

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA

YEAR ENDED DECEMBER 31, 2013

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, 2013



**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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GRANITE FALLS, MINNESOTA**

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

ORGANIZATION
2013

Office	Name	Term Expires
Commissioners		
1st District	Greg Renneke	January 2015
2nd District	John Berends	January 2015
3rd District	Gary Lee Johnson	January 2017
4th District	Ronald Antony ¹	January 2017
5th District	Louis Sherlin ²	January 2017
Officers		
Elected		
Attorney	Keith Helgeson	January 2015
District Judge	Dwayne Knutsen	January 2015
Sheriff	Bill Flaten	January 2015
Appointed		
Administrator	Peggy Heglund	Indefinite
Finance Manager	Michelle May	Indefinite
Assessor	Connie Erickson	Indefinite
Coroner	Kenneth Carter, M.D.	Indefinite
Highway Engineer	Andrew Sander	Indefinite
Planning and Zoning	Randy Jacobson ³	Indefinite
Property & Public Services	Janel Timm	Indefinite
Veterans Service Officer	Michelle Gatz	Indefinite

¹Chair 2013

²Chair 2014

³Chris Balfany appointed Planning & Zoning/Ditch Administrator in 2014

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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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Yellow Medicine County, Minnesota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances,

but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Yellow Medicine County as of December 31, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2013 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represent changes in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Yellow Medicine County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and

is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2014, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Yellow Medicine County's internal control over financial reporting and compliance.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 24, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(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, 2013. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

Governmental activities' total net position is \$79,624,469, of which \$64,122,959 is net investment in capital assets, and \$2,620,406 is restricted to specific purposes. The \$12,881,104 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

The County's net position increased by \$2,553,860 for the year ended December 31, 2013. A large part of the increase is attributable to the County's investing in capital assets such as machinery, equipment, and infrastructure from the Road and Bridge Special Revenue Fund.

The net cost of governmental activities for the current fiscal year was \$6,857,884. General revenues totaling \$9,411,744 funded the net cost.

The fund balances of the governmental funds decreased by \$1,474,268. The decrease was largely due to General Fund revenues and other financing sources being \$661,288 less than expenditures. This decrease, plus the net decreases in the Human Services Special Revenue Fund and Ditch Special Revenue Fund of \$409,608, and \$579,523, respectively, and the increase of \$207,793 and \$15,674 in the Road and Bridge Special Revenue Fund and the Debt Service Fund, respectively, accounted for the decrease in total fund balance for all funds.

For the year ended December 31, 2013, the unrestricted fund balance of the General Fund was \$4,312,001, or 60 percent, of the total General Fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements

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

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

The Statement of Activities presents the County's governmental activities. Most of the basic services are reported here, including general government, public safety, highways and streets, sanitation, 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 are Exhibits 1 and 2 of this report.

Fund financial statements

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

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

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

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

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

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

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 through 66 of this report.

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$79,624,469 at the close of 2013. The largest portion of the net position (80.0 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 Position
(in Thousands)**

	Governmental Activities	
	2013	2012
Assets		
Current and other assets	\$ 18,218	\$ 17,404
Capital assets	66,107	64,229
Total Assets	\$ 84,325	\$ 81,633
Liabilities		
Long-term liabilities	\$ 3,421	\$ 3,585
Other liabilities	1,280	977
Total Liabilities	\$ 4,701	\$ 4,562
Net Position		
Net investment in capital assets	\$ 64,123	\$ 62,105
Restricted	2,620	1,912
Unrestricted	12,881	13,054
Total Net Position	\$ 79,624	\$ 77,071

Unrestricted net position--the part of net position that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--is 16.2 percent of the net position.

Governmental Activities

The County's governmental activities increased net position by 3.3 percent (\$2,553,860 for 2013 compared to \$2,231,102 for 2012). Key elements in this increase in net position are as follows:

**Changes in Net Position
(in Thousands)**

	Governmental Activities	
	2013	2012
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 2,113	\$ 1,622
Operating grants and contributions	5,675	6,579
Capital grants and contributions	1,848	419
General revenues		
Property taxes	8,524	8,009
Other	888	1,200
Total Revenues	\$ 19,048	\$ 17,829

	Governmental Activities	
	2013	2012
Expenses		
General government	\$ 2,761	\$ 2,608
Public safety	2,812	2,617
Highways and streets	4,583	4,714
Sanitation	134	126
Human services	4,007	3,784
Health	212	228
Culture and recreation	237	249
Conservation of natural resources	1,576	1,153
Economic development	52	22
Interest	121	97
Total Expenses	<u>\$ 16,495</u>	<u>\$ 15,598</u>
Excess of Revenues Over (Under) Expenses	\$ 2,553	\$ 2,231
Net Position - January 1	<u>77,071</u>	<u>74,840</u>
Net Position - December 31	<u>\$ 79,624</u>	<u>\$ 77,071</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 \$12,838,516, a decrease of \$1,474,268, in comparison with the prior year. Of the combined ending fund balances, \$11,500,380 represents committed, assigned, and unassigned fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is classified as either nonspendable or restricted to indicate that it is not available for new spending because it has already been restricted for various reasons either by state law, grant agreements, bond covenants, or is nonspendable.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unrestricted fund balance of \$4,312,001. 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 60.0 percent of total General Fund expenditures. During 2013, the ending fund balance decreased by \$661,288. The primary reason for this decrease was due to the renovation of a building for \$648,954.

The Road and Bridge Special Revenue Fund had an unrestricted fund balance of \$4,054,710 at fiscal year-end, representing 69.1 percent of its annual expenditures. The ending fund balance increased \$160,477 during 2013, primarily due to a decrease in construction project expenditures.

The Human Services Special Revenue Fund had an unrestricted fund balance of \$3,409,029 at fiscal year-end, representing 84.6 percent of its annual expenditures. The ending fund balance decreased \$409,608 during 2013, primarily due to higher than anticipated expenditures on social services.

The Ditch Special Revenue Fund had an unrestricted fund balance of \$(275,360) at fiscal year-end. The ending fund balance decreased \$579,523 during 2013, primarily due to higher than anticipated ditch petition projects.

The Debt Service Fund had no unrestricted fund balance at fiscal year-end, as the entire fund balance is restricted for ongoing debt service costs. The ending fund balance increased \$15,674 during 2013.

Governmental Activities

The County's total revenues were \$19,048,290. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2013.

Table 1
Total County Revenues - 2013

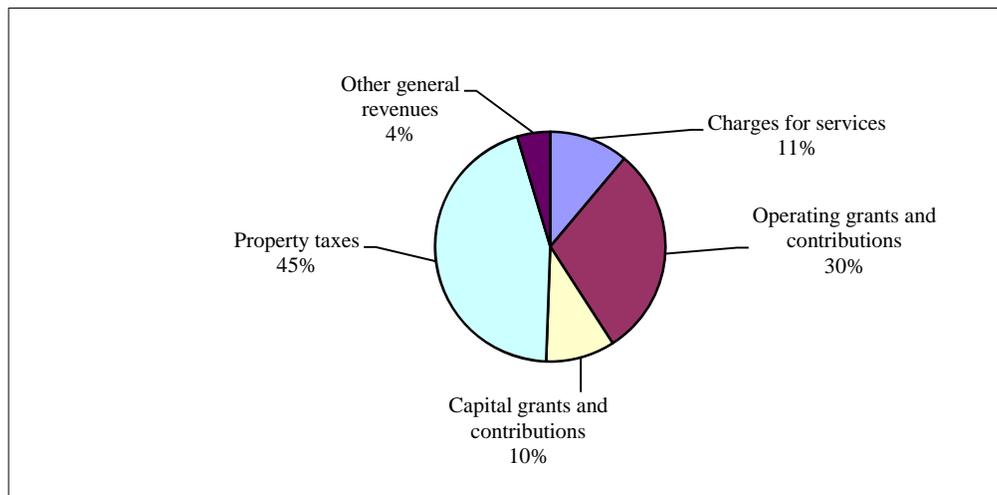
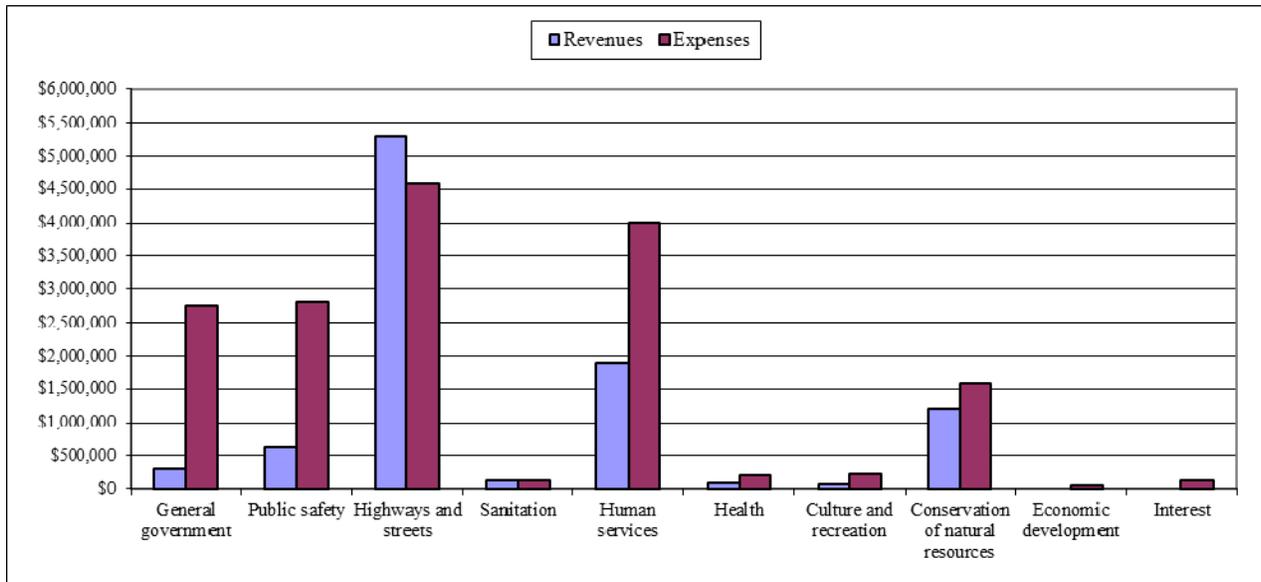


Table 2 presents the cost and revenue of each program, as well as the County’s general revenues.

Total program and general revenues for the County were \$19,048,290, while total expenses were \$16,494,430. This reflects a \$2,553,860 increase in net position for the year ended December 31, 2013.

**Table 2
Expenses and Program Revenues - 2013**



The costs of all governmental activities this year were \$16,494,430. 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 \$8,523,595 because some of the costs were paid by those who directly benefited from the programs (\$2,122,825) or by other governments, organizations, and individuals that subsidized certain programs with grants and contributions (\$7,523,721). The County paid for the remaining “public benefit” portion of governmental activities with \$9,411,744 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	
	2013	2012	2013	2012
Highways and streets	\$ 4,583	\$ 4,714	\$ (710)	\$ 498
Human services	4,007	3,784	2,102	1,772
General government	2,761	2,608	2,447	2,122
Public safety	2,811	2,617	2,176	2,013
All others	2,332	1,875	843	573
Totals	\$ 16,494	\$ 15,598	\$ 6,858	\$ 6,978

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 \$42,898 below the final budget amounts. The most significant positive variance (\$94,586) occurred in general government where County Buildings-Improvements/Repairs was \$73,173 less than anticipated, Finance and Administration expenses were \$48,327 less than anticipated, as well as various other costs were less than anticipated. This \$94,587 variance resulted in a 1.3 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 911 Enhancement (\$37,749), lower than anticipated supplies and equipment costs in the Property and Public Services Department (\$12,225), and several other departments also spent less than anticipated.

On the other hand, resources available for appropriation were \$295,052 above the final budgeted amount. The most significant positive variances occurred in Charges For Services (\$117,704) due to receiving additional boarding fees in the Jail; there was also a greater than anticipated MCIT dividend, which is included in the Miscellaneous revenues variance (\$139,856).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2013, totaled \$66,106,655 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets, net of depreciation, increased \$1,877,487, or 2.9 percent, from the previous year. The major capital asset events were:

- \$2,394,303 construction of highways and streets and
- \$663,086 renovation of building.

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

	2013	2012
Land	\$ 1,058	\$ 986
Infrastructure	56,365	55,559
Buildings	3,627	3,792
Improvements other than buildings	256	268
Machinery and equipment	2,883	3,010
Works of art and historical treasures	126	126
Construction in progress	1,792	488
Total	\$ 66,107	\$ 64,229

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

Long-Term Debt

At the end of the current fiscal year, the County had total net outstanding debt of \$1,983,696, which was backed by the full faith and credit of the government.

**Outstanding Debt
(in Thousands)**

	2013	2012
General obligation bonds	\$ 1,935	\$ 2,102
Capital leases	49	9
Total	\$ 1,984	\$ 2,111

The County's debt related to general obligation bonds decreased by \$180,000 (8.5 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 2013, the County's outstanding debt was 0.10 percent of its total estimated market value.

Additional information on the County's long-term debt can be found in Note 3.C.7. 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 2014 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Yellow Medicine County at the end of 2013 was 4.9 percent. This compares with the state and federal unemployment rates of 4.9 percent and 6.7 percent, respectively, but shows a 0.1 percent decrease from the County's 5.0 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 \$9.9 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 2014 are budgeted to increase 7.19 percent (\$446,234) over the 2013 original budget. The 2014 anticipated revenues, other than tax levy, special assessments, state county program aid, and state market value credits, are budgeted to remain the same from the 2013 original budget.
- The 2014 gross property tax levy for the County increased 3.26 percent (\$288,290) from 2013; but after reducing the levy by state county program aid (\$166,658), the net tax levy (the amount spread to taxpayers) increased 3.42 percent (\$296,737) over the net tax levy for 2013.
- Considering cost-effective and efficient means for delivery of County programs and services will influence the development of 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, 180 Eighth Avenue, 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 POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013**

Assets

Cash and pooled investments	\$	12,876,720
Investments		770,089
Receivables - net		4,363,224
Inventories		203,730
Prepaid items		4,693
Capital assets		
Non-depreciable		2,975,603
Depreciable - net of accumulated depreciation		<u>63,131,052</u>
Total Assets	\$	<u>84,325,111</u>

Liabilities

Accounts payable and other current liabilities	\$	1,248,425
Accrued interest payable		31,798
Long-term liabilities		
Due within one year		376,402
Due in more than one year		<u>3,044,017</u>
Total Liabilities	\$	<u>4,700,642</u>

Net Position

Net investment in capital assets	\$	64,122,959
Restricted for		
Highways and streets		1,573,946
Public safety		153,994
Human services		23,036
Debt service		430,545
Conservation of natural resources		278,174
Other purposes		160,711
Unrestricted		<u>12,881,104</u>
Total Net Position	\$	<u>79,624,469</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Fees, Charges, Fines, and Other</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<u>Functions/Programs</u>					
Governmental activities					
General government	\$ 2,761,090	\$ 170,747	\$ 143,662	\$ -	\$ (2,446,681)
Public safety	2,811,699	356,341	272,233	6,635	(2,176,490)
Highways and streets	4,582,598	64,418	3,386,668	1,841,942	710,430
Sanitation	134,055	75,747	55,950	-	(2,358)
Human services	4,006,891	267,201	1,637,976	-	(2,101,714)
Health	211,658	1,094	85,047	-	(125,517)
Culture and recreation	237,342	21,594	49,362	-	(166,386)
Conservation of natural resources	1,576,424	1,155,683	44,246	-	(376,495)
Economic development	51,698	-	-	-	(51,698)
Interest	120,975	-	-	-	(120,975)
Total Governmental Activities	\$ 16,494,430	\$ 2,112,825	\$ 5,675,144	\$ 1,848,577	\$ (6,857,884)
General Revenues					
Property taxes				\$ 8,523,595	
Mortgage registry and deed tax				5,248	
Payments in lieu of tax				78,750	
Grants and contributions not restricted to specific programs				411,402	
Miscellaneous				319,001	
Unrestricted investment earnings				73,748	
Total general revenues				\$ 9,411,744	
Change in net position				\$ 2,553,860	
Net Position - Beginning				77,070,609	
Net Position - Ending				\$ 79,624,469	

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, 2013**

	<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	\$ 4,991,101	\$ 4,240,764	\$ 3,511,987	\$ 11,142	\$ -	\$ 12,754,994
Undistributed cash in agency funds	64,835	26,505	20,486	5,260	3,240	120,326
Petty cash and change funds	1,350	50	-	-	-	1,400
Investments	134,342	-	-	180,549	455,198	770,089
Taxes receivable						
Prior	59,765	29,825	23,964	-	3,905	117,459
Special assessments receivable						
Prior	5,834	-	-	4,600	-	10,434
Noncurrent	580,697	-	-	1,046,229	-	1,626,926
Accounts receivable	9,757	1,168	15,272	-	-	26,197
Accrued interest receivable	74,509	-	-	-	-	74,509
Due from other funds	13,901	-	-	-	-	13,901
Due from other governments	66,760	2,235,200	178,245	27,494	-	2,507,699
Inventories	-	203,730	-	-	-	203,730
Prepaid items	4,050	-	643	-	-	4,693
Total Assets	<u>\$ 6,006,901</u>	<u>\$ 6,737,242</u>	<u>\$ 3,750,597</u>	<u>\$ 1,275,274</u>	<u>\$ 462,343</u>	<u>\$ 18,232,357</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 163,630	\$ 68,468	\$ 129,984	\$ 51,308	\$ -	\$ 413,390
Salaries payable	147,610	60,046	79,442	2,277	-	289,375
Contracts payable	33,764	29,470	-	384,378	-	447,612
Due to other funds	-	-	13,901	-	-	13,901
Due to other governments	45,199	6,953	4,918	31,692	-	88,762
Ditch petition payable	-	-	-	9,286	-	9,286
Total Liabilities	<u>\$ 390,203</u>	<u>\$ 164,937</u>	<u>\$ 228,245</u>	<u>\$ 478,941</u>	<u>\$ -</u>	<u>\$ 1,262,326</u>
Deferred Inflows of Resources						
Unavailable revenue	<u>\$ 707,767</u>	<u>\$ 2,258,506</u>	<u>\$ 89,644</u>	<u>\$ 1,071,693</u>	<u>\$ 3,905</u>	<u>\$ 4,131,515</u>
Fund Balances						
Nonspendable	\$ 4,050	\$ 203,730	\$ 643	\$ -	\$ -	\$ 208,423
Restricted	592,880	55,359	23,036	-	458,438	1,129,713
Committed	57,551	-	-	-	-	57,551
Assigned	180,000	4,054,710	3,409,029	-	-	7,643,739
Unassigned	4,074,450	-	-	(275,360)	-	3,799,090
Total Fund Balances	<u>\$ 4,908,931</u>	<u>\$ 4,313,799</u>	<u>\$ 3,432,708</u>	<u>\$ (275,360)</u>	<u>\$ 458,438</u>	<u>\$ 12,838,516</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 6,006,901</u>	<u>\$ 6,737,242</u>	<u>\$ 3,750,597</u>	<u>\$ 1,275,274</u>	<u>\$ 462,343</u>	<u>\$ 18,232,357</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013**

Fund balance - total governmental funds (Exhibit 3)	\$	12,838,516
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		66,106,655
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		4,131,515
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (1,935,000)	
Capital leases	(48,696)	
Loans payable	(758,182)	
Compensated absences	(613,877)	
Net OPEB liability	(64,664)	
Accrued interest payable	(31,798)	
	(3,452,217)	(3,452,217)
Net Position of Governmental Activities (Exhibit 1)		\$ 79,624,469

**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, 2013**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
Revenues						
Taxes	\$ 4,344,348	\$ 2,198,265	\$ 1,697,584	\$ -	\$ 267,999	\$ 8,508,196
Special assessments	191,327	-	-	558,244	-	749,571
Licenses and permits	41,361	-	-	-	-	41,361
Intergovernmental	913,333	3,813,445	1,661,971	19,639	6,087	6,414,475
Charges for services	402,004	16,640	203,089	-	-	621,733
Fines and forfeits	3,665	-	-	-	-	3,665
Gifts and contributions	11,328	-	-	-	-	11,328
Investment earnings	82,625	-	-	1,296	1,008	84,929
Miscellaneous	428,903	48,058	55,701	13,644	-	546,306
Total Revenues	\$ 6,418,894	\$ 6,076,408	\$ 3,618,345	\$ 592,823	\$ 275,094	\$ 16,981,564
Expenditures						
Current						
General government	\$ 3,300,139	\$ -	\$ -	\$ -	\$ -	\$ 3,300,139
Public safety	2,552,171	-	-	-	-	2,552,171
Highways and streets	-	5,471,942	-	-	-	5,471,942
Sanitation	138,203	-	-	-	-	138,203
Human services	-	-	4,027,953	-	-	4,027,953
Health	109,336	-	-	-	-	109,336
Culture and recreation	235,687	-	-	-	-	235,687
Conservation of natural resources	385,567	-	-	1,172,346	-	1,557,913
Economic development	51,698	-	-	-	-	51,698
Intergovernmental	294,181	396,673	-	-	-	690,854
Debt service						
Principal	127,472	-	-	-	180,000	307,472
Interest	9,601	-	-	-	79,420	89,021
Total Expenditures	\$ 7,204,055	\$ 5,868,615	\$ 4,027,953	\$ 1,172,346	\$ 259,420	\$ 18,532,389
Excess of Revenues Over (Under) Expenditures	\$ (785,161)	\$ 207,793	\$ (409,608)	\$ (579,523)	\$ 15,674	\$ (1,550,825)

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

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**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, 2013**

	<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)						
Capital lease purchase	\$ 57,825	\$ -	\$ -	\$ -	\$ -	\$ 57,825
Loans issued	50,598	-	-	-	-	50,598
Proceeds from the sale of capital assets	15,450	-	-	-	-	15,450
Total Other Financing Sources (Uses)	\$ 123,873	\$ -	\$ -	\$ -	\$ -	\$ 123,873
Net Change in Fund Balance	\$ (661,288)	\$ 207,793	\$ (409,608)	\$ (579,523)	\$ 15,674	\$ (1,426,952)
Fund Balance - January 1	5,570,219	4,153,322	3,842,316	304,163	442,764	14,312,784
Increase (decrease) in inventories	-	(47,316)	-	-	-	(47,316)
Fund Balance - December 31	\$ 4,908,931	\$ 4,313,799	\$ 3,432,708	\$ (275,360)	\$ 458,438	\$ 12,838,516

**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, 2013**

Net change in fund balance - total governmental funds (Exhibit 5) \$ (1,426,952)

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

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

Deferred inflows of resources - December 31	\$ 4,131,515	
Deferred inflows of resources - January 1	<u>(2,126,791)</u>	2,004,724

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

Expenditures for general capital assets and infrastructure	\$ 4,218,118	
Current year depreciation	<u>(2,340,631)</u>	1,877,487

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

Debt issued		
Loans	\$ (50,598)	
Capital lease	<u>(57,825)</u>	(108,423)

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

Principal repayments		
General obligation bonds and notes	\$ 180,000	
Loans payable	108,820	
Capital leases	<u>18,652</u>	307,472

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	\$ 2,587	
Amortization of discounts on bonds and issuance costs	(34,541)	
Change in compensated absences	(19,473)	
Change in net OPEB liability	(1,705)	
Change in inventories	<u>(47,316)</u>	<u>(100,448)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 2,553,860

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FIDUCIARY FUNDS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2013**

	Cemetery Investment Trust	Agency
<u>Assets</u>		
Cash and pooled investments	\$ -	\$ 248,638
Investments	10,250	-
Accrued interest receivable	43	-
Total Assets	\$ 10,293	\$ 248,638
<u>Liabilities</u>		
Accounts payable	\$ 43	\$ 11,782
Due to other governments	-	236,856
Total Liabilities	\$ 43	\$ 248,638
<u>Net Position</u>		
Net position, held in trust for pool participant	\$ 10,250	

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Cemetery Investment Trust</u>
<u>Additions</u>	
Investment earnings	\$ 77
<u>Deductions</u>	
Distributions to participant	<u>77</u>
Changes in Net Position	\$ -
Net Position - January 1	<u>10,250</u>
Net Position - 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, 2013

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, 2013. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

Changes in Accounting Principles

During 2013, the County adopted new accounting guidance by implementing the provisions of GASB Statements 61 and 65. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, modifies and clarifies the requirements for inclusion of component units and their presentation in the primary government's financial statements. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. See Note 1.D.7. in the notes to the financial statements for additional information regarding the County's deferred inflows/outflows of resources.

Restatements of December 31, 2012, net position or fund balance were not required as a result of adopting these changes in accounting principles.

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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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.

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 position 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, which normally are supported by taxes and intergovernmental revenue, are reported separately.

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

- The Ditch Special Revenue Fund accounts for special assessment revenues levied against benefitted property to finance the cost of constructing and maintaining an agricultural drainage ditch system.
- The Debt Service Fund is used to account for the accumulation of restricted resources used for, and the payment of, principal, interest, and related costs.

Additionally, the County reports the following fiduciary fund 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,

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Finance Manager for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2013, 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 2013 were \$158,156.

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 operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). The investment in the pool is measured at the net asset value per share provided by the pool.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

1. Deposits and Investments (Continued)

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.

2. Receivables and Payables

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

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

All receivables are shown net of an allowance for uncollectibles.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15 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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Inventories and Prepaid Items

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

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

4. Capital Assets

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

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

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

Property, plant, and equipment of 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, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

5. Compensated Absences

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

6. Long-Term Obligations

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

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Deferred Outflows/Inflows of Resources

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

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

8. Classification of Net Position

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

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Classification of Fund Balances

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

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Classification of Fund Balances (Continued)

Yellow Medicine 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.

10. 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 13, 2011. At December 31, 2013, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

11. 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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Expenditures in Excess of Budget

The Human Services Special Revenue Fund and Ditch Special Revenue Fund had expenditures in excess of budget for the year ended December 31, 2013.

	Expenditures	Final Budget	Excess
Human Services Special Revenue Fund	\$ 4,027,953	\$ 3,928,562	\$ 99,391
Ditch Special Revenue Fund	1,172,346	408,900	763,446

B. Deficit Fund Equity

Ditch Special Revenue Fund

The Ditch Special Revenue Fund had a deficit fund balance of \$275,360 as of December 31, 2013. The fund balance deficit will be eliminated through a combination of a transfer from the General Fund, made on January 31, 2014, and by future levy of special assessments.

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 position	
Governmental activities	
Cash and pooled investments	\$ 12,876,720
Investments	770,089
Statement of fiduciary net position	
Cash and pooled investments	248,638
Investments	10,250
Total Cash and Investments	\$ 13,905,697

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County 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, 2013, the County's deposits were not exposed to custodial credit risk.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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;
- (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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

B. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County has adopted a policy to eliminate investment custodial credit risk by permitting brokers that obtain investments for the County to hold them only to the extent Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage are 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, 2013, the County's investments were not exposed to custodial credit risk.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. 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, 2013, and information relating to potential investment risks:

Investment Type	Credit Risk		Interest Rate Risk	Market Value
	Credit Rating	Rating Agency	Maturity Date	
U.S. government agency securities				
Federal Home Loan Bank Bonds	AA+	S&P	Varies	\$ 929,140
Federal National Mortgage Assn. Bond	AA+	S&P	08/28/2018	198,944
Marion & Polk County Taxable Bond	A+	S&P	02/28/2016	198,106
Investment pools				
MAGIC Fund	N/R	N/A	N/A	919
Negotiable certificates of deposit	N/R	N/A	Varies	3,270,000
Total investments				\$ 4,597,109
Checking				204,355
Savings				6,692,583
Certificates of deposit				2,410,250
Petty cash				1,400
Total Cash and Investments				\$ 13,905,697

N/R - Not Rated
N/A - Not Applicable
S&P - Standard & Poor's

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2013, for the County's governmental activities, net of the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 117,459	\$ -
Special assessments	1,637,360	964,202
Due from other governments	2,507,699	-
Accounts receivable	26,197	-
Interest	74,509	-
Total Governmental Activities	\$ 4,363,224	\$ 964,202

3. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 986,418	\$ 71,574	\$ -	\$ 1,057,992
Construction in progress	487,749	1,421,026	116,958	1,791,817
Works of art and historical treasures	125,794	-	-	125,794
Total capital assets not depreciated	\$ 1,599,961	\$ 1,492,600	\$ 116,958	\$ 2,975,603
Capital assets depreciated				
Buildings	\$ 6,167,820	\$ 5,186	\$ -	\$ 6,173,006
Land improvements	391,410	-	-	391,410
Machinery and equipment	6,507,129	442,987	119,455	6,830,661
Infrastructure	77,028,098	2,394,303	-	79,422,401
Total capital assets depreciated	\$ 90,094,457	\$ 2,842,476	\$ 119,455	\$ 92,817,478

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 2,375,339	\$ 170,511	\$ -	\$ 2,545,850
Land improvements	123,746	11,381	-	135,127
Machinery and equipment	3,496,997	570,442	119,455	3,947,984
Infrastructure	21,469,168	1,588,297	-	23,057,465
Total accumulated depreciation	\$ 27,465,250	\$ 2,340,631	\$ 119,455	\$ 29,686,426
Total capital assets depreciated, net	\$ 62,629,207	\$ 501,845	\$ -	\$ 63,131,052
Capital Assets, Net	\$ 64,229,168	\$ 1,994,445	\$ 116,958	\$ 66,106,655

Construction in progress consists of amounts completed on an open road project.

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

Governmental Activities	
General government	\$ 186,519
Public safety	208,558
Highways and streets, including depreciation of infrastructure assets	1,920,118
Sanitation	3,066
Human services	16,547
Culture and recreation	1,655
Conservation of natural resources	4,168
Total Depreciation Expense - Governmental Activities	\$ 2,340,631

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2013, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Human Services	\$ 13,901

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

The amounts due to the General Fund from the Human Services Special Revenue Fund and due to the Human Services 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, 2013, were as follows:

Accounts	\$	413,390
Salaries		289,375
Contracts		447,612
Due to other governments		88,762
Ditch petition		<u>9,286</u>
Total	<u>\$</u>	<u>1,248,425</u>

2. Construction Commitments

The County has active construction projects as of December 31, 2013. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Government center	\$ 648,794	\$ 56,945
Ditch improvements on CD 9	766,508	88,346

The remaining commitment for highway projects are state-funded and, therefore, not obligations of the County at December 31, 2013.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Capital Leases

Yellow Medicine County has lease agreements that qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. Capital leases consist of the following at December 31, 2013:

<u>Lease</u>	<u>Final Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2013</u>
2012 postage machine	2017	Quarterly	\$ 579	\$ 10,987	\$ 7,552
2013 squad cameras	2017	Annual	11,396	57,825	41,144
Total Capital Leases					<u>\$ 48,696</u>

Capital lease payments for the postage machine and squad cameras are paid from the General Fund. The future minimum lease obligations and the net present value of the minimum lease payments as of December 31, 2013, were as follows:

<u>Year Ending December 31</u>	<u>Lease Payments</u>
2014	\$ 13,712
2015	13,712
2016	13,712
2017	12,555
Less: amount representing interest	<u>(4,995)</u>
Capital Leases Payable	<u>\$ 48,696</u>

4. 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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Loans Payable (Continued)

Type of Indebtedness	Final Maturity	Semi-Annual Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2013
Yellow Medicine River Watershed	2014	\$ 12,446	2.00	\$ 224,595	\$ 12,323
Redwood River Watershed Project Continuation	2021	2,910	2.00	52,514	26,090
Yellow Medicine River Watershed Continuation	2018	11,853	2.00	213,887	101,530
Lac qui Parle River Mainstem Water Quality Enhancement	2022	19,425	2.00	350,542	243,566
North and South Fork Yellow Bank River	-	-	-	17,355	17,355
AG BMP Septic Loans	2023	Varies	N/A	397,198	357,318
Total Loans Payable				\$ 1,256,091	\$ 758,182

N/A - Not Applicable

5. 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, 2013
General obligation bonds 2005 G.O. Refunding Bonds, Series 2005	2022	\$165,000 - \$250,000	3.9532	\$ 2,615,000	\$ 1,935,000

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Debt Service Requirements

Payments on the refunding bonds are made by the Debt Service Fund. Debt service requirements at December 31, 2013, were as follows:

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 185,000	\$ 72,985
2015	190,000	66,093
2016	195,000	58,776
2017	205,000	51,025
2018	210,000	42,880
2019 - 2022	950,000	79,689
Total	<u>\$ 1,935,000</u>	<u>\$ 371,448</u>

Debt payments on the loans payable are made from the General Fund. Debt service requirements at December 31, 2013, were as follows:

<u>Year Ending December 31</u>	<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 116,710	\$ 7,242
2015	108,643	5,888
2016	110,139	4,632
2017	112,756	3,350
2018	89,719	2,067
2019 - 2023	201,222	2,231
2024 - 2028	1,638	-
Total	<u>\$ 740,827</u>	<u>\$ 25,410</u>

Loans of \$17,355 for North and South Fork Yellow Bank River are not included in the debt service requirements because a fixed repayment schedule is not available.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds					
Refunding Bonds of 2005	\$ 2,115,000	\$ -	\$ 180,000	\$ 1,935,000	\$ 185,000
Less: deferred amounts for issuance discounts	(13,071)	-	(13,071)	-	-
Total bonds payable	\$ 2,101,929	\$ -	\$ 166,929	\$ 1,935,000	\$ 185,000
Loans payable	\$ 816,404	\$ 50,598	\$ 108,820	\$ 758,182	\$ 116,710
Lease purchases	9,523	57,825	18,652	48,696	11,707
Compensated absences	594,404	392,923	373,450	613,877	62,985
Net OPEB liability	62,959	34,479	32,774	64,664	-
Long-Term Liabilities	\$ 3,585,219	\$ 535,825	\$ 700,625	\$ 3,420,419	\$ 376,402

D. Fund Balances

Fund balances for the year ended December 31, 2013, 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	\$ -	\$ 203,730	\$ -	\$ -	\$ -	\$ 203,730
Prepaid items	4,050	-	643	-	-	4,693
Total nonspendable	\$ 4,050	\$ 203,730	\$ 643	\$ -	\$ -	\$ 208,423

**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
Restricted						
Highway allotments	\$ -	\$ 55,359	\$ -	\$ -	\$ -	\$ 55,359
Recorder's technology	63,928	-	-	-	-	63,928
Recorder's compliance	32,179	-	-	-	-	32,179
Enhanced 911	93,938	-	-	-	-	93,938
Sheriff's contingency	5,000	-	-	-	-	5,000
Sheriff's forfeited property	23,004	-	-	-	-	23,004
Inmate social welfare	8,280	-	-	-	-	8,280
Attorney's forfeited property	6,076	-	-	-	-	6,076
Gun permit fees	23,772	-	-	-	-	23,772
Election equipment	55,023	-	-	-	-	55,023
Unspent grant monies	101,667	-	23,036	-	-	124,703
Veterans memorial	3,506	-	-	-	-	3,506
Septic/sewer loan repayment	176,507	-	-	-	-	176,507
Debt service	-	-	-	-	458,438	458,438
Total restricted	\$ 592,880	\$ 55,359	\$ 23,036	\$ -	\$ 458,438	\$ 1,129,713
Committed						
Recycling bins	\$ 57,551	\$ -	\$ -	\$ -	\$ -	\$ 57,551
Assigned						
Budgeted use of fund balance	\$ 180,000	\$ 400,000	\$ 45,000	\$ -	\$ -	\$ 625,000
Road and Bridge	-	3,654,710	-	-	-	3,654,710
Human Services	-	-	3,364,029	-	-	3,364,029
Total assigned	\$ 180,000	\$ 4,054,710	\$ 3,409,029	\$ -	\$ -	\$ 7,643,739
Unassigned	\$ 4,074,450	\$ -	\$ -	\$ (275,360)	\$ -	\$ 3,799,090
Total Fund Balances	\$ 4,908,931	\$ 4,313,799	\$ 3,432,708	\$ (275,360)	\$ 458,438	\$ 12,838,516

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

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).

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 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 highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description (Continued)

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 remaining year. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. 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.

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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan (Continued)

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 2013:

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

The County's contributions for the years ending December 31, 2013, 2012, and 2011, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
General Employees Retirement Fund	\$ 279,636	\$ 276,176	\$ 285,061
Public Employees Police and Fire Fund	78,397	74,878	68,904
Public Employees Correctional Fund	43,741	40,528	40,615

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

Three employees 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.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2013, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 4,850	\$ 4,850
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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

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 2013, there were approximately 103 participants in the plan, including 1 retiree. The implicit rate subsidy amount was determined by an actuarial study to be \$24,182 for 2013.

Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$ 35,582
Interest on net OPEB obligation	2,204
Adjustment to ARC	<u>(3,307)</u>
Annual OPEB cost (expense)	\$ 34,479
Contributions made during the year	<u>(32,774)</u>
Increase in net OPEB obligation	\$ 1,705
Net OPEB Obligation - Beginning of Year	<u>62,959</u>
Net OPEB Obligation - End of Year	<u>\$ 64,664</u>

**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)

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, 2011, 2012, and 2013, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2011	\$ 34,707	\$ 20,138	58.02%	\$ 60,281
December 31, 2012	34,525	31,847	92.24	62,959
December 31, 2013	34,479	32,774	95.05	64,664

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial accrued liability for benefits was \$337,942, and the actuarial value of assets was zero, 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.

Actuarial Methods and Assumptions

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

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

In the January 1, 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 eight percent initially, reduced by decrements to an ultimate rate of five percent over 6 years. Both rates included a three percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining equivalent single amortization period at December 31, 2013, was 25 years.

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For group employee health benefits, the County has entered into a joint powers agreement, the Southwest/West Central Service Cooperative. 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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$470,000 per claim in 2013 and \$480,000 in 2014. 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.

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.

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities (Continued)

Lincoln-Pipestone Rural Water System

At December 31, 2012, the Lincoln-Pipestone Rural Water System had \$36,231,499 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 specially benefited by the applicable expansion, extension, or enlargement of the system and from the net revenues from time to time received in excess of the current costs of operating and maintaining the system. 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 a Board appointed 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, 2012, (the latest information available) were \$36,231,499. 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

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

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Countryside Public Health Service (Continued)

Control is vested in the Countryside Public Health Service Board of Health. The Board consists of 11 persons, 3 from Yellow Medicine County and 2 from each of the other participating counties. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

Financing is provided by state and federal grants, appropriations from member counties, and charges for services. Yellow Medicine County's contribution for 2013 was \$102,322.

Complete financial statements can be obtained from: Countryside Public Health Service, P. O. Box 313, Benson, Minnesota 56215.

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 for 2013 was \$191,859. Complete financial statements for Region 6W Community Corrections can be obtained at 1215 Black Oak Avenue, P. O. Box 551, Montevideo, Minnesota 56265.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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

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 (PLYP)), 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.

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

**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)

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

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 Board was established pursuant to Minn. Stat. §§ 145A.17 and 471.59 and a joint powers agreement, effective May 31, 2007. The Board is comprised of one representative from each county to the agreement. The counties in the agreement are Big Stone, Chippewa, Douglas, Grant, La qui Parle, Lincoln, Lyon, McLeod, Meeker, Murray, Pipestone, Pope, Redwood, Renville, Stevens, Swift, Traverse, and Yellow Medicine. 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 2013, 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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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).

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 for the membership of that governing body. 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.

Financing is provided by the appropriations from member parties and by state and federal grants. During 2013, Yellow Medicine County contributed \$1,988 to the Joint Powers Board.

Southern Prairie Health Purchasing Alliance

Yellow Medicine County entered into a joint powers agreement on June 26, 2012, with Swift, Chippewa, Kandiyohi, Redwood, Lyon, Lincoln, Murray, Cottonwood, Jackson, Nobles, and Rock Counties to establish the Southern Prairie Health Purchasing Alliance pursuant to the provisions of Minn. Stat. § 471.59. The purpose of the Alliance is to plan, formulate, operate, and govern a rural care delivery system to improve the health and quality of life of the citizens of member counties. The Joint Powers Board is composed of one representative from each county.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Coordinated Enforcement Effort (CEE) VI Task Force

The Coordinated Enforcement Effort (CEE) VI Task Force was established under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Chippewa, Kandiyohi, Meeker, Swift, and Yellow Medicine Counties and the Cities of Appleton, Clara City, Cosmos, Benson, Granite Falls, Litchfield, Montevideo, and Willmar.

Control of the Task Force is vested in a Board of Directors comprised of thirteen members. The Board consists of the department heads or a designee from each participating full-time member agency.

The Task Force was established to receive and expend federal, state, and local grants and other related funds for the purpose of investigation of burglary, theft, narcotics, stolen property, and crimes of violence. Yellow Medicine County has no operational or financial control over the CEE VI Task Force. During the year, Yellow Medicine County contributed \$43,840 in funds to the Task Force. In an agent capacity, Kandiyohi County reports the cash transactions of the CEE VI Task Force as an agency fund on its financial statements.

Putting All Communities Together for Families Collaborative

Putting All Communities Together for Families Collaborative (PACT) was established in 1996 by a joint powers agreement among Kandiyohi, Meeker, Renville, and Yellow Medicine Counties. Effective January 1, 2011, an additional joint powers agreement was entered into to add McLeod County as a fifth County partner to PACT. As a result, the name was changed from PACT 4 Families Collaborative to PACT for Families Collaborative. The joint powers agreements were established to provide coordinated services to children and families. Yellow Medicine County has no operational or financial control over the Collaborative.

A county may withdraw from PACT by giving a 30-day written notice to PACT; however, the contribution will remain in the integrated fund for the implementation period. In the event of termination, any property acquired as a result of the agreement and any surplus monies on hand shall be distributed to the parties of this agreement in proportion to their contributions.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Putting All Communities Together for Families Collaborative (Continued)

Management of PACT is vested in an Executive Board composed of nine members representing all counties. The Board includes an administrative representative of social services, public health services, community corrections, school districts, two parents (one parent of a child diagnosed with a serious emotional disturbance), and three members at large, one of whom is of a mental health background. The Board appoints a fiscal agent to handle and be responsible for safekeeping the funds of PACT.

Renville County Human Services has acted as fiscal agent for PACT since January 1, 2006.

Southwest Regional Solid Waste Commission

Yellow Medicine County has entered into a joint powers agreement with 11 other counties to create and operate the Southwest Regional Solid Waste Commission under the authority of Minn. Stat. § 471.59. The Commission was formed to exercise the County's authority and obligation pursuant to Minn. Stat. chs. 400 and 115A; to provide for the management of solid waste in the respective counties; and provide the greatest public service benefit possible for the entire contiguous 12-county area encompassed by the counties in planning, management, and implementation of methods to deal with solid waste in southwest Minnesota.

The governing board is composed of one Board member from each of the participating counties. Financing of the Commission's solid waste management program is through appropriations from the participating counties, grants and loans from the Minnesota Office of Waste Management, or from the sale of bonds or other obligations secured by revenues of the Commission. Administration and planning costs of the Commission are assessed to the counties on equal shares up to \$1,000 per county per year. The current assessment is \$500.

The Commission is headquartered in Ivanhoe, Minnesota, where Lincoln County acts as fiscal host. A complete financial report of the Southwest Regional Solid Waste Commission can be obtained from the Lincoln County Auditor at 319 N. Rebecca Street, P. O. Box 29, Ivanhoe, Minnesota 56142.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

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

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 \$15,759 of the County levy to the Project.

Redwood-Cottonwood Rivers Control Area (RCRCA)

The Redwood-Cottonwood Rivers Control Area (RCRCA) works to improve water quality, reduce erosion, and enhance recreational opportunities by providing education, outreach, monitoring, and technical assistance within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. RCRCA consists of Brown, Cottonwood, Lincoln, Lyon, Murray, Pipestone, Redwood, and Yellow Medicine Counties. During the year, the County made payments of \$660 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 appointments. The County did not make any contributions to the District in 2013. Lac qui Parle County reports the activities of the Lac qui Parle-Yellow Bank Watershed District as a discrete component unit in its annual financial report.

Yellow Medicine River Watershed District

The County Board is 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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Pioneerland Regional Library System

Yellow Medicine County, along with 32 cities and 9 other counties, participates in the Pioneerland Regional Library System in order to provide efficient and improved regional public library service. The Pioneerland Library System is governed by the Pioneerland Library System Board, composed of 35 members appointed by member cities and counties. During the year, the County contributed \$74,086 to the System.

Southwest Minnesota Public Safety Board

The Southwest Minnesota Public Safety Board was established June 29, 2012, by a joint powers agreement between Yellow Medicine County and Lyon, Murray, Nobles, Pipestone, and Redwood Counties, and the City of Marshall and City of Worthington under authority of Minn. Stat. §§ 471.59. The purpose of the agreement is to formulate regional and local emergency communications recording and logging services between the parties.

Control is vested in a Joint Powers Board consisting of one County Commissioner or one City Council member for each party to the agreement, and the Sheriff or Chief of Police from each party to the agreement. The members representing counties and cities shall be appointed by their respective governing bodies for the membership of that governing body. In 2013, Yellow Medicine County contributed \$4,000 to the Southwest Minnesota Public Safety Board.

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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

6. Subsequent Events

On May 13, 2014, the Yellow Medicine County Board of Commissioners approved the redemption of the Series 2005 General Obligation Bonds. The redemption included the payoff of the remaining principal of \$1,750,000 and any accrued interest. Yellow Medicine County will make the final payment on June 26, 2014.

In addition, the Board of Commissioners authorized the issuance of bonds to fund drainage projects. On June 10, 2014, the Board finalized the sale of bonds to Baird for a total principal amount of \$2,330,000. The term of the bonds is 15 years with principal payments starting on February 1, 2016.

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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, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 4,359,029	\$ 4,359,029	\$ 4,344,348	\$ (14,681)
Special assessments	171,667	171,667	191,327	19,660
Licenses and permits	28,025	28,025	41,361	13,336
Intergovernmental	789,826	803,774	913,333	109,559
Charges for services	253,100	284,300	402,004	117,704
Fines and forfeits	4,000	4,000	3,665	(335)
Gifts and contributions	2,000	2,000	11,328	9,328
Investment earnings	182,000	182,000	82,625	(99,375)
Miscellaneous	289,047	289,047	428,903	139,856
Total Revenues	\$ 6,078,694	\$ 6,123,842	\$ 6,418,894	\$ 295,052
Expenditures				
Current				
General government				
Commissioners	\$ 223,984	\$ 223,984	\$ 231,273	\$ (7,289)
Public defender	20,000	24,000	26,234	(2,234)
Finance and administration	372,579	372,579	324,252	48,327
Accounting and auditing	38,500	38,500	38,821	(321)
Data processing	58,060	58,060	61,105	(3,045)
Elections	405	3,653	4,778	(1,125)
Central services	29,787	45,787	36,468	9,319
Risk management	106,200	106,200	106,899	(699)
Information technology	124,084	124,084	120,110	3,974
County attorney	367,522	367,435	369,978	(2,543)
Property and public services	640,463	640,463	652,688	(12,225)
Buildings	315,788	1,142,652	1,069,479	73,173
Planning and zoning	114,664	114,664	125,924	(11,260)
Veterans service officer	110,379	125,164	132,130	(6,966)
Other general government	7,500	7,500	-	7,500
Total general government	\$ 2,529,915	\$ 3,394,725	\$ 3,300,139	\$ 94,586
Public safety				
Sheriff	\$ 964,593	\$ 969,768	\$ 1,051,623	\$ (81,855)
Boat and water safety	2,500	16,500	15,966	534
Snowmobile safety	950	2,450	2,753	(303)
Clarkfield deputy	-	47,730	73,895	(26,165)
Coroner	4,500	20,500	17,928	2,572
E-911 system	85,000	85,000	47,251	37,749
Jail	1,141,935	1,141,935	1,121,295	20,640
Jail canteen fund	35,000	35,000	39,983	(4,983)
Restorative justice	143,416	162,762	133,577	29,185
Civil defense	46,281	46,281	47,900	(1,619)
Total public safety	\$ 2,424,175	\$ 2,527,926	\$ 2,552,171	\$ (24,245)

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Sanitation				
Recycling	\$ 119,000	\$ 119,000	\$ 133,896	\$ (14,896)
Hazardous waste	5,000	5,000	4,307	693
Total sanitation	\$ 124,000	\$ 124,000	\$ 138,203	\$ (14,203)
Health				
Nursing Service	\$ 800	\$ 800	\$ 1,000	\$ (200)
Drug-free communities	125,000	125,000	108,336	16,664
Total health	\$ 125,800	\$ 125,800	\$ 109,336	\$ 16,464
Culture and recreation				
Historical society	\$ 20,250	\$ 20,250	\$ 20,159	\$ 91
Agricultural museum	25,100	25,100	25,102	(2)
Parks	57,939	57,939	34,328	23,611
County/regional library	74,086	74,086	74,086	-
Other	33,838	33,838	82,012	(48,174)
Total culture and recreation	\$ 211,213	\$ 211,213	\$ 235,687	\$ (24,474)
Conservation of natural resources				
Extension	\$ 105,762	\$ 105,762	\$ 96,021	\$ 9,741
Soil and water conservation	112,743	112,743	111,521	1,222
Agricultural inspection	69,084	69,084	67,834	1,250
Water planning loan program	-	50,598	51,905	(1,307)
Water planning	27,794	27,794	28,501	(707)
Environmental officer	8,000	8,000	10,034	(2,034)
Other	19,419	21,419	19,751	1,668
Total conservation of natural resources	\$ 342,802	\$ 395,400	\$ 385,567	\$ 9,833
Economic development				
Community development	\$ 30,676	\$ 53,776	\$ 51,698	\$ 2,078
Intergovernmental				
Public safety	\$ 191,779	\$ 191,779	\$ 191,859	\$ (80)
Health	102,322	102,322	102,322	-
Total intergovernmental	\$ 294,101	\$ 294,101	\$ 294,181	\$ (80)

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Debt service				
Principal	\$ 110,837	\$ 110,837	\$ 127,472	\$ (16,635)
Interest	9,175	9,175	9,601	(426)
Total debt service	\$ 120,012	\$ 120,012	\$ 137,073	\$ (17,061)
Total Expenditures	\$ 6,202,694	\$ 7,246,953	\$ 7,204,055	\$ 42,898
Excess of Revenues Over (Under) Expenditures	\$ (124,000)	\$ (1,123,111)	\$ (785,161)	\$ 337,950
Other Financing Sources (Uses)				
Capital lease purchase	\$ -	\$ -	\$ 57,825	\$ 57,825
Loans issued	-	50,598	50,598	-
Proceeds from the sale of capital assets	-	-	15,450	15,450
Total Other Financing Sources (Uses)	\$ -	\$ 50,598	\$ 123,873	\$ 73,275
Net Change in Fund Balance	\$ (124,000)	\$ (1,072,513)	\$ (661,288)	\$ 411,225
Fund Balance - January 1	5,570,219	5,570,219	5,570,219	-
Fund Balance - December 31	\$ 5,446,219	\$ 4,497,706	\$ 4,908,931	\$ 411,225

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,213,657	\$ 2,213,657	\$ 2,198,265	\$ (15,392)
Intergovernmental	4,349,904	4,395,698	3,813,445	(582,253)
Charges for services	20,000	20,000	16,640	(3,360)
Miscellaneous	25,000	51,000	48,058	(2,942)
Total Revenues	\$ 6,608,561	\$ 6,680,355	\$ 6,076,408	\$ (603,947)
Expenditures				
Current				
Highways and streets				
Administration	\$ 264,226	\$ 264,226	\$ 205,993	\$ 58,233
Maintenance	1,649,397	1,514,897	1,308,695	206,202
Construction	3,409,622	3,596,672	3,171,689	424,983
Equipment and maintenance shops	996,937	944,387	785,565	158,822
Total highways and streets	\$ 6,320,182	\$ 6,320,182	\$ 5,471,942	\$ 848,240
Intergovernmental				
Highways and streets	383,879	396,673	396,673	-
Total Expenditures	\$ 6,704,061	\$ 6,716,855	\$ 5,868,615	\$ 848,240
Net Change in Fund Balance	\$ (95,500)	\$ (36,500)	\$ 207,793	\$ 244,293
Fund Balance - January 1	4,153,322	4,153,322	4,153,322	-
Increase (decrease) in inventories	-	-	(47,316)	(47,316)
Fund Balance - December 31	\$ 4,057,822	\$ 4,116,822	\$ 4,313,799	\$ 196,977

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,701,270	\$ 1,701,270	\$ 1,697,584	\$ (3,686)
Intergovernmental	1,761,457	1,761,457	1,661,971	(99,486)
Charges for services	239,000	239,000	203,089	(35,911)
Miscellaneous	32,000	32,000	55,701	23,701
Total Revenues	\$ 3,733,727	\$ 3,733,727	\$ 3,618,345	\$ (115,382)
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,088,825	\$ 1,131,247	\$ 1,109,163	\$ 22,084
Social services	2,759,902	2,797,315	2,918,790	(121,475)
Total Expenditures	\$ 3,848,727	\$ 3,928,562	\$ 4,027,953	\$ (99,391)
Net Change in Fund Balance	\$ (115,000)	\$ (194,835)	\$ (409,608)	\$ (214,773)
Fund Balance - January 1	3,842,316	3,842,316	3,842,316	-
Fund Balance - December 31	\$ 3,727,316	\$ 3,647,481	\$ 3,432,708	\$ (214,773)

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 559,121	\$ 559,121	\$ 558,244	\$ (877)
Intergovernmental	98	98	19,639	19,541
Investment earnings	-	-	1,296	1,296
Miscellaneous	-	-	13,644	13,644
Total Revenues	\$ 559,219	\$ 559,219	\$ 592,823	\$ 33,604
Expenditures				
Current				
Conservation of natural resources				
Other	408,900	408,900	1,172,346	(763,446)
Net Change in Fund Balance	\$ 150,319	\$ 150,319	\$ (579,523)	\$ (729,842)
Fund Balance - January 1	304,163	304,163	304,163	-
Fund Balance - December 31	\$ 454,482	\$ 454,482	\$ (275,360)	\$ (729,842)

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2013**

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, 2013

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:

	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 6,202,694	\$ 1,044,259	\$ 7,246,953
Road and Bridge Special Revenue Fund	6,704,061	12,794	6,716,855
Human Services Special Revenue Fund	3,848,727	79,835	3,928,562

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

The following individual major funds had expenditures in excess of budget for the year ended December 31, 2013:

	Expenditures	Final Budget	Excess
Human Services Special Revenue Fund	\$ 4,027,953	\$ 3,928,562	\$ 99,391
Ditch Special Revenue Fund	1,172,346	408,900	763,446

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Other Postemployment Benefits Funded Status

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

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

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

2011

Plan Provisions

- An Early Retirement Incentive was offered and accepted by two employees and is included in the 2011 Governmental Accounting Standards Board Statement No. 45 valuation.

Actuarial Assumptions

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- Claim costs were developed by age adjusting the premium information from Yellow Medicine County. The resulting claim amount was then blended with the claim amount from the previous valuation trended to the valuation date. As of January 1, 2008, actual claims and enrollment experience were weighted along with age-adjusted premiums.

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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 268,388	\$ 268,388	\$ 267,999	\$ (389)
Intergovernmental	6,012	6,012	6,087	75
Investment earnings	1,800	1,800	1,008	(792)
Total Revenues	\$ 276,200	\$ 276,200	\$ 275,094	\$ (1,106)
Expenditures				
Debt service				
Principal	\$ 180,000	\$ 180,000	\$ 180,000	\$ -
Interest	79,420	79,420	79,420	-
Total Expenditures	\$ 259,420	\$ 259,420	\$ 259,420	\$ -
Net Change in Fund Balance	\$ 16,780	\$ 16,780	\$ 15,674	\$ (1,106)
Fund Balance - January 1	442,764	442,764	442,764	-
Fund Balance - December 31	\$ 459,544	\$ 459,544	\$ 458,438	\$ (1,106)

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

AGENCY FUNDS

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

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

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

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**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, 2013**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>SOCIAL WELFARE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 9,143	\$ 99,844	\$ 97,205	\$ 11,782
<u>Liabilities</u>				
Accounts payable	\$ 9,143	\$ 99,844	\$ 97,205	\$ 11,782
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 51,751	\$ 216,178	\$ 247,752	\$ 20,177
<u>Liabilities</u>				
Due to other governments	\$ 51,751	\$ 216,178	\$ 247,752	\$ 20,177
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 225,436	\$ 18,640,100	\$ 18,648,857	\$ 216,679
<u>Liabilities</u>				
Due to other governments	\$ 225,436	\$ 18,640,100	\$ 18,648,857	\$ 216,679

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 286,330	\$ 18,956,122	\$ 18,993,814	\$ 248,638
<u>Liabilities</u>				
Accounts payable	\$ 9,143	\$ 99,844	\$ 97,205	\$ 11,782
Due to other governments	277,187	18,856,278	18,896,609	236,856
Total Liabilities	\$ 286,330	\$ 18,956,122	\$ 18,993,814	\$ 248,638

OTHER SCHEDULES

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2013**

Shared Revenue

State

Highway users tax	\$ 2,984,984
County program aid	175,105
PERA rate reimbursement	15,548
Disparity reduction aid	43,185
Performance aid	1,430
Police aid	63,940
Enhanced 911	81,765
Market value credit	147,940
Casino credit	28,194
	<hr/>

Total shared revenue **\$ 3,542,091**

Reimbursement for Services

Minnesota Department of Human Services	\$ 274,487
Local	19,443
	<hr/>

Total reimbursement for services **\$ 293,930**

Payments

Local

Payments in lieu of taxes	\$ 78,750
Local contributions	4,630
	<hr/>

Total payments **\$ 83,380**

Grants

State

Minnesota Department/Board/Office of	
Public Safety	\$ 6,985
Human Services	574,333
Natural Resources	67,392
Water and Soil Resources	113,811
Veterans Affairs	9,798
Peace Officer Standards and Training Board	3,076
Pollution Control Agency	55,950
	<hr/>

Total state **\$ 831,345**

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

***EXHIBIT D-1
(Continued)***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal	
Department of Agriculture	\$ 67,701
Justice	56,259
Health and Human Services	762,820
Homeland Security	51,671
Transportation	725,278
	<hr/>
Total federal	\$ 1,663,729
	<hr/>
Total state and federal grants	\$ 2,495,074
	<hr/>
Total Intergovernmental Revenue	\$ 6,414,475
	<hr/> <hr/>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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>62,122</u>
U.S. Department of Justice		
Direct		
State Criminal Alien Assistance Program	16.606	\$ 5,796
Passed Through Minnesota Department of Public Safety Edward Byrne Memorial Justice Assistance Grant Program	16.738	<u>50,463</u>
Total U.S. Department of Justice		\$ <u>56,259</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ <u>1,240,000</u>
U.S. Election Assistance Commission		
Passed Through Minnesota Secretary of State Help America Vote Act Requirements Payments	90.401	\$ <u>5,038</u>
U.S. Department of Health and Human Services		
Direct		
Drug-Free Communities Support Program Grants	93.276	\$ 85,047
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	4,392
Temporary Assistance for Needy Families	93.558	53,169
Child Support Enforcement	93.563	136,435
Refugee and Entrant Assistance - State-Administered Programs	93.566	233
Child Care and Development Block Grant	93.575	1,168
Community-Based Child Abuse Prevention Grants	93.590	7,010
Stephanie Tubbs Jones Child Welfare Services Program	93.645	2,196
Foster Care - Title IV-E	93.658	88,603
Social Services Block Grant	93.667	86,755
Chafee Foster Care Independence Program	93.674	1,000
Children's Health Insurance Program	93.767	35
Medical Assistance Program	93.778	<u>349,756</u>
Total U.S. Department of Health and Human Services		\$ <u>815,799</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	\$ 4,148
Passed Through United Way Emergency Food and Shelter National Board Program	97.024	2,909
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	16,034
Passed Through Southwest Minnesota Regional Radio Board Interoperable Emergency Communications	97.055	7,342
Homeland Security Grant Program	97.067	21,238
Total U.S. Department of Homeland Security		\$ 51,671
Total Federal Awards		\$ 2,230,889

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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 basic 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, 2013. 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 or changes in net position 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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 1,663,729
Grants received more than 60 days after year-end, considered unavailable revenue in 2013	
Highway Planning and Construction (CFDA #20.205)	514,722
Foster Care - Title IV-E (CFDA #93.658)	11,918
Medical Assistance Program (CFDA #93.778)	41,229
Unavailable revenue in 2012, recognized as revenue in 2013	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA #10.561)	(5,579)
Child Care and Development Block Grant (CFDA #93.575)	(168)
Help America Vote Act Requirements Payments (CFDA #90.401) grant monies unspent in previous years and expended in 2013	<u>5,038</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 2,230,889</u>

5. Subrecipients

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2013.

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **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: **Unmodified**

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

The major programs are:

Highway Planning and Construction	CFDA #20.205
Medical Assistance Program	CFDA #93.778

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

Yellow Medicine County qualified as a low-risk auditee? **Yes**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2004-001

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 informed us that, due to the available resources, it would not be able to hire additional qualified accounting staff 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.

ITEM ARISING THIS YEAR

Finding 2013-001

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. Clarified Auditing Standards AU-C Section 265 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit, an adjustment was proposed and recorded to the Ditch Special Revenue Fund in the amount of \$384,378 that resulted in an additional liability for contracts payable. This adjustment was individually material to this opinion unit and was necessary to fairly present liabilities in Yellow Medicine County's financial statements.

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

Effect: The following audit adjustment was reviewed and recorded by County staff: increased contracts payable and conservation expenditures by \$384,378 for work completed on a ditch rehabilitation project in 2013 that was not considered a current period expenditure.

Cause: The County made partial payment to a contractor on a ditch rehabilitation project in January 2014 for work completed in 2013 that was not identified as a liability as of December 31, 2013.

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

Client's Response:

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

PREVIOUSLY REPORTED ITEM RESOLVED

Network/Application Password Controls (2011-002)

In 2012, Yellow Medicine County 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. 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. When Yellow Medicine County updated to the new version of the IFS application software, the County did not review the network controls or assess risks from the change to a web-based application to ensure password controls were working as intended.

Resolution

During 2013, the County implemented network password controls appropriately restricting access to the IFS application.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2011-004

Eligibility Testing

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

Pass-Through Agency: Minnesota Department of Human Services

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

Condition: The Minnesota Department of Human Services maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. Not all documentation was available to support participant eligibility, and some information was input into MAXIS incorrectly. The following instances were noted in our sample of 40 cases tested:

- Three individuals who were receiving benefits did not have a birth certificate copy on record to document their U.S. citizenship.
- One case did not have verification of asset requirements. For this case, there were two vehicles listed in MAXIS for an individual, but there was no verification in the case file for either vehicle.

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 Human Services Department to perform the “intake function” (meeting with the social services client to determine income and categorical eligibility) while the Minnesota Department of Human Services maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to participants.

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

Cause: Program personnel entering case information into MAXIS did not ensure all required information was input into MAXIS correctly or that all required information was obtained and/or retained.

Recommendation: We recommend that the County implement additional review procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations is obtained and properly input into MAXIS and issues are followed up on in a timely manner. In addition, consideration should be given to providing additional training to program personnel.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Robin Schoep, Financial Assistance Supervisor

Corrective Action Planned:

1. *Make staff aware of error prone areas in order to prevent future deficiencies.*
 - a. *The Supervisor reviewed errors with staff at the time cases were being reviewed.*
 - b. *The Supervisor will discuss the importance of reviewing transferred cases and updating MAXIS if documentation is not forwarded with case file.*
 - c. *The Supervisor will discuss the importance of reviewing all existing MAXIS panels and updating data or deleting obsolete panels while processing applications and reviews.*
2. *The Supervisor will 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 on 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.*

Anticipated Completion Date:

1. *May 15, 2014. The Corrective Action Plan will be reviewed at next unit staffing.*
2. *Ongoing*

Finding 2012-001

Supervisory Review Over Eligibility - Intake Function

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

Pass-Through Agency: Minnesota Department of Human Services

Criteria: OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. These controls should include a documented review process for case files to ensure the intake function related to eligibility requirements is met.

Condition: The Minnesota Department of Human Services maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. During our testing of controls over Medical Assistance case files, we noted documented reviews of case files were performed by a supervisor for May, September, October, November, and December of 2013, but for no other month of 2013.

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

Effect: The lack of timely periodic reviews by a program supervisor or other person with knowledge of the program's case files increases the risk that clients will receive benefits for when they are not eligible.

Cause: The County hired a new Financial Assistance Supervisor in 2013 who was not familiar with the County's policy to perform supervisory case reviews on a monthly basis.

Recommendation: We recommend Yellow Medicine County perform case file reviews in a timely manner in accordance with the County's policy. A sample of case files should periodically be reviewed by a program supervisor or other person with knowledge of the program to ensure that all the required information affecting eligibility is obtained, correctly entered into MAXIS, and is retained in the case file. We further recommend that those reviews be documented and retained.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Robin Schoep, Financial Assistance Supervisor

Corrective Action Planned:

1. *The Supervisor will complete 2 Supervisory Case Reviews per Eligibility Specialist each month.*
 - a. *The results of the reviews will be reviewed with the worker, and any corrections or suggestions will be documented on the Supervisory Case Review Forms.*
 - b. *Any error trends will be discussed with all staff during weekly unit staff meetings.*
 - c. *Completed forms will be maintained in a file by the Supervisor and may be reviewed by any authorized reviewers.*

2. *The Supervisor will complete Targeted Reviews as detailed in the Yellow Medicine County Safeguard Policy and as directed by DHS.*
 - a. *The results of Supervisory Reviews will be reviewed with the worker, and any corrections or suggestions will be documented on the Targeted Review results.*
 - b. *Any error trends will be discussed with all staff during weekly unit staff meetings.*
 - c. *Documentation of the reviews will be maintained by the Supervisor and available for review by authorized reviewers.*

Anticipated Completion Date:

Ongoing

PREVIOUSLY REPORTED ITEM RESOLVED

Supervisory Review Over Social Services DHS-2556 Reporting (2012-002)

The DHS-2556 reports provide a signature space for the preparer and a signature space for the County Financial Official or Human Services Director. The 2012 fourth quarter DHS-2556 report was not signed by the Human Services Director to indicate review occurred.

Resolution

All DHS-2556 reports tested during the audit were signed by the Human Services Director to indicate review occurred.

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

Independent Auditor's Report

Board of County Commissioners
Yellow Medicine County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Yellow Medicine County, Minnesota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Yellow Medicine County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2004-001 to be a significant deficiency.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

Yellow Medicine County's Responses to Findings

Yellow Medicine County's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 24, 2014

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

Independent Auditor's Report

Board of County Commissioners
Yellow Medicine County

Report on Compliance for Each Major Federal Program

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 each of the County's major federal programs for the year ended December 31, 2013. Yellow Medicine County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Each Major Federal Program

In our opinion, Yellow Medicine County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2011-004. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2011-004 and 2012-001, that we consider to be significant deficiencies.

Yellow Medicine County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. Yellow Medicine County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

June 24, 2014

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR