

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**YELLOW MEDICINE COUNTY**  
**GRANITE FALLS, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2012**

## **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, 2012**



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

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**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

ORGANIZATION  
2012

Office	Name	Term Expires
<b>Commissioners</b>		
1st District	Greg Renneke	January 2015
2nd District	John Berends	January 2015
3rd District	Gary Lee Johnson <sup>1</sup>	January 2017
4th District	Ronald Antony <sup>2</sup>	January 2017
5th District	Louis Sherlin	January 2017
<b>Officers</b>		
<b>Elected</b>		
Attorney	Keith Helgeson	January 2015
District Judge	Dwayne Knutsen	January 2015
Sheriff	Bill Flaten	January 2015
<b>Appointed</b>		
Administrator	Vacant <sup>3</sup>	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	Indefinite
Property & Public Services	Janel Timm	Indefinite
Veterans Service Officer	Michelle Gatz	Indefinite

<sup>1</sup>Chair 2012

<sup>2</sup>Chair 2013

<sup>3</sup>Peggy Heglund appointed Administrator in 2013

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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SAINT PAUL, MN 55103-2139

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1-800-627-3529 (Relay Service)

## 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, 2012, 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, 2012, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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 September 13, 2013, 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

September 13, 2013

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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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, 2012  
(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, 2012. 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 \$77,070,609, of which \$62,104,645 is net investment in capital assets, and \$1,912,207 is restricted to specific purposes. The \$13,053,757 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

The County's net position increased by \$2,231,102 for the year ended December 31, 2012. 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 \$6,977,604. General revenues totaling \$9,208,706 funded the net cost.

The fund balances of the governmental funds decreased by \$544,310. The decrease was largely due to General Fund revenues and other sources being \$492,635 less than expenditures. This decrease, plus the net decreases in the Human Services Special Revenue Fund and Debt Service Fund of \$85,602, and \$231,787, respectively, and the increase of \$153,235 and \$112,479 in the Road and Bridge Special Revenue Fund and the Ditch Special Revenue Fund, respectively, accounted for the decrease in total fund balance for all funds.

For the year ended December 31, 2012, the unrestricted fund balance of the General Fund was \$4,906,937, or 66.6 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** 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 can be found on Exhibits 1 and 2 of this report.

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

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

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

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

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

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

## 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 \$77,070,609 at the close of 2012. The largest portion of the net position (80.6 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.

	<b>Net Position (in Thousands)</b>	
	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Assets		
Current and other assets	\$ 17,404	\$ 18,611
Capital assets	<u>64,229</u>	<u>61,098</u>
Total Assets	<u>\$ 81,633</u>	<u>\$ 79,709</u>
Liabilities		
Long-term liabilities	\$ 3,585	\$ 3,893
Other liabilities	<u>977</u>	<u>977</u>
Total Liabilities	<u>\$ 4,562</u>	<u>\$ 4,870</u>
Net Position		
Net investment in capital assets	\$ 62,105	\$ 58,577
Restricted	1,912	2,299
Unrestricted	<u>13,054</u>	<u>13,963</u>
Total Net Position	<u>\$ 77,071</u>	<u>\$ 74,839</u>

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 16.9 percent of the net position.

## Governmental Activities

The County's governmental activities increased net position by 3.0 percent (\$2,231,102 for 2012 compared to \$2,465,971 for 2011). Key elements in this increase in net position are as follows:

	Governmental Activities	
	2012	2011
<b>Changes in Net Position</b>		
<b>(in Thousands)</b>		
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 1,622	\$ 1,625
Operating grants and contributions	6,579	6,075
Capital grants and contributions	419	513
General revenues		
Property taxes	8,009	7,431
Other	1,200	1,473
Total Revenues	<u>\$ 17,829</u>	<u>\$ 17,117</u>
Expenses		
General government	\$ 2,608	\$ 2,529
Public safety	2,617	2,326
Highways and streets	4,714	4,877
Sanitation	126	158
Human services	3,784	3,512
Health	228	99
Culture and recreation	249	240
Conservation of natural resources	1,153	776
Economic development	22	16
Interest	97	118
Total Expenses	<u>\$ 15,598</u>	<u>\$ 14,651</u>
Excess of Revenues Over (Under) Expenses	\$ 2,231	\$ 2,466
Net Position - January 1	<u>74,840</u>	<u>72,374</u>
Net Position - December 31	<u><u>\$ 77,071</u></u>	<u><u>\$ 74,840</u></u>

## **FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

### **Governmental Funds**

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$14,312,784, a decrease of \$544,310, in comparison with the prior year. Of the combined ending fund balances, \$12,510,075 represents unrestricted fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is restricted to indicate that it is not available for new spending because it has already been restricted for various reasons either by state law, grant agreements, or bond covenants.

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 \$4,906,937. 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 66.6 percent of total General Fund expenditures. During 2012, the ending fund balance decreased by \$492,635. The primary reason for this decrease was due to the purchase of a building for \$453,680.

The Road and Bridge Special Revenue Fund had an unrestricted fund balance of \$3,841,242 at fiscal year-end, representing 54.7 percent of its annual expenditures. The ending fund balance increased \$153,235 during 2012, primarily due to increased inventories.

The Human Services Special Revenue Fund had an unrestricted fund balance of \$3,761,896 at fiscal year-end, representing 99.6 percent of its annual expenditures. The ending fund balance decreased \$85,602 during 2012, primarily due to higher than anticipated expenditures on social services.

The Ditch Special Revenue Fund had no unrestricted fund balance at fiscal year-end, as the entire fund balance is restricted. The ending fund balance increased \$112,479 during 2012, primarily due to higher than anticipated intergovernmental revenue.

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 decreased \$231,787 during 2012, primarily due to the full repayment of the G.O. Capital Equipment Note.

## Governmental Activities

The County's total revenues were \$17,829,433. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2012.

**Table 1  
Total County Revenues - 2012**

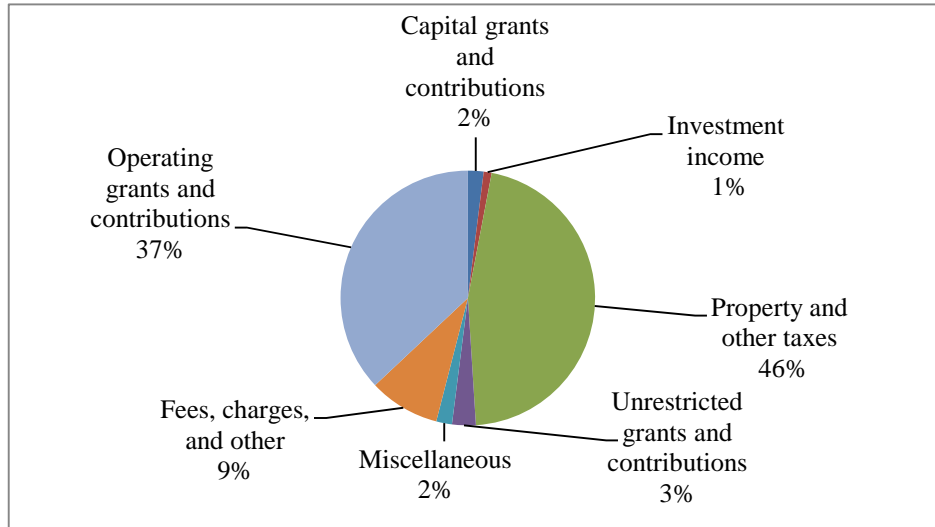
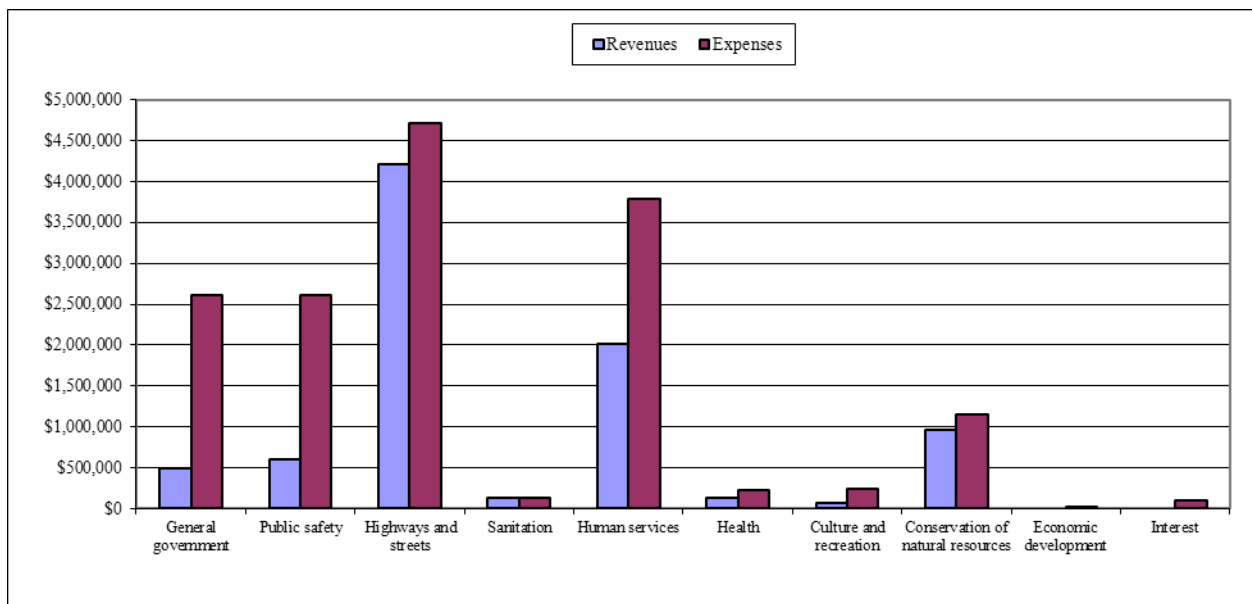


Table 2 presents the cost and revenue of each program as well as the County's general revenues. Total revenues for the County were \$17,829,433, while total expenses were \$15,598,331. This reflects a \$2,231,102 increase in net position for the year ended December 31, 2012.

**Table 2  
Expenses and Program Revenues - 2012**





The costs of all governmental activities this year were \$15,598,331. 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 \$8,008,510 because some of the costs were paid by those who directly benefited from the programs (\$1,622,113) or by other governments, organizations, and individuals that subsidized certain programs with grants and contributions (\$6,998,614). The County paid for the remaining “public benefit” portion of governmental activities with \$9,208,706 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.

	<b>Governmental Activities (in Thousands)</b>			
	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
Highways and streets	\$ 4,714	\$ 4,877	\$ 498	\$ 623
Human services	3,784	3,512	1,772	1,591
Public safety	2,617	2,326	2,013	1,577
General government	2,608	2,529	2,122	2,302
All others	1,875	1,407	573	346
Totals	<u>\$ 15,598</u>	<u>\$ 14,651</u>	<u>\$ 6,978</u>	<u>\$ 6,439</u>

### **General Fund Budgetary Highlights**

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

With these adjustments, the actual charges to appropriations (expenditures) were \$121,407 below the final budget amounts. The most significant positive variance (\$117,305) occurred in general government where information technology was \$50,807 less than anticipated, Commissioners’ salaries were \$27,178 less than anticipated, as well as various other costs were less than anticipated. This \$117,305 variance resulted in a 1.6 percent reduction in expected expenditures. Reasons for other significant variances of actual expenditures to final budget include less than anticipated expenditures of supplies and services in the Jail (\$23,053), lower than anticipated supplies and equipment costs in the Property & Public Services Department (\$26,614), and several other departments also spent less than anticipated.

On the other hand, resources available for appropriation were \$430,330 above the final budgeted amount. The most significant positive variances (\$184,636) occurred in intergovernmental revenue due to receiving additional grant funding from the State of Minnesota; there was also a greater than anticipated MCIT dividend.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The County's capital assets for its governmental activities at December 31, 2012, totaled \$64,229,168 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets, net of depreciation, increased \$3,131,117, or 5.1 percent, from the previous year. The major capital asset events were:

- \$3,569,492 construction of highways and streets,
- \$453,680 purchase of land and building and
- \$386,722 purchase of highway equipment.

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

	2012	2011
Land	\$ 986	\$ 827
Infrastructure	55,559	53,530
Buildings	3,792	3,959
Improvements other than buildings	268	279
Machinery and equipment	3,010	2,185
Works of art and historical treasures	126	126
Construction in progress	488	192
Total	\$ 64,229	\$ 61,098

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

## Long-Term Debt

At the end of the current fiscal year, the County had total net outstanding debt of \$2,111,452, which was backed by the full faith and credit of the government.

	<b>Outstanding Debt (in Thousands)</b>	
	<u>2012</u>	<u>2011</u>
General obligation bonds	\$ 2,102	\$ 2,271
General obligation notes	-	233
Capital leases	<u>9</u>	<u>1</u>
Total	<u>\$ 2,111</u>	<u>\$ 2,505</u>

The County's debt related to general obligation bonds decreased by \$170,000 (7.5 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 2012, 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 the notes to the financial statements of this report.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County's elected and appointed officials considered many factors when setting the 2013 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Yellow Medicine County at the end of 2012 was 5.0 percent. This compares with the state and federal unemployment rates of 5.4 percent and 7.8 percent, respectively, but shows a 0.1 percent increase from the County's 4.9 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 \$11.5 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 2013 are budgeted to increase 1.59 percent (\$129,901) over the 2012 original budget. The 2013 anticipated revenues, other than tax levy, special assessments, state county program aid, and state market value credits, are budgeted to decrease 7.4 percent (\$89,576) from the 2012 original budget.
- The 2013 gross property tax levy for the County increased 5.15 percent (\$420,532) from 2012; but after reducing the levy by state county program aid (\$175,105), the net tax levy (the amount spread to taxpayers) increased 6.25 percent (\$510,190) over the net tax levy for 2012.
- Considering cost-effective and efficient means for delivery of County programs and services will influence the development of future budgets.
- Additional grant awards in Veteran's Services, Restorative Justice, and Public Safety have contributed to additional services provided to the public, which is having a positive impact on the current budgets as well as future budgets.

## **REQUESTS FOR INFORMATION**

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

## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

***EXHIBIT 1***

**STATEMENT OF NET POSITION  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2012**

**Assets**

Cash and pooled investments	\$	13,148,322
Investments		829,430
Receivables - net		2,980,454
Inventories		251,046
Prepaid items		172,509
Deferred charges		21,470
Capital assets		
Non-depreciable capital assets		1,599,961
Depreciable capital assets - net of accumulated depreciation		62,629,207
		62,629,207
<b>Total Assets</b>	<b>\$</b>	<b>81,632,399</b>

**Liabilities**

Accounts payable and other current liabilities	\$	704,197
Accrued interest payable		34,385
Unearned revenue		2,298
Advance from other government		235,691
Long-term liabilities		
Due within one year		355,294
Due in more than one year		3,229,925
		3,229,925
<b>Total Liabilities</b>	<b>\$</b>	<b>4,561,790</b>

**Net Position**

Net investment in capital assets	\$	62,104,645
Restricted for		
Highways and streets		589,158
Public safety		116,889
Human services		28,290
Debt service		412,841
Conservation of natural resources		564,798
Other purposes		200,231
Unrestricted		13,053,757
		13,053,757
<b>Total Net Position</b>	<b>\$</b>	<b>77,070,609</b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*EXHIBIT 2*

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions		Capital Grants and Contributions
<b><u>Functions/Programs</u></b>					
<b>Governmental activities</b>					
General government	\$ 2,608,213	\$ 159,835	\$ 326,716	\$ -	\$ (2,121,662)
Public safety	2,617,009	210,901	196,586	196,431	(2,013,091)
Highways and streets	4,714,064	113,187	3,879,918	223,325	(497,634)
Sanitation	126,096	79,364	55,950	-	9,218
Human services	3,783,611	290,954	1,720,376	-	(1,772,281)
Health	228,286	1,281	124,924	-	(102,081)
Culture and recreation	248,599	19,449	52,448	-	(176,702)
Conservation of natural resources	1,153,201	747,142	221,940	-	(184,119)
Economic development	22,552	-	-	-	(22,552)
Interest	96,700	-	-	-	(96,700)
<b>Total Governmental Activities</b>	<b>\$ 15,598,331</b>	<b>\$ 1,622,113</b>	<b>\$ 6,578,858</b>	<b>\$ 419,756</b>	<b>\$ (6,977,604)</b>
<b>General Revenues</b>					
Property taxes					\$ 8,008,510
Mortgage registry and deed tax					7,773
Payments in lieu of tax					78,460
Grants and contributions not restricted to specific programs					498,032
Unrestricted investment earnings					202,541
Miscellaneous					413,390
<b>Total general revenues</b>					<b>\$ 9,208,706</b>
<b>Change in net position</b>					<b>\$ 2,231,102</b>
<b>Net Position - Beginning</b>					<b>74,839,507</b>
<b>Net Position - Ending</b>					<b>\$ 77,070,609</b>

**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, 2012**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
<b><u>Assets</u></b>						
Cash and pooled investments	\$ 5,420,346	\$ 3,782,104	\$ 3,764,560	\$ 21,693	\$ 192	\$ 12,988,895
Undistributed cash in agency funds	81,761	31,671	24,677	15,593	4,325	158,027
Petty cash and change funds	1,350	50	-	-	-	1,400
Investments	105,685	-	-	285,498	438,247	829,430
Taxes receivable						
Prior	48,596	23,845	19,909	-	4,462	96,812
Special assessments receivable						
Prior	9,941	-	-	4,129	-	14,070
Noncurrent	639,848	-	-	558,464	-	1,198,312
Accounts receivable	8,742	2,252	35,196	-	-	46,190
Accrued interest receivable	94,667	-	-	-	-	94,667
Due from other funds	16,203	-	743	-	-	16,946
Due from other governments	143,136	1,105,442	254,899	26,926	-	1,530,403
Inventories	-	251,046	-	-	-	251,046
Prepaid items	85,527	32,955	52,130	1,897	-	172,509
<b>Total Assets</b>	<b>\$ 6,655,802</b>	<b>\$ 5,229,365</b>	<b>\$ 4,152,114</b>	<b>\$ 914,200</b>	<b>\$ 447,226</b>	<b>\$ 17,398,707</b>
<b><u>Liabilities and Fund Balances</u></b>						
<b>Liabilities</b>						
Accounts payable	\$ 152,154	\$ 47,132	\$ 104,882	\$ 9,777	\$ -	\$ 313,945
Salaries payable	128,396	50,960	73,258	1,534	-	254,148
Due to other funds	743	-	16,203	-	-	16,946
Due to other governments	17,257	8,082	87,197	23,568	-	136,104
Deferred revenue						
Unavailable	784,735	734,178	28,258	575,158	4,462	2,126,791
Unearned	2,298	-	-	-	-	2,298
Advance from other government	-	235,691	-	-	-	235,691
<b>Total Liabilities</b>	<b>\$ 1,085,583</b>	<b>\$ 1,076,043</b>	<b>\$ 309,798</b>	<b>\$ 610,037</b>	<b>\$ 4,462</b>	<b>\$ 3,085,923</b>
<b>Fund Balances</b>						
Nonspendable	\$ 85,527	\$ 284,001	\$ 52,130	\$ 1,897	\$ -	\$ 423,555
Restricted	577,755	28,079	28,290	302,266	442,764	1,379,154
Committed	59,632	-	-	-	-	59,632
Assigned	124,000	3,841,242	3,761,896	-	-	7,727,138
Unassigned	4,723,305	-	-	-	-	4,723,305
<b>Total Fund Balances</b>	<b>\$ 5,570,219</b>	<b>\$ 4,153,322</b>	<b>\$ 3,842,316</b>	<b>\$ 304,163</b>	<b>\$ 442,764</b>	<b>\$ 14,312,784</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 6,655,802</b>	<b>\$ 5,229,365</b>	<b>\$ 4,152,114</b>	<b>\$ 914,200</b>	<b>\$ 447,226</b>	<b>\$ 17,398,707</b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF THE FUND BALANCES OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2012**

<b>Fund balance - total governmental funds (Exhibit 3)</b>		<b>\$ 14,312,784</b>
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		64,229,168
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,126,791
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (2,115,000)	
Capital leases	(9,523)	
Loans payable	(816,404)	
Compensated absences	(594,404)	
Net OPEB liability	(62,959)	
Unamortized discount on general obligation refunding bonds	13,071	
Deferred debt issuance charges	21,470	
Accrued interest payable	(34,385)	(3,598,134)
<b>Net Position of Governmental Activities (Exhibit 1)</b>		<b><u><u>\$ 77,070,609</u></u></b>



**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, 2012**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
<b>Revenues</b>						
Taxes	\$ 4,170,438	\$ 2,027,398	\$ 1,579,387	\$ -	\$ 273,029	\$ 8,050,252
Special assessments	172,882	-	-	615,053	-	787,935
Licenses and permits	40,380	-	-	-	-	40,380
Intergovernmental	1,354,330	4,870,701	1,821,985	166,581	6,567	8,220,164
Charges for services	290,293	31,646	232,113	-	-	554,052
Fines and forfeits	1,721	-	-	-	-	1,721
Gifts and contributions	7,499	-	-	-	-	7,499
Investment earnings	195,005	-	-	1,035	1,872	197,912
Miscellaneous	456,645	122,763	58,841	16,899	-	655,148
<b>Total Revenues</b>	<b>\$ 6,689,193</b>	<b>\$ 7,052,508</b>	<b>\$ 3,692,326</b>	<b>\$ 799,568</b>	<b>\$ 281,468</b>	<b>\$ 18,515,063</b>
<b>Expenditures</b>						
<b>Current</b>						
General government	\$ 3,051,633	\$ -	\$ -	\$ -	\$ -	\$ 3,051,633
Public safety	2,929,375	-	-	-	-	2,929,375
Highways and streets	-	6,640,560	-	-	-	6,640,560
Sanitation	123,270	-	-	-	-	123,270
Human services	-	-	3,777,928	-	-	3,777,928
Health	127,971	-	-	-	-	127,971
Culture and recreation	246,359	-	-	-	-	246,359
Conservation of natural resources	479,121	-	-	687,089	-	1,166,210
Economic development	22,552	-	-	-	-	22,552
<b>Intergovernmental</b>	<b>289,686</b>	<b>383,879</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>673,565</b>
<b>Debt service</b>						
Principal	92,601	-	-	-	405,000	497,601
Interest	9,024	-	-	-	87,974	96,998
<b>Total Expenditures</b>	<b>\$ 7,371,592</b>	<b>\$ 7,024,439</b>	<b>\$ 3,777,928</b>	<b>\$ 687,089</b>	<b>\$ 492,974</b>	<b>\$ 19,354,022</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (682,399)</b>	<b>\$ 28,069</b>	<b>\$ (85,602)</b>	<b>\$ 112,479</b>	<b>\$ (211,506)</b>	<b>\$ (838,959)</b>

**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, 2012**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
<b>Other Financing Sources</b>						
<b>(Uses)</b>						
Transfers in	\$ 20,281	\$ -	\$ -	\$ -	\$ -	\$ 20,281
Transfers out	-	-	-	-	(20,281)	(20,281)
Capital lease purchase	10,987	-	-	-	-	10,987
Loans issued	149,548	-	-	-	-	149,548
Proceeds from the sale of capital assets	8,948	353	-	-	-	9,301
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 189,764</b>	<b>\$ 353</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (20,281)</b>	<b>\$ 169,836</b>
<b>Net Change in Fund Balance</b>	<b>\$ (492,635)</b>	<b>\$ 28,422</b>	<b>\$ (85,602)</b>	<b>\$ 112,479</b>	<b>\$ (231,787)</b>	<b>\$ (669,123)</b>
<b>Fund Balance - January 1</b>	<b>6,062,854</b>	<b>4,000,087</b>	<b>3,927,918</b>	<b>191,684</b>	<b>674,551</b>	<b>14,857,094</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>124,813</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>124,813</b>
<b>Fund Balance - December 31</b>	<b>\$ 5,570,219</b>	<b>\$ 4,153,322</b>	<b>\$ 3,842,316</b>	<b>\$ 304,163</b>	<b>\$ 442,764</b>	<b>\$ 14,312,784</b>

**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, 2012**

**Net change in fund balance - total governmental funds (Exhibit 5) \$ (669,123)**

Amounts reported in the statement of activities are different because:

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

Deferred revenue - December 31	\$ 2,126,791	
Deferred revenue - January 1	<u>(2,789,482)</u>	(662,691)

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

Expenditures for general capital assets and infrastructure	\$ 5,313,699	
Current year depreciation	<u>(2,182,582)</u>	3,131,117

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	\$ (149,548)	
Capital lease	<u>(10,987)</u>	(160,535)

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

Principal payments		
General obligation bonds and notes	\$ 405,000	
Loans payable	90,232	
Capital leases	<u>2,369</u>	497,601

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

Change in accrued interest payable	\$ 4,541	
Change in long-term loans payable	3,154	
Amortization of discounts and deferred issuance charges	(7,397)	
Change in compensated absences payable	(27,700)	
Change in net OPEB liability	(2,678)	
Change in inventories	<u>124,813</u>	<u>94,733</u>

**Change in Net Position of Governmental Activities (Exhibit 2) \$ 2,231,102**

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**FIDUCIARY FUNDS**

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**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*EXHIBIT 7*

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2012**

	<b>Cemetery Investment Trust</b>	<b>Agency</b>
	<hr/>	<hr/>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ -	\$ 286,330
Investments	10,250	-
Accrued interest receivable	105	-
	<hr/>	<hr/>
<b>Total Assets</b>	<b>\$ 10,355</b>	<b>\$ 286,330</b>
	<hr/>	<hr/>
<b><u>Liabilities</u></b>		
Accounts payable	\$ 105	\$ 9,143
Due to other governments	-	277,187
	<hr/>	<hr/>
<b>Total Liabilities</b>	<b>\$ 105</b>	<b>\$ 286,330</b>
	<hr/>	<hr/>
<b><u>Net Position</u></b>		
Net position, held in trust for pool participant	<b>\$ 10,250</b>	
	<hr/>	

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*EXHIBIT 8*

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Cemetery Investment Trust</u>
<b><u>Additions</u></b>	
Investment earnings	\$ 128
<b><u>Deductions</u></b>	
Distributions to participant	<u>128</u>
<b>Changes in Net Position</b>	<b>\$ -</b>
<b>Net Position - January 1</b>	<b><u>10,250</u></b>
<b>Net Position - December 31</b>	<b><u><u>\$ 10,250</u></u></b>



**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

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, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Blended Component Unit

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

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net 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 in a single column.

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. 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.
- The Ditch Special Revenue Fund accounts for special assessment levies against benefited property restricted for construction and maintenance of 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, long-term debt, principal, interest, and related costs.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fiduciary fund types:

- The Cemetery Investment Trust Fund is used to account for specific investments held by the County for Union (Doncastor) Cemetery Association, a legally separate entity that is not part of the County's financial reporting entity.
- Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets that the County holds for others in an agent capacity.

C. Measurement Focus and Basis of Accounting

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

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Assets, Liabilities, and Net 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, 2012, 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 2012 were \$198,009.

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.

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

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

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

3. Inventories and Prepaid Items

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

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

4. Restricted Position

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

5. Capital Assets

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

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

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

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

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

6. Compensated Absences

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

7. Deferred Revenue

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

8. Long-Term Obligations

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

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



**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

9. Classification of Net Position

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

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

10. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed on 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 by law through constitutional provisions or enabling legislation.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

10. Classification of Fund Balances (Continued)

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

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

11. Minimum Fund Balance

Yellow Medicine County has adopted a minimum fund balance policy for the General Fund. The General Fund is heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined it needs to maintain a minimum unrestricted fund balance (committed, assigned, and

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

11. Minimum Fund Balance (Continued)

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, 2012, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

12. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

For the year ended December 31, 2012, no governmental funds had expenditures in excess of budget.

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	\$ 13,148,322
Investments	829,430
Statement of fiduciary net position	
Cash and pooled investments	286,330
Investments	10,250
	<hr/>
Total Cash and Investments	\$ 14,274,332
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**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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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, 2012, the County's deposits were not exposed to custodial credit risk.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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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**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County 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 there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available and that they qualify under Minn. Stat. § 118A.06 to hold investments. Securities purchased that exceed available SIPC coverage or are purchased by a broker that does not qualify under Minn. Stat. § 118A.06 to hold investments shall be transferred to the County's custodian. At December 31, 2012, none of the County's investments were subject 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, 2012, 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	08/15/2022	\$ 400,172
Federal Home Loan Mortgage Corp. Notes	AA+	S&P	Varies	400,174
Illinois State Taxable Bond	A+	S&P	01/01/2013	200,000
Investment pools				
MAGIC Fund	N/R	N/A	N/A	942
Negotiable certificates of deposit	N/R	N/A	Varies	1,918,000
Total investments				\$ 2,919,288
Checking				252,070
Savings				5,891,324
Certificates of deposit				5,210,250
Petty cash				1,400
Total Cash and Investments				\$ 14,274,332

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, 2012, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 96,812	\$ -
Special assessments	1,212,382	525,317
Due from other governments	1,530,403	-
Accounts	46,190	-
Interest	94,667	-
Total Governmental Activities	\$ 2,980,454	\$ 525,317

3. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 826,544	\$ 159,874	\$ -	\$ 986,418
Construction in progress	191,873	471,809	175,933	487,749
Works of art and historical treasures	125,794	-	-	125,794
Total capital assets not depreciated	\$ 1,144,211	\$ 631,683	\$ 175,933	\$ 1,599,961
Capital assets depreciated				
Buildings	\$ 6,167,820	\$ -	\$ -	\$ 6,167,820
Land improvements	391,410	-	-	391,410
Machinery and equipment	5,674,795	1,288,457	456,123	6,507,129
Infrastructure	73,458,606	3,569,492	-	77,028,098
Total capital assets depreciated	\$ 85,692,631	\$ 4,857,949	\$ 456,123	\$ 90,094,457



**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	\$ 2,208,964	\$ 166,375	\$ -	\$ 2,375,339
Land improvements	112,365	11,381	-	123,746
Machinery and equipment	3,489,383	463,737	456,123	3,496,997
Infrastructure	19,928,079	1,541,089	-	21,469,168
Total accumulated depreciation	<u>\$ 25,738,791</u>	<u>\$ 2,182,582</u>	<u>\$ 456,123</u>	<u>\$ 27,465,250</u>
Total capital assets depreciated, net	<u>\$ 59,953,840</u>	<u>\$ 2,675,367</u>	<u>\$ -</u>	<u>\$ 62,629,207</u>
Capital Assets, Net	<u>\$ 61,098,051</u>	<u>\$ 3,307,050</u>	<u>\$ 175,933</u>	<u>\$ 64,229,168</u>

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

Governmental Activities	
General government	\$ 180,292
Public safety	127,738
Highways and streets, including depreciation of infrastructure assets	1,850,824
Sanitation	2,826
Human services	14,714
Culture and recreation	2,240
Conservation of natural resources	3,948
Total Depreciation Expense - Governmental Activities	<u>\$ 2,182,582</u>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2012, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Human Services	\$ 16,203
Human Services	General	743
Total		<u>\$ 16,946</u>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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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.

2. Interfund Transfers

In 2012, the Debt Service Fund transferred \$20,281 to the General Fund to appropriate surplus tax levy funds to the General Fund.

C. Liabilities

1. Payables

Payables at December 31, 2012, were as follows:

Accounts	\$	313,945
Salaries		254,148
Due to other governments		136,104
Total	\$	704,197

2. Capital Leases

Yellow Medicine County has a lease agreement that qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The capital lease consists of the following at December 31, 2012:

Lease	Final Maturity	Installment	Payment Amount	Original Issue Amount	Outstanding Balance December 31, 2012
2012 postage machine	2017	Quarterly	\$ 579	\$ 10,987	\$ 9,523

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Capital Leases (Continued)

Capital lease payments for the postage machine are paid from the General Fund. A new lease was entered into during 2012 and will be paid off in 2017. The future minimum lease obligations and the net present value of the minimum lease payments as of December 31, 2012, were as follows:

Year Ending December 31	Lease Payments
2013	\$ 2,316
2014	2,316
2015	2,316
2016	2,316
2017	1,158
Less: amount representing interest	(899)
Capital Leases Payable	\$ 9,523

3. Loans Payable

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

Type of Indebtedness	Final Maturity	Semi-Annual Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
Yellow Medicine River Watershed	2014	\$ 12,446	2.00	\$ 224,595	\$ 36,604
Redwood River Watershed Project Continuation	2021	2,910	2.00	52,514	31,310
Yellow Medicine River Watershed Continuation	2018	11,853	2.00	213,887	122,884
Lac qui Parle River Mainstem Water Quality Enhancement	2022	19,425	2.00	350,542	277,043
North and South Fork Yellow Bank River	-	-	-	5,480	5,480
AG BMP Septic Loans	2023	Varies	N/A	358,475	343,084
Total Loans Payable				\$ 1,205,493	\$ 816,405

N/A - Not Applicable

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Bonds Payable

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

Type of Indebtedness	Final Maturity	Installment Amount	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
General obligation bonds 2005 G.O. Refunding Bonds, Series 2005	2022	\$165,000 - \$250,000	3.9532	<u>\$ 2,615,000</u>	\$ 2,115,000
Less: unamortized discount					<u>(13,071)</u>
Total General Obligation Bonds, Net					<u>\$ 2,101,929</u>

5. Debt Service Requirements

Payments on the refunding bonds are made by the Debt Service Fund. Debt service requirements at December 31, 2012, were as follows:

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2013	\$ 180,000	\$ 79,420
2014	185,000	72,985
2015	190,000	66,093
2016	195,000	58,776
2017	205,000	51,025
2018 - 2022	<u>1,160,000</u>	<u>122,569</u>
Total	<u>\$ 2,115,000</u>	<u>\$ 450,868</u>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Debt Service Requirements (Continued)

Debt payments on the loans payable are made from the General Fund. Debt service requirements at December 31, 2012, were as follows:

Year Ending December 31	Loans Payable	
	Principal	Interest
2013	\$ 108,820	\$ 8,937
2014	116,710	7,242
2015	101,838	5,888
2016	104,198	4,632
2017	106,636	3,350
2018 - 2022	265,416	4,298
2023	7,307	-
Total	<u>\$ 810,925</u>	<u>\$ 34,347</u>

Loans of \$5,480 for North and South Fork Yellow Bank River are not included in the debt service requirements because a fixed repayment schedule is not available.

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds					
Refunding Bonds of 2005	\$ 2,285,000	\$ -	\$ 170,000	\$ 2,115,000	\$ 180,000
Less: deferred amounts for issuance discounts	(14,379)	-	(1,308)	(13,071)	-
Total bonds payable	<u>\$ 2,270,621</u>	<u>\$ -</u>	<u>\$ 168,692</u>	<u>\$ 2,101,929</u>	<u>\$ 180,000</u>
Notes payable					
General obligation notes					
Capital Equipment Notes of 2009	\$ 235,000	\$ -	\$ 235,000	\$ -	\$ -
Less: deferred amounts for issuance discounts	(1,217)	-	(1,217)	-	-
Total notes payable	<u>\$ 233,783</u>	<u>\$ -</u>	<u>\$ 233,783</u>	<u>\$ -</u>	<u>\$ -</u>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

6. Changes in Long-Term Liabilities (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Total bonds and notes payable	\$ 2,504,404	\$ -	\$ 402,475	\$ 2,101,929	\$ 180,000
Loans payable	760,242	146,394	90,232	816,404	108,820
Lease purchase	905	10,987	2,369	9,523	1,971
Compensated absences	566,704	27,700	-	594,404	64,503
Net OPEB liability	60,281	34,525	31,847	62,959	-
Long-Term Liabilities	<u>\$ 3,892,536</u>	<u>\$ 219,606</u>	<u>\$ 526,923</u>	<u>\$ 3,585,219</u>	<u>\$ 355,294</u>

D. Fund Balances

Fund balances for the year ended December 31, 2012, were as follows:

	General Fund	Road and Bridge Special Revenue Fund	Human Services Special Revenue Fund	Ditch Special Revenue Fund	Debt Service Fund	Total
<b>Nonspendable</b>						
Inventories	\$ -	\$ 251,046	\$ -	\$ -	\$ -	\$ 251,046
Prepaid items	85,527	32,955	52,130	1,897	-	172,509
Total nonspendable	<u>\$ 85,527</u>	<u>\$ 284,001</u>	<u>\$ 52,130</u>	<u>\$ 1,897</u>	<u>\$ -</u>	<u>\$ 423,555</u>
<b>Restricted</b>						
Highway allotments	\$ -	\$ 28,079	\$ -	\$ -	\$ -	\$ 28,079
Recorder's technology	57,669	-	-	-	-	57,669
Recorder's compliance	70,681	-	-	-	-	70,681
Enhanced 911	59,291	-	-	-	-	59,291
Sheriff's contingency	5,000	-	-	-	-	5,000
Sheriff's forfeited property	20,862	-	-	-	-	20,862
Inmate social welfare	16,510	-	-	-	-	16,510
Attorney's forfeited property	6,084	-	-	-	-	6,084
Gun permit fees	15,226	-	-	-	-	15,226
Election equipment	59,968	-	-	-	-	59,968
Unspent grant monies	88,720	-	28,290	-	-	117,010
Veterans memorial	5,829	-	-	-	-	5,829
Septic/sewer loan repayment	171,915	-	-	-	-	171,915
Ditch	-	-	-	302,266	-	302,266
Debt service	-	-	-	-	442,764	442,764
Total restricted	<u>\$ 577,755</u>	<u>\$ 28,079</u>	<u>\$ 28,290</u>	<u>\$ 302,266</u>	<u>\$ 442,764</u>	<u>\$ 1,379,154</u>

**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
Committed						
Recycling bins	\$ 59,632	\$ -	\$ -	\$ -	\$ -	\$ 59,632
Assigned						
Budgeted use of fund balance	\$ 124,000	\$ 95,500	\$ 115,000	\$ -	\$ -	\$ 334,500
Road and Bridge	-	3,745,742	-	-	-	3,745,742
Human Services	-	-	3,646,896	-	-	3,646,896
Total assigned	\$ 124,000	\$ 3,841,242	\$ 3,761,896	\$ -	\$ -	\$ 7,727,138
Unassigned	\$ 4,723,305	\$ -	\$ -	\$ -	\$ -	\$ 4,723,305
Total Fund Balances	<u>\$ 5,570,219</u>	<u>\$ 4,153,322</u>	<u>\$ 3,842,316</u>	<u>\$ 304,163</u>	<u>\$ 442,764</u>	<u>\$ 14,312,784</u>

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).

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description (Continued)

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. 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 average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.



**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description (Continued)

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](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2012:

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, 2012, 2011, and 2010, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2012	2011	2010
General Employees Retirement Fund	\$ 276,176	\$ 285,061	\$ 269,347
Public Employees Police and Fire Fund	74,878	68,904	67,960
Public Employees Correctional Fund	40,528	40,615	41,192

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

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 5.0 percent of salary, which is matched by the employer. Employees may

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

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, 2012, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 3,361	\$ 3,361
Percentage of covered payroll	5%	5%

Required contribution rates were 5.0 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

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

Funding Policy

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

The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2012, there were approximately 105 participants in the plan, including 3 retirees. The implicit rate subsidy amount was determined by an actuarial study to be \$21,474 for 2012.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$	35,582
Interest on net OPEB obligation		2,110
Adjustment to ARC		(3,167)
Annual OPEB cost (expense)	\$	34,525
Contributions made		(31,847)
Increase in net OPEB obligation	\$	2,678
Net OPEB Obligation - Beginning of Year		60,281
Net OPEB Obligation - End of Year	\$	62,959

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, 2010, 2011, and 2012, 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, 2010	\$ 19,262	\$ 6,472	33.60%	\$ 45,637
December 31, 2011	34,707	20,138	58.02	60,281
December 31, 2012	34,525	31,847	92.24	62,959

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

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.

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.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

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, 2012, was 26 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. 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.

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 \$460,000 per claim in 2012 and \$470,000 per claim in 2013. 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.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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.

Lincoln-Pipestone Rural Water System

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

The debt is paid by the Lincoln-Pipestone Rural Water System from special assessments levied against property 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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities

Lincoln-Pipestone Rural Water System (Continued)

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.

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, 2011, (the latest information available) were \$36,595,000.



**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

The Lincoln-Pipestone Rural Water System's 2011 financial report shows total net assets of \$48,544,818, including unrestricted net assets of \$19,843,138. The increase in net assets for the year ended December 31, 2012, is \$6,120,627. Complete financial statements of the Lincoln-Pipestone Rural Water System can be obtained at East Highway 14, P. O. Box 188, Lake Benton, Minnesota 56149-0188.

Countryside Public Health Service

Yellow Medicine County participates with Big Stone, Chippewa, Lac qui Parle, and Swift Counties in a joint venture to provide community health services. The governing board consists of 11 members, 3 from Yellow Medicine County and 2 from each of the other participating counties. Yellow Medicine County's contribution to the Countryside Public Health Service of \$100,315 is shown as an intergovernmental expenditure in the General Fund. Countryside Public Health Service has no long-term debt. Complete financial statements of the Health Service can be obtained at P. O. Box 313, Benson, Minnesota 56215.

Region 6W Community Corrections

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

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

Yellow Medicine County's contribution of \$189,371 to Region 6W Community Corrections is shown as an intergovernmental expenditure in the General Fund. Complete financial statements of Region 6W Community Corrections can be obtained at 1215 Black Oak Avenue, P. O. Box 551, Montevideo, Minnesota 56265.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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

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 County entered into a joint powers agreement with Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Pipestone, Redwood, Renville, Rock, and Swift Counties; and Lincoln, Lyon, and Murray Counties, represented by the Southwest Health and Human Services, creating and operating the Southwestern Minnesota Adult Mental Health Consortium Board under the authority of Minn. Stat. § 471.59. The Southwestern Minnesota Adult Mental Health Consortium Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host. The Southwestern Minnesota Adult Mental Health Consortium Board shall take actions and enter into such agreements as may be

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

necessary to plan and develop within the Consortium Board's geographic jurisdiction, a system of care that will serve the needs of adults with serious and persistent mental illness. The governing board is composed of one Commissioner from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

The following is a summary of the Consortium Board's annual financial report for the year ended December 31, 2011 (the most recent information available):

Total assets	\$ 2,127,562
Total liabilities	564,148
Total net assets	1,563,414
Total revenues	3,744,479
Total expenditures	4,103,387
Change in net assets	(358,908)

The Board reported no long-term obligations at December 31, 2011.

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

Supporting Hands Nurse Family Partnership

The Supporting Hands Nurse Family Partnership was established in July 2007 by a joint powers agreement among Yellow Medicine and 11 other counties under the authority of Minn. Stat. §§ 471.59 and 145A.17. Yellow Medicine County is part of Countryside Public Health and is required to have this joint agreement. The purpose of this agreement is to organize, govern, plan, and administer a multi-county based Nurse Family Partnership Program specifically within the jurisdictional boundaries of the counties involved. A new agreement was signed in December 2010 to include an additional three counties.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Supporting Hands Nurse Family Partnership (Continued)

The governing board is composed of one Commissioner from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2012, Yellow Medicine County did not make a contribution to the Partnership, as a contribution was made by Countryside Public Health.

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

Southwest Minnesota Regional Radio Board

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

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.

During 2012, Yellow Medicine County contributed \$1,988 to the Joint Powers Board.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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 2012, Yellow Medicine County did not make any contributions to the Southwest Minnesota Public Safety Board.

Workforce Investment Act

The Southwest Minnesota Chief Elected Officials Joint Powers Board was established on July 1, 2012, by a joint powers agreement between Region 6W and Region 8 counties under authority of Minn. Stat. §§ 471.59. The purpose of the agreement is to provide planning and coordination for implementation of the Workforce Investment Act.

The governing board is composed of one County Commissioner from each of the fourteen counties. Southwest Minnesota Private Industry Council, Inc., acts as a fiscal agent for the 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. 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**

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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 \$15,391 of the County levy to the Project.

Redwood-Cottonwood Rivers Control Area (RCRCA)

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

Lac qui Parle-Yellow Bank Watershed District

The County Board is responsible for appointing one of the Board of Managers for the Lac qui Parle-Yellow Bank Watershed District, but the County's responsibility does not extend beyond making the appointments. The County did not make any contributions to the District in 2012.

Yellow Medicine River Watershed District

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

Pioneer Land Regional Library System

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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

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.

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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, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 4,136,176	\$ 4,136,176	\$ 4,170,438	\$ 34,262
Special assessments	149,261	149,261	172,882	23,621
Licenses and permits	24,525	24,525	40,380	15,855
Intergovernmental	810,306	1,169,694	1,354,330	184,636
Charges for services	253,560	253,560	290,293	36,733
Fines and forfeits	5,000	5,000	1,721	(3,279)
Gifts and contributions	1,500	1,500	7,499	5,999
Investment earnings	234,000	234,000	195,005	(38,995)
Miscellaneous	285,147	285,147	456,645	171,498
<b>Total Revenues</b>	<b>\$ 5,899,475</b>	<b>\$ 6,258,863</b>	<b>\$ 6,689,193</b>	<b>\$ 430,330</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 214,866	\$ 214,866	\$ 187,688	\$ 27,178
Public defender	20,000	20,000	23,549	(3,549)
Finance and administration	400,831	400,831	377,589	23,242
Accounting and auditing	45,350	45,350	34,802	10,548
Data processing	64,700	64,700	67,445	(2,745)
Elections	25,495	25,495	36,680	(11,185)
Central services	79,982	79,982	64,466	15,516
Risk management	94,500	94,500	117,403	(22,903)
Information technology	159,134	259,134	208,327	50,807
Attorney	353,833	353,833	329,285	24,548
Property and public services	587,493	620,493	593,879	26,614
Planning and zoning	100,919	100,919	101,847	(928)
Buildings	319,906	779,906	788,401	(8,495)
Veterans service officer	72,029	101,429	109,802	(8,373)
Other general government	7,500	7,500	10,470	(2,970)
<b>Total general government</b>	<b>\$ 2,546,538</b>	<b>\$ 3,168,938</b>	<b>\$ 3,051,633</b>	<b>\$ 117,305</b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 908,420	\$ 1,405,738	\$ 1,410,204	\$ (4,466)
Boat and water safety	2,300	20,300	21,300	(1,000)
Snowmobile safety	1,450	3,250	2,435	815
Coroner	5,500	5,500	7,064	(1,564)
E-911 system	87,000	281,000	279,589	1,411
Jail	1,069,772	1,069,772	1,046,719	23,053
Jail canteen fund	35,000	35,000	37,214	(2,214)
Restorative justice	87,920	87,920	85,618	2,302
Civil defense	58,368	60,418	39,232	21,186
<b>Total public safety</b>	<b>\$ 2,255,730</b>	<b>\$ 2,968,898</b>	<b>\$ 2,929,375</b>	<b>\$ 39,523</b>
<b>Sanitation</b>				
Recycling	\$ 118,000	\$ 118,000	\$ 118,987	\$ (987)
Hazardous waste	5,000	5,000	4,283	717
<b>Total sanitation</b>	<b>\$ 123,000</b>	<b>\$ 123,000</b>	<b>\$ 123,270</b>	<b>\$ (270)</b>
<b>Health</b>				
Nursing service	\$ -	\$ -	\$ 1,125	\$ (1,125)
Drug-free communities	120,647	120,647	126,846	(6,199)
<b>Total health</b>	<b>\$ 120,647</b>	<b>\$ 120,647</b>	<b>\$ 127,971</b>	<b>\$ (7,324)</b>
<b>Culture and recreation</b>				
Historical society	\$ 20,250	\$ 22,500	\$ 22,378	\$ 122
Agricultural museum	26,300	26,300	25,206	1,094
Parks	48,418	48,418	42,148	6,270
County/regional library	71,928	71,928	71,928	-
Other	31,156	31,156	84,699	(53,543)
<b>Total culture and recreation</b>	<b>\$ 198,052</b>	<b>\$ 200,302</b>	<b>\$ 246,359</b>	<b>\$ (46,057)</b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*EXHIBIT A-1  
(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures (Continued)</b>				
<b>Conservation of natural resources</b>				
Extension	\$ 102,915	\$ 102,915	\$ 101,443	\$ 1,472
Soil and water conservation	105,221	105,221	112,776	(7,555)
Agricultural inspection	61,350	61,350	65,149	(3,799)
Water quality loan program	-	149,549	149,548	1
Water planning	26,313	26,313	31,990	(5,677)
Environmental officer	9,000	9,000	500	8,500
Other	18,751	18,751	17,715	1,036
<b>Total conservation of natural resources</b>	<b>\$ 323,550</b>	<b>\$ 473,099</b>	<b>\$ 479,121</b>	<b>\$ (6,022)</b>
<b>Economic development</b>				
Community development	\$ 15,570	\$ 43,670	\$ 22,552	\$ 21,118
<b>Intergovernmental</b>				
Public safety	\$ 189,372	\$ 189,372	\$ 189,371	\$ 1
Health	100,330	100,330	100,315	15
<b>Total intergovernmental</b>	<b>\$ 289,702</b>	<b>\$ 289,702</b>	<b>\$ 289,686</b>	<b>\$ 16</b>
<b>Debt service</b>				
Principal	\$ 87,279	\$ 95,836	\$ 92,601	\$ 3,235
Interest	8,907	8,907	9,024	(117)
<b>Total debt service</b>	<b>\$ 96,186</b>	<b>\$ 104,743</b>	<b>\$ 101,625</b>	<b>\$ 3,118</b>
<b>Total Expenditures</b>	<b>\$ 5,968,975</b>	<b>\$ 7,492,999</b>	<b>\$ 7,371,592</b>	<b>\$ 121,407</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (69,500)</b>	<b>\$ (1,234,136)</b>	<b>\$ (682,399)</b>	<b>\$ 551,737</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ -	\$ -	\$ 20,281	\$ 20,281
Capital lease purchase	-	-	10,987	10,987
Loans issued	-	149,549	149,548	(1)
Proceeds from sale of capital assets	-	-	8,948	8,948
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ 149,549</b>	<b>\$ 189,764</b>	<b>\$ 40,215</b>
<b>Net Change in Fund Balance</b>	<b>\$ (69,500)</b>	<b>\$ (1,084,587)</b>	<b>\$ (492,635)</b>	<b>\$ 591,952</b>
<b>Fund Balance - January 1</b>	<b>6,062,854</b>	<b>6,062,854</b>	<b>6,062,854</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 5,993,354</b>	<b>\$ 4,978,267</b>	<b>\$ 5,570,219</b>	<b>\$ 591,952</b>

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*EXHIBIT A-2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,020,240	\$ 2,020,240	\$ 2,027,398	\$ 7,158
Intergovernmental	4,536,603	5,164,014	4,870,701	(293,313)
Charges for services	20,000	20,000	31,646	11,646
Miscellaneous	25,000	25,000	122,763	97,763
<b>Total Revenues</b>	<b>\$ 6,601,843</b>	<b>\$ 7,229,254</b>	<b>\$ 7,052,508</b>	<b>\$ (176,746)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 267,626	\$ 267,626	\$ 201,149	\$ 66,477
Maintenance	1,572,024	1,536,124	1,340,806	195,318
Construction	3,526,906	4,206,596	4,033,106	173,490
Equipment and maintenance shops	1,035,219	1,106,219	1,065,499	40,720
<b>Total highways and streets</b>	<b>\$ 6,401,775</b>	<b>\$ 7,116,565</b>	<b>\$ 6,640,560</b>	<b>\$ 476,005</b>
<b>Intergovernmental</b>				
Highways and streets	365,068	383,879	383,879	-
<b>Total Expenditures</b>	<b>\$ 6,766,843</b>	<b>\$ 7,500,444</b>	<b>\$ 7,024,439</b>	<b>\$ 476,005</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (165,000)</b>	<b>\$ (271,190)</b>	<b>\$ 28,069</b>	<b>\$ 299,259</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of capital assets	-	-	353	353
<b>Net Change in Fund Balance</b>	<b>\$ (165,000)</b>	<b>\$ (271,190)</b>	<b>\$ 28,422</b>	<b>\$ 299,612</b>
<b>Fund Balance - January 1</b>	<b>4,000,087</b>	<b>4,000,087</b>	<b>4,000,087</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>124,813</b>	<b>124,813</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,835,087</b>	<b>\$ 3,728,897</b>	<b>\$ 4,153,322</b>	<b>\$ 424,425</b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*EXHIBIT A-3*

**BUDGETARY COMPARISON SCHEDULE  
HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,571,670	\$ 1,571,670	\$ 1,579,387	\$ 7,717
Intergovernmental	1,735,430	1,738,230	1,821,985	83,755
Charges for services	189,000	189,000	232,113	43,113
Miscellaneous	34,000	9,607	58,841	49,234
<b>Total Revenues</b>	<b>\$ 3,530,100</b>	<b>\$ 3,508,507</b>	<b>\$ 3,692,326</b>	<b>\$ 183,819</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 1,015,818	\$ 1,034,818	\$ 961,886	\$ 72,932
Social services	2,549,782	2,757,582	2,816,042	(58,460)
<b>Total Expenditures</b>	<b>\$ 3,565,600</b>	<b>\$ 3,792,400</b>	<b>\$ 3,777,928</b>	<b>\$ 14,472</b>
<b>Net Change in Fund Balance</b>	<b>\$ (35,500)</b>	<b>\$ (283,893)</b>	<b>\$ (85,602)</b>	<b>\$ 198,291</b>
<b>Fund Balance - January 1</b>	<b>3,927,918</b>	<b>3,927,918</b>	<b>3,927,918</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,892,418</b>	<b>\$ 3,644,025</b>	<b>\$ 3,842,316</b>	<b>\$ 198,291</b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*EXHIBIT A-4*

**BUDGETARY COMPARISON SCHEDULE  
DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Special assessments	\$ 841,757	\$ 615,822	\$ 615,053	\$ (769)
Intergovernmental	196	196	166,581	166,385
Investment earnings	4,250	4,250	1,035	(3,215)
Miscellaneous	-	-	16,899	16,899
<b>Total Revenues</b>	<b>\$ 846,203</b>	<b>\$ 620,268</b>	<b>\$ 799,568</b>	<b>\$ 179,300</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Other	398,293	687,793	687,089	704
<b>Net Change in Fund Balance</b>	<b>\$ 447,910</b>	<b>\$ (67,525)</b>	<b>\$ 112,479</b>	<b>\$ 180,004</b>
<b>Fund Balance - January 1</b>	<b>191,684</b>	<b>191,684</b>	<b>191,684</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 639,594</b>	<b>\$ 124,159</b>	<b>\$ 304,163</b>	<b>\$ 180,004</b>



**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**EXHIBIT A-5**

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2012**

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, 2012

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	\$ 5,968,975	\$ 1,524,024	\$ 7,492,999
Road and Bridge Special Revenue Fund	6,766,843	733,601	7,500,444
Human Services Special Revenue Fund	3,565,600	226,800	3,792,400
Ditch Special Revenue Fund	398,293	289,500	687,793

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

For the year ended December 31, 2012, no governmental funds had expenditures in excess of budget.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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5. Other Postemployment Benefits Funding Status

Yellow Medicine County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2008. 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.

**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, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 484,091	\$ 269,216	\$ 273,029	\$ 3,813
Intergovernmental	40,261	6,935	6,567	(368)
Investment earnings	3,000	2,100	1,872	(228)
<b>Total Revenues</b>	<b>\$ 527,352</b>	<b>\$ 278,251</b>	<b>\$ 281,468</b>	<b>\$ 3,217</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 395,000	\$ 405,000	\$ 405,000	\$ -
Interest	98,323	87,974	87,974	-
Administrative (fiscal) charges	1,450	1,450	-	1,450
<b>Total Expenditures</b>	<b>\$ 494,773</b>	<b>\$ 494,424</b>	<b>\$ 492,974</b>	<b>\$ 1,450</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 32,579</b>	<b>\$ (216,173)</b>	<b>\$ (211,506)</b>	<b>\$ 4,667</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(20,281)	(20,281)
<b>Net Change in Fund Balance</b>	<b>\$ 32,579</b>	<b>\$ (216,173)</b>	<b>\$ (231,787)</b>	<b>\$ (15,614)</b>
<b>Fund Balance - January 1</b>	<b>650,981</b>	<b>674,551</b>	<b>674,551</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 683,560</b>	<b>\$ 458,378</b>	<b>\$ 442,764</b>	<b>\$ (15,614)</b>

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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, 2012**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>SOCIAL WELFARE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 112,132	\$ 102,989	\$ 9,143
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 112,132	\$ 102,989	\$ 9,143
 <b><u>STATE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 51,260	\$ 301,111	\$ 300,620	\$ 51,751
<b><u>Liabilities</u></b>				
Due to other governments	\$ 51,260	\$ 301,212	\$ 300,721	\$ 51,751
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 205,951	\$ 17,760,787	\$ 17,741,302	\$ 225,436
<b><u>Liabilities</u></b>				
Due to other governments	\$ 205,951	\$ 26,397,334	\$ 26,377,849	\$ 225,436

**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, 2012**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 257,211	\$ 18,174,030	\$ 18,144,911	\$ 286,330
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 112,132	\$ 102,989	\$ 9,143
Due to other governments	257,211	26,698,546	26,678,570	277,187
<b>Total Liabilities</b>	<b>\$ 257,211</b>	<b>\$ 26,810,678</b>	<b>\$ 26,781,559</b>	<b>\$ 286,330</b>

## **OTHER SCHEDULES**

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**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

***EXHIBIT D-1***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Shared Revenue**

**State**

Highway users tax	\$ 4,517,617
County program aid	264,763
PERA rate reimbursement	15,547
Disparity reduction aid	43,184
Performance aid	1,461
Police aid	51,780
Enhanced 911	81,764
Market value credit	150,640
Casino credit	22,437
	22,437

**Total shared revenue** **\$ 5,149,193**

**Reimbursement for Services**

Minnesota Department of Human Services	\$ 389,653
Local	165,260
	165,260

**Total reimbursement for services** **\$ 554,913**

**Payments**

**Local**

Payments in lieu of taxes	\$ 78,460
Local grants	40,808
	40,808

**Total payments** **\$ 119,268**

**Grants**

**State**

Minnesota Department/Board of Human Services	\$ 570,433
Natural Resources	77,378
Public Safety	197,979
Transportation	223,325
Water and Soil Resources	176,894
Peace Officer Standards and Training Board	2,657
Pollution Control Agency	55,950
	55,950

**Total state** **\$ 1,304,616**

**Federal**

Department of Agriculture	\$ 73,375
Justice	48,906
Health and Human Services	796,761
Homeland Security	173,132
	173,132

**Total federal** **\$ 1,092,174**

**Total state and federal grants** **\$ 2,396,790**

**Total Intergovernmental Revenue** **\$ 8,220,164**

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**EXHIBIT D-2**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<b>\$ 78,954</b>
<b>U.S. Department of Justice</b>		
Direct		
State Criminal Alien Assistance Program	16.606	\$ 2,900
Passed Through Minnesota Department of Public Safety Edward Byrne Memorial Justice Assistance Grant Program	16.738	41,146
<b>Total U.S. Department of Justice</b>		<b>\$ 44,046</b>
<b>U.S. Election Assistance Commission</b>		
Passed Through Minnesota Secretary of State Help America Vote Act Requirements Payments	90.401	<b>\$ 6,875</b>
<b>U.S. Department of Health and Human Services</b>		
Direct		
Drug-Free Communities Support Program Grants	93.276	\$ 124,924
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	4,160
Temporary Assistance for Needy Families (TANF) Cluster		
Temporary Assistance for Needy Families	93.558	77,924
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	93.714	1,876
Child Support Enforcement	93.563	162,359
Refugee and Entrant Assistance - State Administered Programs	93.566	180
Child Care and Development Block Grant	93.575	2,700
Community-Based Child Abuse Prevention Grants	93.590	13,157
Stephanie Tubbs Jones Child Welfare Services Program	93.645	3,641
Foster Care - Title IV-E	93.658	32,662
Social Services Block Grant	93.667	89,662
Chafee Foster Care Independence Program	93.674	683
Children's Health Insurance Program	93.767	19
Medical Assistance Program	93.778	282,982
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 796,929</b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**EXHIBIT D-2  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through United Way Emergency Food and Shelter National Board Program	97.024	\$ 1,530
Passed Through Minnesota Department of Public Safety Homeland Security Grant Program	97.067	<u>169,100</u>
<b>Total U.S. Department of Homeland Security</b>		<b>\$ <u>170,630</u></b>
<b>Total Federal Awards</b>		<b>\$ <u><u>1,097,434</u></u></b>

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**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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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, 2012. 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.

4. Clusters

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

Temporary Assistance for Needy Families (TANF) Cluster	\$79,800
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**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 1,092,174
Grants received more than 60 days after year-end, deferred in 2012	
State Administrative Matching Grants for Supplemental Nutrition Assistance Program (CFDA #10.561)	5,579
Child Care and Development Block Grant (CFDA #93.575)	168
Deferred in 2011, recognized as revenue in 2012	
Edward Byrne Memorial Justice Assistance Grant Program (CFDA #16.738)	(4,860)
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)	(2,249)
Interoperable Emergency Communications (CFDA #97.055)	(253)
Help America Vote Act Requirements Payments (CFDA #90.401) grant monies unspent in previous years and expended in 2012	<u>6,875</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 1,097,434</u>

6. Subrecipients

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2012.

7. American Recovery and Reinvestment Act

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



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**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

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

Internal control over financial reporting:

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

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

**Federal Awards**

Internal control over major programs:

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

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

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

The major program was:

Medical Assistance Program

CFDA #93.778

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

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 ITEMS NOT RESOLVED

##### 04-1 Segregation of Duties

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

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

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

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

**Cause:** The County 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.*

## 11-2 Network/Application Password Controls

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

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

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

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

**Cause:** Yellow Medicine County updated to a new web-based version of the IFS application software. Although County management was made aware of some of the password implications of this change, during the previous audit, updates needed are not complete.

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

Client's Response:

*The County maintains separate user access rights for each individual who has a user ID and password for the IFS application. These access rights limit an individual's access to specific tools within the application and minimize the risk of an individual performing unauthorized functions. In addition, the County will update its information technology policy and network controls.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Audit Adjustments (11-1)**

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

**Resolution**

We noted no material audit adjustments during the current audit.

**Itemized Receipts for Credit Card Purchases (11-3)**

During the previous audit, none of three tested credit card claims paid by Human Services had itemized vendor receipts or other documentation to support all charges on the monthly billing.

**Resolution**

During the current audit, all credit card claims tested had itemized receipts or other documentation to support the charges on the monthly billing.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

PREVIOUSLY REPORTED ITEM NOT RESOLVED

11-4 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 state maintains the MAXIS computer system, 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:

- In one case it was unclear how income in the MAXIS system was calculated because income documentation in the case file did not match the amounts in the MAXIS system.
- One case did not have a birth certificate in the case file when MAXIS indicated there was a birth certificate in the file to document U.S. citizenship.
- One case did not have verification of asset requirements. For this case, the amounts reported for an individual's checking and savings account balances were not updated in MAXIS to equal the amounts shown with the bank statements provided with the application.

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

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

**Effect:** The improper input of information into MAXIS and lack of follow-up of issues increases the risk that 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 review procedures to provide reasonable assurance that all necessary documentation to support an eligibility determination is obtained and retained. In addition, consideration should be given to providing additional training to program personnel.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Gretchen Eliason, Financial Assistance Supervisor*

Corrective Action Planned:

1. *Make staff aware of error-prone areas in order to prevent future deficiencies.*
  - a. *The Supervisor discussed the errors found during the audit with staff at the time the cases were being reviewed.*
  - b. *Eligibility Specialists were reminded to review MAXIS PNLN panels when processing applications and reviews to ensure that all current information has been entered. This should help ensure that missed MAXIS panels are updated and obsolete panels are deleted for the current time period and forward.*
2. *The Supervisor will continue to complete Supervisory Case Reviews and Targeted Case Reviews.*
  - a. *A minimum of two random Supervisory Case Reviews are completed each month for each Eligibility Specialist.*
  - b. *Targeted Case Reviews are completed monthly based upon reports and error-prone errors identified by the Department of Human Services.*
  - c. *All reviews are discussed with the Eligibility Specialist completing the reviewed action, and corrections are made as needed.*
  - d. *All review results are summarized at unit staff meetings, and best practice processes are discussed.*

Anticipated Completion Date:

1. *Completed.*
2. *Ongoing.*

## ITEMS ARISING THIS YEAR

### 12-1 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 state maintains the MAXIS computer system, 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 January 2012 but for no other month of 2012.

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

**Context:** The State of Minnesota contracts with the County to perform the "intake function" (meeting with the social services client to determine income and categorical eligibility). The state maintains the computer systems supporting 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 participants will receive benefits for which they are not eligible.

**Cause:** Monthly, supervisors are deferring planned month-end case file reviews to months with enough time to perform adequate case file reviews.

**Recommendation:** We recommend Yellow Medicine County perform case file reviews in a timely manner. 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:

*Gretchen Eliason, Financial Assistance Supervisor*

Corrective Action Planned:

1. *The Supervisor will complete two 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 our weekly staff meeting.*
  - 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 the Department of Human Services.*
  - a. *The results of the 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 our weekly staff meeting.*
  - c. *Documentation of the reviews will be maintained by the Supervisor and available for review by authorized reviewers.*
  
3. *A new Supervisor will be starting in January 2014. The information outlined above will be explained, and the importance of the review process will be stressed.*

Anticipated Completion Date:

*Ongoing.*



12-2 Supervisory Review Over Social Services DHS-2556 Reporting

**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:** Standard internal control procedures should include a review process of the claims and reports submitted to the Minnesota Department of Human Services (DHS) for reimbursement of program expenditures to ensure accurate and timely reporting.

**Condition:** During our current year testing of controls over Medical Assistance, we noted no documented review of the 2012 fourth quarter DHS-2556 report.

**Questioned Costs:** None.

**Context:** 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 second quarter DHS-2556 report, which we also tested, was signed by the Human Services Director as an indication of review, but the fourth quarter report was not signed.

**Effect:** Without formal documentation of review of the DHS-2556 reports, there is no assurance the reviews are being completed as intended, which may increase the risk that the reports could contain errors.

**Cause:** The Human Services Director was unavailable when the 2012 fourth quarter DHS-2556 report was due to be submitted, and the report was not signed as of a later date to indicate review.

**Recommendation:** We recommend Yellow Medicine County review every DHS-2556 report to ensure all information is correctly entered. The review of reports should be documented, and the documentation retained in accordance with the County record retention schedule.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Lynell M. Sunderland, Fiscal Supervisor*

Corrective Action Planned:

*The Fiscal Supervisor will submit the Social Service 2556 each quarter to the Director for review and to obtain the Director's signature.*

Anticipated Completion Date:

*Ongoing.*



REBECCA OTTO  
STATE AUDITOR

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

### Independent Auditor's Report

Board of County Commissioners  
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, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 13, 2013.

### **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.

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

financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 04-1 and 11-2, that we consider to be significant deficiencies.

### **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: 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 the 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.

## **Other Matters**

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 subject 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

September 13, 2013

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REBECCA OTTO  
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# STATE OF MINNESOTA

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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 the County's major federal program for the year ended December 31, 2012. Yellow Medicine County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***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 Yellow Medicine County's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 the 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 its major federal program for the year ended December 31, 2012.

### ***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 11-4. Our opinion on the 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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



Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 11-4, 12-1, and 12-2, 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

September 13, 2013

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR