in contributions to the RCRCA.

Lac qui Parle-Yellow Bank Watershed District

The County Board is responsible for appointing one of the Board of Managers for the Lac qui Parle-Yellow Bank Watershed District, but the County's responsibility does not extend beyond making the appointment. The County did not make any contributions to the District in 2011.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Yellow Medicine River Watershed District

The County Board is also responsible for appointing two members to the Board of Managers for the Yellow Medicine River Watershed District, but the County's responsibility does not extend beyond making those appointments.

Pioneer Land Regional Library System

Yellow Medicine County, along with several cities and other counties, participates in the Pioneer Land Regional Library System in order to provide efficient and improved regional public library service. During the year, the County contributed \$71,928 to the System.

E. Agricultural Best Management Loan Program

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

REQUIRED SUPPLEMENTARY INFORMATION

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---------------------------------|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 3,858,463 | \$ 3,858,463 | \$ 3,924,688 | \$ 66,225 |
| Special assessments | 133,680 | 133,680 | 160,994 | 27,314 |
| Licenses and permits | 23,375 | 23,375 | 36,861 | 13,486 |
| Intergovernmental | 871,045 | 926,633 | 886,096 | (40,537) |
| Charges for services | 251,210 | 251,210 | 282,274 | 31,064 |
| Fines and forfeits | 10,000 | 10,000 | 11,985 | 1,985 |
| Gifts and contributions | - | - | 5,515 | 5,515 |
| Investment earnings | 239,770 | 239,770 | 258,465 | 18,695 |
| Miscellaneous | 280,559 | 280,559 | 440,906 | 160,347 |
| Total Revenues | \$ 5,668,102 | \$ 5,723,690 | \$ 6,007,784 | \$ 284,094 |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Commissioners | \$ 212,032 | \$ 213,781 | \$ 202,202 | \$ 11,579 |
| Public defender | 20,000 | 20,000 | 10,959 | 9,041 |
| Administration | 118,784 | 119,830 | 116,479 | 3,351 |
| Auditor-treasurer | 337,091 | 346,475 | 369,700 | (23,225) |
| Assessor | 163,219 | 166,016 | 161,598 | 4,418 |
| Accounting and auditing | 43,350 | 43,350 | 38,953 | 4,397 |
| Data processing | 66,232 | 66,232 | 73,051 | (6,819) |
| Elections | 500 | 500 | 3,379 | (2,879) |
| Central services | 161,815 | 142,915 | 21,440 | 121,475 |
| Risk management | 121,500 | 121,500 | 107,147 | 14,353 |
| Information technology | 99,552 | 102,176 | 94,509 | 7,667 |
| Attorney | 376,048 | 382,629 | 354,807 | 27,822 |
| Recorder | 299,038 | 312,436 | 287,421 | 25,015 |
| Planning and zoning | 113,094 | 115,997 | 106,900 | 9,097 |
| Buildings | 310,291 | 389,008 | 383,202 | 5,806 |
| Veterans service officer | 77,086 | 103,288 | 91,963 | 11,325 |
| Other general government | 8,000 | 8,000 | 4,180 | 3,820 |
| Total general government | \$ 2,527,632 | \$ 2,654,133 | \$ 2,427,890 | \$ 226,243 |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|-------------------------------------|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Expenditures | | | | |
| Current (Continued) | | | | |
| Public safety | | | | |
| Sheriff | \$ 848,428 | \$ 938,850 | \$ 917,663 | \$ 21,187 |
| Boat and water safety | 2,388 | 10,388 | 9,968 | 420 |
| Snowmobile safety | 1,450 | 1,450 | 703 | 747 |
| Coroner | 5,500 | 9,000 | 9,375 | (375) |
| E-911 system | 87,000 | 95,000 | 84,766 | 10,234 |
| Jail | 1,026,057 | 1,035,957 | 997,816 | 38,141 |
| Jail canteen fund | 35,000 | 35,000 | 32,998 | 2,002 |
| Restorative justice | 58,841 | 61,064 | 54,712 | 6,352 |
| Civil defense | 60,221 | 61,042 | 56,057 | 4,985 |
| Total public safety | \$ 2,124,885 | \$ 2,247,751 | \$ 2,164,058 | \$ 83,693 |
| Sanitation | | | | |
| Recycling | \$ 118,500 | \$ 133,100 | \$ 166,503 | \$ (33,403) |
| Hazardous waste | 5,000 | 5,000 | 3,999 | 1,001 |
| Total sanitation | \$ 123,500 | \$ 138,100 | \$ 170,502 | \$ (32,402) |
| Health | | | | |
| Nursing service | \$ 800 | \$ 800 | \$ 800 | \$ - |
| Drug-free communities | - | 33,373 | 7,475 | 25,898 |
| Total health | \$ 800 | \$ 34,173 | \$ 8,275 | \$ 25,898 |
| Culture and recreation | | | | |
| Historical society | \$ 22,000 | \$ 20,200 | \$ 20,175 | \$ 25 |
| Agricultural museum | 24,500 | 26,300 | 25,927 | 373 |
| Parks | 44,819 | 45,080 | 37,503 | 7,577 |
| County/regional library | 71,928 | 71,928 | 71,928 | - |
| Other | 28,900 | 60,600 | 81,572 | (20,972) |
| Total culture and recreation | \$ 192,147 | \$ 224,108 | \$ 237,105 | \$ (12,997) |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Expenditures | | | | |
| Current (Continued) | | | | |
| Conservation of natural resources | | | | |
| Extension | \$ 102,556 | \$ 103,879 | \$ 89,158 | \$ 14,721 |
| Soil and water conservation | 101,599 | 101,599 | 91,600 | 9,999 |
| Agricultural inspection | 65,105 | 66,613 | 59,707 | 6,906 |
| Water quality loan program | - | 159,944 | 148,242 | 11,702 |
| Water planning | 26,459 | 26,610 | 24,289 | 2,321 |
| Environmental officer | 9,000 | 9,000 | 5,004 | 3,996 |
| Other | 17,251 | 17,251 | 16,337 | 914 |
| | <u>17,251</u> | <u>17,251</u> | <u>16,337</u> | <u>914</u> |
| Total conservation of natural resources | \$ 321,970 | \$ 484,896 | \$ 434,337 | \$ 50,559 |
| Economic development | | | | |
| Community development | <u>17,200</u> | <u>17,200</u> | <u>16,125</u> | <u>1,075</u> |
| Intergovernmental | | | | |
| Public safety | \$ 183,206 | \$ 183,206 | \$ 183,206 | \$ - |
| Health | 90,297 | 90,297 | 90,297 | - |
| | <u>90,297</u> | <u>90,297</u> | <u>90,297</u> | <u>-</u> |
| Total intergovernmental | \$ 273,503 | \$ 273,503 | \$ 273,503 | \$ - |
| Debt service | | | | |
| Principal | \$ 76,040 | \$ 76,040 | \$ 75,036 | \$ 1,004 |
| Interest | 10,425 | 10,425 | 10,227 | 198 |
| | <u>10,425</u> | <u>10,425</u> | <u>10,227</u> | <u>198</u> |
| Total debt service | \$ 86,465 | \$ 86,465 | \$ 85,263 | \$ 1,202 |
| Total Expenditures | \$ 5,668,102 | \$ 6,160,329 | \$ 5,817,058 | \$ 343,271 |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | \$ - | \$ (436,639) | \$ 190,726 | \$ 627,365 |
| Other Financing Sources (Uses) | | | | |
| Loans issued | - | 159,944 | 153,969 | (5,975) |
| | <u>-</u> | <u>159,944</u> | <u>153,969</u> | <u>(5,975)</u> |
| Net Change in Fund Balance | \$ - | \$ (276,695) | \$ 344,695 | \$ 621,390 |
| Fund Balance - January 1 | 5,718,159 | 5,718,159 | 5,718,159 | - |
| | <u>5,718,159</u> | <u>5,718,159</u> | <u>5,718,159</u> | <u>-</u> |
| Fund Balance - December 31 | \$ 5,718,159 | \$ 5,441,464 | \$ 6,062,854 | \$ 621,390 |
| | <u>5,718,159</u> | <u>5,441,464</u> | <u>6,062,854</u> | <u>621,390</u> |

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|-----------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 1,641,769 | \$ 1,641,769 | \$ 1,655,267 | \$ 13,498 |
| Intergovernmental | 4,343,259 | 4,343,259 | 4,234,209 | (109,050) |
| Charges for services | 20,000 | 20,000 | 28,596 | 8,596 |
| Investment earnings | - | - | 609 | 609 |
| Miscellaneous | 25,000 | 25,000 | 89,118 | 64,118 |
| Total Revenues | \$ 6,030,028 | \$ 6,030,028 | \$ 6,007,799 | \$ (22,229) |
| Expenditures | | | | |
| Current | | | | |
| Highways and streets | | | | |
| Administration | \$ 250,082 | \$ 252,831 | \$ 244,844 | \$ 7,987 |
| Maintenance | 1,547,153 | 1,558,984 | 1,446,384 | 112,600 |
| Construction | 3,148,478 | 4,150,341 | 4,340,025 | (189,684) |
| Equipment and maintenance shops | 1,029,315 | 1,112,206 | 960,980 | 151,226 |
| Total highways and streets | \$ 5,975,028 | \$ 7,074,362 | \$ 6,992,233 | \$ 82,129 |
| Intergovernmental | | | | |
| Highways and streets | 335,000 | 365,000 | 365,072 | (72) |
| Total Expenditures | \$ 6,310,028 | \$ 7,439,362 | \$ 7,357,305 | \$ 82,057 |
| Excess of Revenues Over (Under) Expenditures | \$ (280,000) | \$ (1,409,334) | \$ (1,349,506) | \$ 59,828 |
| Other Financing Sources (Uses) | | | | |
| Proceeds from sale of capital assets | - | - | 12,950 | 12,950 |
| Net Change in Fund Balance | \$ (280,000) | \$ (1,409,334) | \$ (1,336,556) | \$ 72,778 |
| Fund Balance - January 1 | 5,371,048 | 5,371,048 | 5,371,048 | - |
| Increase (decrease) in inventories | - | - | (34,405) | (34,405) |
| Fund Balance - December 31 | \$ 5,091,048 | \$ 3,961,714 | \$ 4,000,087 | \$ 38,373 |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|-----------------------------------|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 1,365,421 | \$ 1,365,421 | \$ 1,379,225 | \$ 13,804 |
| Intergovernmental | 1,932,079 | 1,932,079 | 1,817,705 | (114,374) |
| Charges for services | 154,000 | 154,000 | 179,365 | 25,365 |
| Miscellaneous | 35,000 | 35,000 | 88,988 | 53,988 |
| Total Revenues | \$ 3,486,500 | \$ 3,486,500 | \$ 3,465,283 | \$ (21,217) |
| Expenditures | | | | |
| Current | | | | |
| Human services | | | | |
| Income maintenance | \$ 979,920 | \$ 993,140 | \$ 939,813 | \$ 53,327 |
| Social services | 2,506,580 | 2,652,662 | 2,553,388 | 99,274 |
| Total Expenditures | \$ 3,486,500 | \$ 3,645,802 | \$ 3,493,201 | \$ 152,601 |
| Net Change in Fund Balance | \$ - | \$ (159,302) | \$ (27,918) | \$ 131,384 |
| Fund Balance - January 1 | 3,955,836 | 3,955,836 | 3,955,836 | - |
| Fund Balance - December 31 | \$ 3,955,836 | \$ 3,796,534 | \$ 3,927,918 | \$ 131,384 |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Special assessments | \$ 117,380 | \$ 117,380 | \$ 136,007 | \$ 18,627 |
| Intergovernmental | 196 | 196 | 44,071 | 43,875 |
| Investment earnings | 5,750 | 5,750 | 4,755 | (995) |
| Miscellaneous | - | - | 16,959 | 16,959 |
| Total Revenues | \$ 123,326 | \$ 123,326 | \$ 201,792 | \$ 78,466 |
| Expenditures | | | | |
| Current | | | | |
| Conservation of natural resources | | | | |
| Other | 178,487 | 430,977 | 374,709 | 56,268 |
| Net Change in Fund Balance | \$ (55,161) | \$ (307,651) | \$ (172,917) | \$ 134,734 |
| Fund Balance - January 1 | 364,601 | 364,601 | 364,601 | - |
| Fund Balance - December 31 | \$ 309,440 | \$ 56,950 | \$ 191,684 | \$ 134,734 |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2011**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded Actuarial Accrued Liability (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|---|--|--------------------------|---------------------------|---|
| January 1, 2008 | \$ - | \$ 187,091 | \$ 187,091 | 0.0% | \$ 4,227,170 | 4.4% |
| January 1, 2011 | - | 337,942 | 337,942 | 0.0 | 4,789,562 | 7.1 |

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Budget Amendments

Expenditure budgets were amended in the following funds:

| | <u>Original Budget</u> | <u>Increase (Decrease)</u> | <u>Final Budget</u> |
|--------------------------------------|----------------------------|--------------------------------|-------------------------|
| General Fund | \$ 5,668,102 | \$ 492,227 | \$ 6,160,329 |
| Road and Bridge Special Revenue Fund | 6,310,028 | 1,129,334 | 7,439,362 |
| Human Services Special Revenue Fund | 3,486,500 | 159,302 | 3,645,802 |
| Ditch Special Revenue Fund | 178,487 | 252,490 | 430,977 |

Over the course of the year, the County Board revised these budgets several times. The budget amendments fall into three categories: new information changing original budget estimates, greater than anticipated revenues or costs, and new grant awards.

4. Excess of Expenditures Over Budget

At December 31, 2011, there were no expenditures in excess of budget in the governmental funds.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Other Postemployment Benefits Funding Status

Beginning in 2008, Yellow Medicine County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Since the County has no irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets is zero. Currently, only two actuarial valuations are available. Future reports will provide additional trend analysis to meet the three valuation funding status requirement as the information becomes available.

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

SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUNDS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|-----------------------------------|-------------------------|-------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 484,091 | \$ 484,091 | \$ 486,561 | \$ 2,470 |
| Intergovernmental | 40,261 | 40,261 | 27,957 | (12,304) |
| Investment earnings | 3,000 | 3,000 | 2,798 | (202) |
| Total Revenues | \$ 527,352 | \$ 527,352 | \$ 517,316 | \$ (10,036) |
| Expenditures | | | | |
| Debt service | | | | |
| Principal | \$ 395,000 | \$ 395,000 | \$ 395,000 | \$ - |
| Interest | 98,323 | 98,323 | 98,321 | 2 |
| Administrative (fiscal) charges | 1,450 | 1,450 | 425 | 1,025 |
| Total Expenditures | \$ 494,773 | \$ 494,773 | \$ 493,746 | \$ 1,027 |
| Net Change in Fund Balance | \$ 32,579 | \$ 32,579 | \$ 23,570 | \$ (9,009) |
| Fund Balance - January 1 | 650,981 | 650,981 | 650,981 | - |
| Fund Balance - December 31 | \$ 683,560 | \$ 683,560 | \$ 674,551 | \$ (9,009) |

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

AGENCY FUNDS

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

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

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | <u>Balance January 1</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance December 31</u> |
|--|------------------------------|------------------|-------------------|--------------------------------|
| <u>STATE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 54,973 | \$ 266,846 | \$ 270,559 | \$ 51,260 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 54,973 | \$ 266,846 | \$ 270,559 | \$ 51,260 |
| <u>TAXES AND PENALTIES</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 140,212 | \$ 15,803,429 | \$ 15,737,690 | \$ 205,951 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 140,212 | \$ 15,803,429 | \$ 15,737,690 | \$ 205,951 |
| <u>TOTAL ALL AGENCY FUNDS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 195,185 | \$ 16,070,275 | \$ 16,008,249 | \$ 257,211 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 195,185 | \$ 16,070,275 | \$ 16,008,249 | \$ 257,211 |

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OTHER SCHEDULES

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Shared Revenue

State

| | |
|-------------------------|--------------|
| Highway users tax | \$ 3,683,616 |
| County program aid | 264,764 |
| PERA rate reimbursement | 15,547 |
| Disparity reduction aid | 43,185 |
| Performance aid | 1,461 |
| Police aid | 53,217 |
| Enhanced 911 | 83,708 |
| Market value credit | 389,587 |
| Casino credit | 25,093 |

Total shared revenue **\$ 4,560,178**

Reimbursement for Services

| | |
|--|-------------------|
| Minnesota Department of Human Services | \$ 363,013 |
|--|-------------------|

Payments

Local

| | |
|---------------------------|-----------|
| Payments in lieu of taxes | \$ 77,014 |
| Local grants | 53,588 |

Total payments **\$ 130,602**

Grants

State

| | |
|---|------------|
| Minnesota Department/Board of Human Services | \$ 538,913 |
| Natural Resources | 71,391 |
| Public Safety | 56,682 |
| Transportation | 201,672 |
| Veterans Affairs | 22,285 |
| Water and Soil Resources | 2,799 |
| Peace Officer Standards and Training Board | 3,030 |
| Pollution Control Agency | 55,950 |

Total state **\$ 952,722**

Federal

| | |
|------------------------------|-----------|
| Department of Agriculture | \$ 84,584 |
| Commerce | 18,727 |
| Justice | 30,066 |
| Transportation | 921 |
| Health and Human Services | 670,909 |
| Homeland Security | 198,316 |

Total federal **\$ 1,003,523**

Total state and federal grants **\$ 1,956,245**

Total Intergovernmental Revenue **\$ 7,010,038**

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Expenditures |
|--|------------------------------------|--------------------------|
| U.S. Department of Agriculture | | |
| Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | \$ <u>84,584</u> |
| U.S. Department of Commerce | | |
| Passed Through Southwest Minnesota Regional Radio Board Public Safety Interoperable Communications Grant Program | 11.555 | \$ <u>18,727</u> |
| U.S. Department of Justice | | |
| Direct State Criminal Alien Assistance Program | 16.606 | \$ 4,091 |
| Passed Through Minnesota Department of Public Safety Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | <u>20,373</u> |
| Total U.S. Department of Justice | | \$ <u>24,464</u> |
| U.S. Department of Transportation | | |
| Passed Through Minnesota Department of Public Safety State and Community Highway Safety | 20.600 | \$ <u>921</u> |
| U.S. Election Assistance Commission | | |
| Passed Through Minnesota Secretary of State Help America Vote Act Requirements Payments | 90.401 | \$ <u>2,893</u> |
| U.S. Department of Health and Human Services | | |
| Direct Drug-Free Communities Support Program Grants | 93.276 | \$ 7,004 |
| Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families | 93.556 | 8,995 |
| Temporary Assistance for Needy Families (TANF) Cluster Temporary Assistance for Needy Families | 93.558 | 47,047 |
| ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program | 93.714 | 2,214 |
| Child Support Enforcement Cluster Child Support Enforcement | 93.563 | 182,318 |
| Child Care and Development Block Grant | 93.575 | 3,519 |
| Stephanie Tubbs Jones Child Welfare Services Program | 93.645 | 9,961 |
| Foster Care - Title IV-E | 93.658 | 21,475 |
| Social Services Block Grant | 93.667 | 89,768 |
| Children's Health Insurance Program | 93.767 | 50 |
| Medical Assistance Program | 93.778 | 295,344 |
| Block Grants for Community Mental Health Services | 93.958 | <u>3,214</u> |
| Total U.S. Department of Health and Human Services | | \$ <u>670,909</u> |

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

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Expenditures |
|---|------------------------------------|--------------------------|
| U.S. Department of Homeland Security | | |
| Passed Through United Way | | |
| Emergency Food and Shelter National Board Program | 97.024 | \$ 1,530 |
| Passed Through Minnesota Department of Public Safety | | |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 97.036 | 170,742 |
| Emergency Management Performance Grants | 97.042 | 15,596 |
| Interoperable Emergency Communications | 97.055 | 2,220 |
| Homeland Security Grant Program | 97.067 | <u>5,021</u> |
| Total U.S. Department of Homeland Security | | \$ 195,109 |
| Total Federal Awards | | \$ <u>997,607</u> |

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Yellow Medicine 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 Yellow Medicine County under programs of the federal government for the year ended December 31, 2011. 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 Yellow Medicine County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Yellow Medicine 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. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

| | | |
|--|----|---------|
| Temporary Assistance for Needy Families (TANF) Cluster | \$ | 49,261 |
| Child Support Enforcement Cluster | | 185,837 |

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

| | |
|--|-------------------|
| Federal grant revenue per Schedule of Intergovernmental Revenue | \$ 1,003,523 |
| Grants received more than 60 days after year-end, deferred in 2011 | |
| Edward Byrne Memorial Justice Assistance Grant Program (CFDA #16.738) | 4,860 |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036) | 2,249 |
| Interoperable Emergency Communications (CFDA #97.055) | 253 |
| Deferred in 2010, recognized as revenue in 2011 | |
| Edward Byrne Memorial Justice Assistance Grant Program (CFDA #16.738) | (10,462) |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036) | (5,709) |
| Help America Vote Act Requirements Payments grant monies unspent in previous years and expended in 2011 (CFDA #90.401) | <u>2,893</u> |
| Expenditures Per Schedule of Expenditures of Federal Awards | <u>\$ 997,607</u> |

6. Subrecipients

During 2011, the County did not pass any federal money to subrecipients.

7. 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.

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

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

The major program was:

Medical Assistance Program

CFDA #93.778

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

County qualified as low-risk auditee? **Yes**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-1 Segregation of Duties

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: Several of the County's departments that collect fees lack proper segregation of duties. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Context: Due to the limited number of office personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Yellow Medicine 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 accounting point of view.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The County does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

Recommendation: We recommend that the County's elected officials and management be aware of the lack of segregation of duties of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are implemented by staff to the extent possible.

Client's Response:

The County is aware that due to concentration of duties and responsibilities, there is a lack of office personnel in various County Departments to ensure adequate internal accounting controls. County management will periodically monitor these offices to assure established policies and procedures are being followed.

ITEMS ARISING THIS YEAR

11-1 Audit Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis.

Condition: During our audit, we identified a material adjustment that resulted in significant changes to the County's financial statements.

Context: The inability to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: A material audit adjustment in the Road and Bridge Special Revenue Fund for \$274,273 was necessary to reduce receivables and intergovernmental revenues for monies that were recorded twice in the general ledger.

Cause: The client recorded a manual journal entry for receivables related to highway allotments and also entered an accrual code in the financial system when the funds were received in 2012. The assignment of an accrual code to a transaction results in an automatic receivable journal entry by the Integrated Financial System (IFS) general ledger system.

Recommendation: We recommend that the County staff review the trial balances and journal entries in detail to ensure they have an understanding of all audit adjustments made.

Client's Response:

The County will continue to implement internal review procedures and make every reasonable effort to ensure amounts are correctly reported.

11-2 Network/Application Password Controls

Criteria: County management is responsible for the County's internal controls over its information systems. This requires establishing security policies and performing assessments of existing controls to determine if the internal controls established are still effective or if changes are needed to ensure County data is protected as prescribed by management.

Condition: Yellow Medicine County recently updated to a new version of the IFS application software. This application was written as a web-based application and may be run on a server or a mainframe system. Yellow Medicine County contracts with a vendor for use of space on a mainframe IBM I Series system. For an employee of Yellow Medicine County to access the new IFS application, the user must be signed on to the County network and have a current sign-on for the IFS application. The network sign-on differs from the sign-on for the IBM I Series system, so the mainframe security settings do not apply to the application. Yellow Medicine County has not reviewed the network controls or assessed risks from the change to a web-based application to ensure password controls are working as intended.

Context: The IFS application is the general ledger for Yellow Medicine County. Detailed receipt and disbursement transactions as well as budget information are maintained on the IFS application throughout the year. This information is used by management to monitor the resources available and make decisions based on the available resources. At or near year-end, certain accrual information is also recorded in the application. The information maintained within the IFS application is the key source of information used for the preparation of the County's annual financial statements.

Effect: Normal password controls in place in the IBM I Series system are not effective for the IFS application, so a review of the IFS application controls and County network controls is imperative to ensure passwords are working as intended.

Cause: Yellow Medicine County recently updated to a new web-based version of the IFS application software. County management was not aware of some of the password implications of this change.

Recommendation: We recommend Yellow Medicine County management review password controls in place that limit access to the IFS application to ensure they are appropriate to protect the County data as prescribed by management.

Client's Response:

The County maintains separate user access rights for each individual who has a user ID and password for the IFS application. These access rights limit an individual's access to specific tools within the application and minimize the risk of an individual performing unauthorized functions. In addition, the County will work with the IFS application vendor for possible enhancements of password controls to ensure they are appropriate and comply with the County's information technology policy.

11-3 Itemized Receipts for Credit Card Purchases

Criteria: Sound internal controls should provide a system to ensure that all credit card purchases are supported by itemized receipts. Additionally, Yellow Medicine County's credit card policy requires such documentation, and Minn. Stat. § 471.38, subd. 1, requires claims presented for payment must be in writing and itemized. Monthly statements received from a credit card company lack sufficient detail to comply with these requirements.

Condition: During control testing, we reviewed three credit card claims paid by Human Services. None of the credit card claims tested had itemized vendor receipts or other documentation to support all charges on the monthly billing.

Context: Documentation of claims paid is a fundamental requirement of a sound accounting system; it is the primary evidence used to support and explain the nature of the County's cash outlays and expenditures recorded in the general ledger.

Effect: Billings received from a credit card company lack sufficient detail to permit the County Board to review and approve expenditures incurred by using credit cards. In order to pay these bills, the County must have itemized invoices or receipts to support items charged.

Cause: Internal controls are not requiring Human Services Department staff to provide itemized vendor invoices or receipts for all credit card purchases. Departmental personnel reviewing and authorizing payment of the credit card claims either did not request the supporting documentation that was missing or did not follow up to ensure the necessary documentation was received and was valid before payment of the credit card billing.

Recommendation: We recommend Human Services Department staff adhere to Minn. Stat. § 471.38, subd. 1, and to the County's credit card policy. Departmental personnel reviewing the claim should ensure that credit card claims are accompanied with itemized vendor invoices or receipts that support all charges.

Client's Response:

Human Services personnel reviewing the credit card billing will obtain vendor invoices or receipts to support the charges on the credit card billing.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

11-4 Eligibility Testing

Program: Medical Assistance (MA) (CFDA No. 93.778)

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

Condition: The state maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. While periodic supervisory case reviews are performed to provide reasonable assurance of compliance with grant requirements for eligibility, not all documentation was available to support participant eligibility. In other circumstances, information was input into MAXIS incorrectly. The following instances were noted in our sample of 40 cases tested:

- Two cases did not have verification of asset requirements. In one case, the amounts reported for an individual's checking and savings balances were not updated in MAXIS to equal amounts shown with the statements provided with the application. In the other case, the amount of life insurance cash surrender value in MAXIS was listed as the excluded amount rather than the includable asset value.
- An application in a child's case file indicated that the child's mother had health insurance, and a copy of the card was in the file; however, the insurance was not listed in MAXIS.

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

Context: The State of Minnesota contracts with the County to perform the "intake function" (meeting with the social services client to determine income and categorical eligibility), while the state maintains the computer systems supporting the eligibility determination process and actually pays the benefits to participants.

Effect: The improper input of information into MAXIS and lack of follow-up of issues increases the risk that a client will receive benefits when they are not eligible.

Cause: Program personnel entering case documentation did not ensure all required documents were obtained and/or retained.

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

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Gretchen Eliason, Financial Assistance Supervisor

Corrective Action Planned:

1. *Make staff aware of error prone areas in order to prevent future deficiencies.*
 - a. *The Supervisor will discuss the errors found in audit report with staff.*
 - b. *Eligibility Specialists will be reminded to review MAXIS PNL panels when processing applications and reviews to ensure that all current information has been entered and is correct.*

Person Responsible:

Supervisor

Anticipated Completion Date:

August 7, 2012

2. *In the fall of 2011, Yellow Medicine County Family Service Center began the process of converting our adult cases to a case bank. We anticipate that this process will reduce the number of errors in this caseload as more than one worker will be working on and reviewing each case throughout the year.*

Person Responsible:

Eligibility Specialists

Completion Date:

September 23, 2011

3. *The Supervisor will continue to complete Supervisory Case Reviews and Targeted Case Reviews.*

a. *A minimum of two random Supervisory Case Reviews are completed each month for each Eligibility Specialist.*

b. *Targeted Case Reviews are completed monthly based upon reports and error prone errors identified by the Department of Human Services.*

c. *All reviews are discussed with the Eligibility Specialist completing the reviewed action and corrections are made as needed.*

d. *All review results are summarized at unit staff meetings and best practice processes discussed.*

Person Responsible:

Supervisor and Eligibility Specialists

Anticipated Completion Date:

On-going



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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
Yellow Medicine County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Yellow Medicine County as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 20, 2012. 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

Management of Yellow Medicine County is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered Yellow Medicine 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 04-1, 11-1, 11-2, and 11-3, that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Yellow Medicine 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 the County does not have any tax increment financing districts of its own.

The results of our tests indicate that for the items tested, Yellow Medicine County complied with the material terms and conditions of applicable legal provisions.

Yellow Medicine County's written responses to the internal control 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 Yellow Medicine County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

August 20, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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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
Yellow Medicine County

Compliance

We have audited Yellow Medicine 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 its major federal program for the year ended December 31, 2011. Yellow Medicine County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Yellow Medicine County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and is described in the accompanying Schedule of Findings and Questioned Costs as item 11-4.

Internal Control Over Compliance

Management of Yellow Medicine County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 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. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 11-4. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Yellow Medicine County's corrective action plan to the federal award finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plan and, accordingly, we express no opinion on it.

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

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 20, 2012