

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA

YEAR ENDED DECEMBER 31, 2009

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.

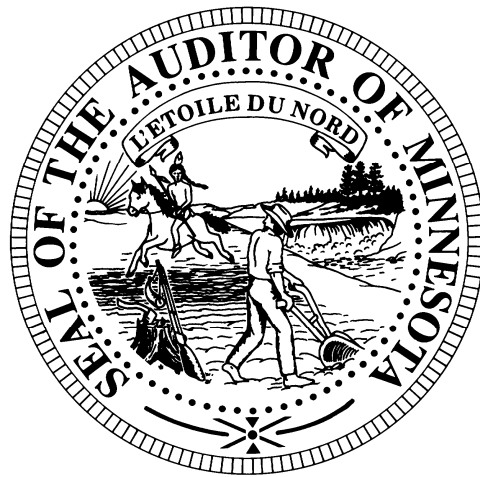
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Year Ended December 31, 2009



**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
2009

Office	Name	Term Expires
Commissioners		
1st District	Jane Remiger ²	January 2011
2nd District	Dick Wambeke	January 2011
3rd District	Gary Lee Johnson ¹	January 2013
4th District	Ronald Antony	January 2011
5th District	Louis Sherlin	January 2013
Officers		
Elected		
Attorney	Keith Helgeson	January 2011
District Judge	Bruce Christopherson	January 2011
County Recorder	Kay Zempel	January 2011
Sheriff	Bill Flaten	January 2011
Appointed		
Administrator	Ryan Krosch	Indefinite
Auditor-Treasurer	Lois Bonde	Indefinite
Assessor	Connie Erickson	Indefinite
Coroner	Kenneth Carter, M.D.	Indefinite
Highway Engineer	Andrew Sander	Indefinite
Planning and Zoning	Randy Jacobson	Indefinite
Veterans Service Officer	Michelle Gatz	Indefinite
Welfare Board		
Chair	Dick Wambeke	January 2011
Secretary	Catherine Thomas	July 2014
Member	Ronald Antony	January 2011
Member	Louis Sherlin	January 2013
Member	Jane Remiger ¹	January 2011
Member	Gary Lee Johnson	January 2013
Director	Peggy Heglund	Indefinite
Lay Member	Leona Smith	July 2010

¹Chair 2009

²Chair 2010

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Yellow Medicine County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Yellow Medicine County as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Yellow Medicine County as of December 31, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the other required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the basic financial statements of Yellow Medicine County. The supplementary information and other schedule listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of Yellow Medicine County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2010, 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* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 26, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009
(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, 2009. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

Governmental activities' total net assets are \$70,604,192, of which \$55,893,985 is invested in capital assets, net of related debt, and \$3,106,143 is restricted to specific purposes. The \$11,604,064 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

The County's net assets increased by \$4,407,689 for the year ended December 31, 2009. A large part of the increase is attributable to the County's investing in Road and Bridge Special Revenue Fund capital assets.

The net cost of governmental activities for the current fiscal year was \$4,420,542. General revenues and other items totaling \$8,828,231 funded the net cost.

The fund balances of the governmental funds decreased by \$972,547. The decrease was largely due to the payoff of a refunded bond in the amount of \$2,670,000, leaving a decrease to the Debt Service Fund fund balance of \$2,302,395 and Road and Bridge Special Revenue Fund revenues being \$549,055 less than expenditures. These decreases plus the General Fund, Human Services Special Revenue Fund, and Ditch Special Revenue Fund revenues being \$590,838, \$485,077, and \$41,964, respectively, more than expenditures and the net Road and Bridge Special Revenue Fund capital equipment note proceeds of \$690,135 accounted for the decrease in total fund balance for all funds.

For the year ended December 31, 2009, the unreserved fund balance of the General Fund was \$4,569,964, or 85.7 percent, of the total General Fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The basic financial statements consist of three parts: (1) government-wide financial statements, (2) fund level financial statements, and (3) notes to the financial statements. This report also contains 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 assets presents information on all assets and liabilities of the County using the accrual basis of accounting, with the difference being reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. It is important to consider other nonfinancial factors, such as changes in the County's property tax base and the condition of County roads and other capital assets, to assess the overall health of the County.

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$70,604,192 at the close of 2009. The largest portion of the net assets (79.2 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure such as roads and bridges), less any related outstanding debt used to acquire those assets. However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

	Net Assets	
	(in Thousands)	
	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Assets		
Current and other assets	\$ 17,077	\$ 17,577
Capital assets	<u>58,764</u>	<u>56,016</u>
Total Assets	<u>\$ 75,841</u>	<u>\$ 73,593</u>
Liabilities		
Long-term liabilities	\$ 3,961	\$ 3,685
Other liabilities	<u>1,276</u>	<u>3,712</u>
Total Liabilities	<u>\$ 5,237</u>	<u>\$ 7,397</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 55,894	\$ 53,236
Restricted	3,106	2,250
Unrestricted	<u>11,604</u>	<u>10,710</u>
Total Net Assets	<u>\$ 70,604</u>	<u>\$ 66,196</u>

Unrestricted net assets--the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--is 16.4 percent of the net assets.

Governmental Activities

The County's governmental activities increased net assets by 6.7 percent (\$4,407,689 for 2009 compared to \$1,865,004 for 2008). Key elements in this increase in net assets are as follows:

	Governmental Activities	
	2009	2008
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 1,335	\$ 1,600
Operating grants and contributions	5,479	5,525
Capital grants and contributions	2,176	519
General revenues		
Property taxes	6,842	6,295
Other	1,986	2,005
Total Revenues	<u>\$ 17,818</u>	<u>\$ 15,944</u>
Expenses		
General government	\$ 2,367	\$ 2,437
Public safety	2,249	2,355
Highways and streets	4,271	4,289
Sanitation	121	112
Human services	3,309	3,601
Health	91	91
Culture and recreation	267	275
Conservation of natural resources	549	630
Economic development	30	34
Interest	156	255
Total Expenses	<u>\$ 13,410</u>	<u>\$ 14,079</u>
Excess of Revenues Over (Under) Expenses	\$ 4,408	\$ 1,865
Net Assets - January 1	<u>66,196</u>	<u>64,331</u>
Net Assets - December 31	<u><u>\$ 70,604</u></u>	<u><u>\$ 66,196</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, unreserved 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 \$13,846,598, a decrease of \$972,547, in comparison with the prior year. Of the combined ending fund balances, \$12,283,617 represents unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 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 unreserved fund balance of \$4,569,964. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund's unreserved fund balance represents 85.7 percent of total General Fund expenditures. During 2009, the ending fund balance increased by \$626,986. The primary reason for this increase was due to less expenditures than anticipated in public safety, recorder, and buildings of \$392,951, \$41,016, and \$47,783, respectively, and more intergovernmental revenue than anticipated of \$173,602 and the receipt of insurance dividends for expenses of prior years.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$3,123,784 at fiscal year-end, representing 43.0 percent of its annual expenditures. The ending fund balance increased \$175,821 during 2009, primarily due to receiving capital equipment note proceeds.

The Human Services Special Revenue Fund had an unreserved fund balance of \$3,505,548 at fiscal year-end, representing 105.9 percent of its annual expenditures. The ending fund balance increased \$485,077 during 2009, primarily due to more than anticipated intergovernmental revenue and lower than anticipated social service costs.

The Ditch Special Revenue Fund had an unreserved fund balance of \$444,622 at fiscal year-end. The ending fund balance increased \$41,964 during 2009, primarily due to the benefiting land owners of the 114 ditches being assessed more than the maintenance needed.

The Debt Service Fund had an unreserved fund balance of \$639,699 to be used for ongoing debt service costs. The ending fund balance decreased \$2,302,395 during 2009, primarily due to the bond covenant's requirement to levy 105 percent of the amount needed to make the subsequent year's principal and interest payments. The reserved fund balance of \$2,535,373 from December 31, 2008, was used on January 30, 2009, for the payment of the 1999 General Obligation Jail and Courthouse Bonds.

Governmental Activities

The County's total revenues were \$17,818,046. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2009.

Table 1
Total County Revenues - 2009

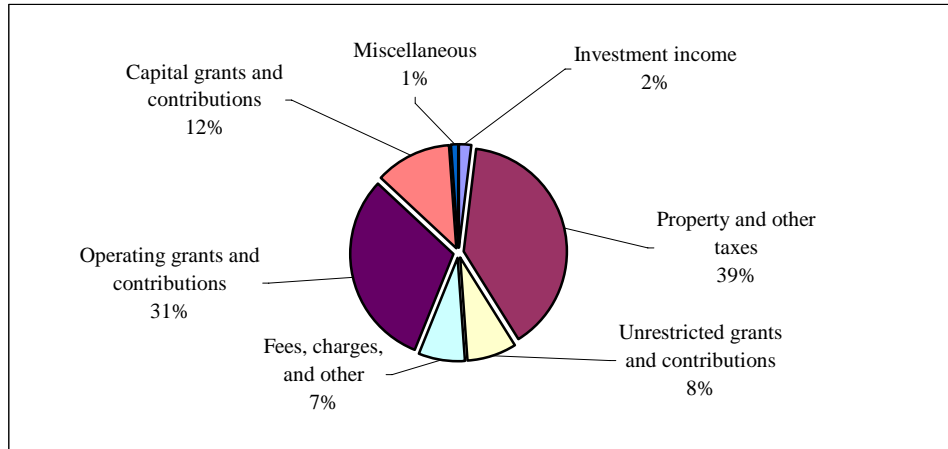
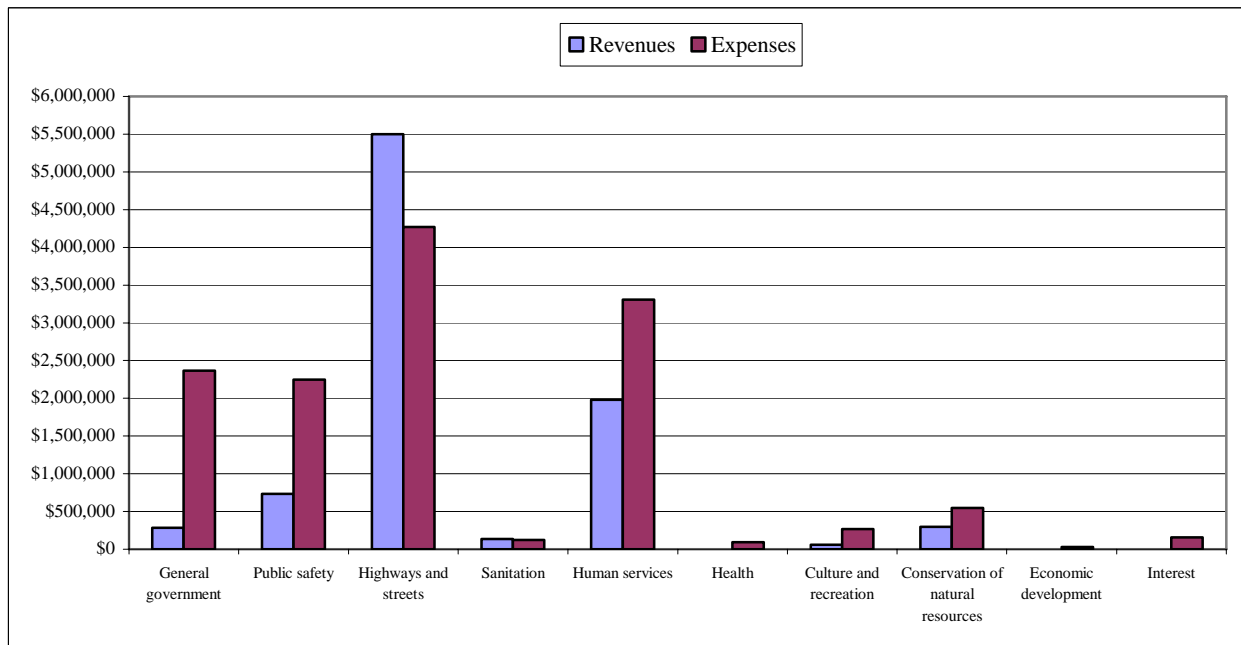


Table 2 presents the cost and revenue of each program as well as the County's general revenues. Total revenues for the County were \$17,818,046, while total expenses were \$13,410,357. This reflects a \$4,407,689 increase in net assets for the year ended December 31, 2009.

Table 2
Expenses and Program Revenues - 2009



The costs of all governmental activities this year were \$13,410,357. 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 \$6,842,202 because some of the costs were paid by those who directly benefited from the programs (\$1,335,081) or by other governments, organizations, and individuals that subsidized certain programs with grants and contributions (\$7,654,734). The County paid for the remaining “public benefit” portion of governmental activities with \$8,828,231 in general revenues, primarily taxes (some of which could only be used for certain programs) and other revenues, such as grants and contributions not restricted to specific programs and interest.

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

	Governmental Activities (in Thousands)			
	Total Cost of Services		Net Cost of Services	
	2009	2008	2009	2008
Highways and streets	\$ 4,271	\$ 4,289	\$ (1,231)	\$ 543
Human services	3,309	3,601	1,330	1,434
Public safety	2,249	2,355	1,517	1,497
General government	2,367	2,437	2,085	2,173
All others	1,214	1,397	720	788
Totals	<u>\$ 13,410</u>	<u>\$ 14,079</u>	<u>\$ 4,421</u>	<u>\$ 6,435</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 \$556,903 below the final budget amounts. The most significant positive variance (\$392,951) occurred in public safety where changes in Sheriff staff and jail staff resulted in wage and health insurance costs being \$120,523 less than anticipated; state aid (\$71,712) was budgeted to be spent in 2009 but was postponed until 2010; jail housing costs were \$114,783 less than anticipated; as well as various other costs were less than anticipated. This \$392,951 variance resulted in a 6.7 percent reduction in expected expenditures. Reasons for other significant variances of actual expenditures to final budget include less than anticipated expenditures of restricted funds in the Recorder’s Office (\$32,482); lower than anticipated utility costs in building operations (\$47,783); and several other departments also spent less than anticipated.

On the other hand, resources available for appropriation were \$261,253 above the final budgeted amount. The most significant positive variances (\$173,602) occurred in intergovernmental revenue due to receiving more state aid and grants than anticipated and \$71,941 occurred in jail boarding fees collected from other counties being greater than anticipated. Another significant increase came from greater than anticipated insurance dividends.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2009, totaled \$58,763,901 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets, net of depreciation, increased \$2,748,141, or 4.9 percent, from the previous year. The major capital asset events were:

- \$4,776,065 construction of highways and streets and
- \$349,338 purchase of highway equipment.

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

	2009	2008
Land	\$ 815	\$ 815
Infrastructure	51,340	47,933
Buildings	4,237	4,400
Improvements other than buildings	302	313
Machinery and equipment	1,887	1,872
Works of art and historical treasures	126	126
Construction in progress	57	557
Total	<u>\$ 58,764</u>	<u>\$ 56,016</u>

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 \$3,378,967, which was backed by the full faith and credit of the government.

**Outstanding Debt
(in Thousands)**

	2009	2008
General obligation bonds	\$ 2,598	\$ 5,267
General obligation notes	691	-
Capital leases	90	110
Total	\$ 3,379	\$ 5,377

The County's debt related to general obligation bonds decreased by \$2,670,000 (50.5 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 2009, the County's outstanding debt was 0.2 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 2010 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Yellow Medicine County at the end of 2009 was 6.5 percent. This compares with the state and federal unemployment rates of 7.3 percent and 9.7 percent, respectively, but shows a small increase from the County's 6.4 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 \$8.1 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 2010 are budgeted to decrease 2.2 percent (\$127,715) over the 2009 original budget. The 2010 anticipated revenues, other than tax levy, special assessments, state county program aid, and state market value credits, are budgeted to decrease 21.8 percent (\$325,252) over the 2009 original budget.
- The 2010 gross property tax levy for the County increased 3.3 percent (\$269,642) from 2009; but due to a reduction in state county program aid (\$93,690), the net tax levy (the amount spread to taxpayers) increased 4.9 percent (\$363,332) over the net tax levy for 2009.

- For 2010, the County anticipates an additional reduction of the county program aid and market value credits in the amounts of \$198,317 and \$155,079, respectively. The County also anticipates the 2011 certified county program aid to be reduced from \$706,784 to \$293,594. The 2010 additional reduction of county program aid in the amount of \$198,317 can be special levied back on the 2011 taxes. This will shift the tax burden from the state to the taxpayers of the County. The County fund balances will need to be used to offset the losses until the County receives the 2010 and 2011 tax payments.
- The County is dependent on the State of Minnesota for a significant portion of its revenue. Recent experience demonstrates that the State Legislature may decrease revenues or funding in addition to the county program aid again in 2011.
- Considering cost-effective and efficient means for delivery of County programs and services will influence the development of future budgets. For example, the County is looking at restructuring several departments.
- Restorative Justice and Signs of Safety practices in Human Services have contributed to lower out-of-home placement costs, 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 Auditor-Treasurer, Lois M. Bonde, Yellow Medicine County Courthouse, 415 Ninth Avenue, Suite 102, Granite Falls, Minnesota 56241.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2009**

Assets

Cash and pooled investments	\$	11,547,525
Investments		1,968,833
Receivables - net		3,234,531
Inventories		159,694
Prepaid items		130,892
Deferred charges		36,086
Capital assets		
Non-depreciable capital assets		998,350
Depreciable capital assets - net of accumulated depreciation		57,765,551
		57,765,551
Total Assets	\$	75,841,462

Liabilities

Accounts payable and other current liabilities	\$	651,118
Accrued interest payable		46,748
Net OPEB liability		31,199
Long-term liabilities		
Due within one year		547,365
Due in more than one year		3,960,840
		3,960,840
Total Liabilities	\$	5,237,270

Net Assets

Invested in capital assets - net of related debt	\$	55,893,985
Restricted for		
Highways and streets		1,943,781
Public safety		319,317
Human services		21,163
Debt service		554,288
Conservation of natural resources		62,933
Other purposes		204,661
Unrestricted		11,604,064
		11,604,064
Total Net Assets	\$	70,604,192

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Fees, Charges, Fines, and Other</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<u>Functions/Programs</u>					
Governmental activities					
General government	\$ 2,367,260	\$ 172,271	\$ 110,346	\$ -	\$ (2,084,643)
Public safety	2,249,087	483,641	236,693	11,908	(1,516,845)
Highways and streets	4,270,774	185,697	3,151,907	2,163,883	1,230,713
Sanitation	121,474	79,606	55,475	-	13,607
Human services	3,309,325	169,314	1,809,776	-	(1,330,235)
Health	91,297	900	-	-	(90,397)
Culture and recreation	266,629	5,890	53,987	-	(206,752)
Conservation of natural resources	548,676	237,762	60,759	-	(250,155)
Economic development	29,533	-	-	-	(29,533)
Interest	156,302	-	-	-	(156,302)
Total Governmental Activities	\$ 13,410,357	\$ 1,335,081	\$ 5,478,943	\$ 2,175,791	\$ (4,420,542)
General Revenues					
Property taxes				\$ 6,842,202	
Mortgage registry and deed tax				4,972	
Payments in lieu of tax				56,297	
Grants and contributions not restricted to specific programs				1,363,142	
Unrestricted investment earnings				315,830	
Miscellaneous				245,788	
Total general revenues				\$ 8,828,231	
Change in net assets				\$ 4,407,689	
Net Assets - Beginning				66,196,503	
Net Assets - Ending				\$ 70,604,192	

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, 2009**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
<u>Assets</u>						
Cash and pooled investments	\$ 4,949,504	\$ 2,980,010	\$ 3,471,364	\$ 10,374	\$ 846	\$ 11,412,098
Undistributed cash in agency funds	67,952	25,400	24,903	7,543	7,879	133,677
Petty cash and change funds	1,700	50	-	-	-	1,750
Investments	347,992	529,290	-	460,577	630,974	1,968,833
Taxes receivable						
Prior	59,294	30,249	29,533	-	8,085	127,161
Special assessments receivable						
Prior	10,622	-	-	2,345	-	12,967
Noncurrent	458,035	-	-	169,995	-	628,030
Accounts receivable	18,092	1,768	11,608	-	-	31,468
Accrued interest receivable	119,480	-	-	3,218	-	122,698
Due from other funds	1,071	-	-	-	-	1,071
Due from other governments	84,899	1,966,849	247,819	12,640	-	2,312,207
Inventories	-	159,694	-	-	-	159,694
Prepaid items	68,917	17,575	44,400	-	-	130,892
Total Assets	\$ 6,187,558	\$ 5,710,885	\$ 3,829,627	\$ 666,692	\$ 647,784	\$ 17,042,546

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 85,648	\$ 36,265	\$ 53,255	\$ 25,450	\$ -	\$ 200,618
Salaries payable	117,064	62,812	63,359	2,401	-	245,636
Contracts payable	-	48,415	-	-	-	48,415
Due to other funds	-	-	1,071	-	-	1,071
Due to other governments	11,021	25,101	101,666	18,661	-	156,449
Deferred revenue - unavailable	613,407	1,707,544	39,165	175,558	8,085	2,543,759
Total Liabilities	<u>\$ 827,140</u>	<u>\$ 1,880,137</u>	<u>\$ 258,516</u>	<u>\$ 222,070</u>	<u>\$ 8,085</u>	<u>\$ 3,195,948</u>
Fund Balances						
Reserved for						
Inventories	\$ -	\$ 159,694	\$ -	\$ -	\$ -	\$ 159,694
Prepaid items	68,917	17,575	44,400	-	-	130,892
Recorder's technology fund	64,061	-	-	-	-	64,061
Recorder's compliance fund	43,620	-	-	-	-	43,620
Enhanced 911	282,114	-	-	-	-	282,114
Sheriff's contingency	5,000	-	-	-	-	5,000
Sheriff's forfeited property	23,707	-	-	-	-	23,707
Attorney's forfeited property	15,732	-	-	-	-	15,732
Gun permit fees	8,496	-	-	-	-	8,496
Septic/sewer loans	134,626	-	-	-	-	134,626
Election equipment grant	81,248	-	-	-	-	81,248
Unspent grant monies	62,933	-	21,163	-	-	84,096
Unspent G.O. note proceeds	-	529,695	-	-	-	529,695
Unreserved						
Designated for						
Future expenditures	1,537,558	1,167,620	1,470,592	-	-	4,175,770
Cash flows	2,800,000	1,800,000	1,900,000	-	-	6,500,000
Compensated absences	228,413	156,164	134,956	11,342	-	530,875
Unspent contributions	3,993	-	-	-	-	3,993
Undesignated	-	-	-	433,280	639,699	1,072,979
Total Fund Balances	<u>\$ 5,360,418</u>	<u>\$ 3,830,748</u>	<u>\$ 3,571,111</u>	<u>\$ 444,622</u>	<u>\$ 639,699</u>	<u>\$ 13,846,598</u>
Total Liabilities and Fund Balances	<u>\$ 6,187,558</u>	<u>\$ 5,710,885</u>	<u>\$ 3,829,627</u>	<u>\$ 666,692</u>	<u>\$ 647,784</u>	<u>\$ 17,042,546</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2009**

Fund balance - total governmental funds (Exhibit 3) \$ 13,846,598

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 58,763,901

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. 2,543,759

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

General obligation bonds	\$	(2,615,000)	
Capital equipment notes		(695,000)	
Capital leases		(89,611)	
Loans payable		(598,363)	
Compensated absences		(530,875)	
Net OPEB liability		(31,199)	
Unamortized discount on general obligation refunding bonds		16,995	
Unamortized discount on capital equipment notes		3,649	
Deferred debt issuance charges		36,086	
Accrued interest payable		(46,748)	
		(4,550,066)	(4,550,066)

Net Assets of Governmental Activities (Exhibit 1) \$ 70,604,192

**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, 2009**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Bond Debt Service</u>	<u>Total</u>
Revenues						
Taxes	\$ 3,331,368	\$ 1,522,923	\$ 1,497,050	\$ -	\$ 484,203	\$ 6,835,544
Special assessments	140,870	-	-	203,195	-	344,065
Licenses and permits	32,795	-	-	-	-	32,795
Intergovernmental	1,249,204	5,009,337	2,128,347	196	40,571	8,427,655
Charges for services	547,508	77,231	159,925	-	-	784,664
Fines and forfeits	19,366	-	-	-	-	19,366
Gifts and contributions	4,133	-	-	-	-	4,133
Investment earnings	265,812	3,667	-	8,269	13,227	290,975
Miscellaneous	332,485	110,637	9,389	9,262	-	461,773
Total Revenues	\$ 5,923,541	\$ 6,723,795	\$ 3,794,711	\$ 220,922	\$ 538,001	\$ 17,200,970
Expenditures						
Current						
General government	\$ 2,205,251	\$ -	\$ -	\$ -	\$ -	\$ 2,205,251
Public safety	2,058,319	-	-	-	-	2,058,319
Highways and streets	-	6,920,373	-	-	-	6,920,373
Sanitation	119,391	-	-	-	-	119,391
Human services	-	-	3,309,634	-	-	3,309,634
Health	1,000	-	-	-	-	1,000
Culture and recreation	264,390	-	-	-	-	264,390
Conservation of natural resources	359,737	-	-	178,958	-	538,695
Economic development	29,533	-	-	-	-	29,533
Intergovernmental	238,975	313,207	-	-	-	552,182
Debt service						
Principal	48,209	18,188	-	-	2,670,000	2,736,397
Interest	7,898	10,181	-	-	169,646	187,725
Note issuance costs	-	10,901	-	-	-	10,901
Administrative (fiscal) fees	-	-	-	-	750	750
Total Expenditures	\$ 5,332,703	\$ 7,272,850	\$ 3,309,634	\$ 178,958	\$ 2,840,396	\$ 18,934,541
Excess of Revenues Over (Under) Expenditures	\$ 590,838	\$ (549,055)	\$ 485,077	\$ 41,964	\$ (2,302,395)	\$ (1,733,571)

**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, 2009**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Bond Debt Service</u>	<u>Total</u>
Other Financing Sources (Uses)						
Loans issued	\$ 36,148	\$ -	\$ -	\$ -	\$ -	\$ 36,148
Proceeds from the sale of notes	-	695,000	-	-	-	695,000
Discount on notes issued	-	(4,865)	-	-	-	(4,865)
Total Other Financing Sources (Uses)	\$ 36,148	\$ 690,135	\$ -	\$ -	\$ -	\$ 726,283
Net Change in Fund Balance	\$ 626,986	\$ 141,080	\$ 485,077	\$ 41,964	\$ (2,302,395)	\$ (1,007,288)
Fund Balance - January 1	4,733,432	3,654,927	3,086,034	402,658	2,942,094	14,819,145
Increase (decrease) in reserved for inventories	-	34,741	-	-	-	34,741
Fund Balance - December 31	\$ 5,360,418	\$ 3,830,748	\$ 3,571,111	\$ 444,622	\$ 639,699	\$ 13,846,598

**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, 2009**

Net change in fund balance - total governmental funds (Exhibit 5) \$ (1,007,288)

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

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

Deferred revenue - December 31	\$ 2,543,759	
Deferred revenue - January 1	(1,926,683)	617,076

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

Expenditures for general capital assets and infrastructure	\$ 4,637,891	
Current year depreciation	(1,889,750)	2,748,141

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

Debt issued		
Loans	\$ (46,349)	
Capital equipment notes	(695,000)	
Note issuance costs	10,901	
Note discount	4,865	(725,583)

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

Principal payments		
General obligation bonds	\$ 2,670,000	
Loans payable	46,124	
Capital leases	20,235	2,736,359

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

Change in accrued interest payable	\$ 49,808	
Amortization of discounts and deferred issuance charges	(7,396)	
Change in compensated absences payable	(22,314)	
Change in net OPEB liability	(15,855)	
Change in inventories	34,741	38,984

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 4,407,689

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

FIDUCIARY FUNDS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2009**

	Cemetery Investment Trust	Agency
<u>Assets</u>		
Cash and pooled investments	\$ -	\$ 176,415
Investments	10,250	-
Accrued interest receivable	184	-
Total Assets	\$ 10,434	\$ 176,415
<u>Liabilities</u>		
Accounts payable	\$ 184	\$ -
Due to other governments	-	176,415
Total Liabilities	\$ 184	\$ 176,415
<u>Net Assets</u>		
Net assets, held in trust for pool participant	\$ 10,250	

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2009**

	<u>Cemetery Investment Trust</u>
<u>Additions</u>	
Investment earnings	\$ 333
<u>Deductions</u>	
Distributions to participant	<u>333</u>
Changes in Net Assets	\$ -
Net Assets - January 1	<u>10,250</u>
Net Assets - December 31	<u><u>\$ 10,250</u></u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009

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, 2009. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Blended Component Unit

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

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

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

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

Additionally, the County reports the following fiduciary fund types:

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

C. Measurement Focus and Basis of Accounting

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

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

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor-Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2009, 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 2009 were \$265,812.

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). Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

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

2. Receivables and Payables

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."

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account 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. 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 (FIFO) method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses when consumed.

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

4. Capital Assets

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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	30 - 40
Land improvements	5 - 20
Public domain infrastructure	20 - 80
Machinery and equipment	3 - 20

5. Compensated Absences

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Deferred Revenue

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

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. 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.

8. Fund Equity

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make 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

Excess of Expenditures Over Budget

At December 31, 2009, there were no expenditures in excess of budget in the governmental funds.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 11,547,525
Investments	1,968,833
Statement of fiduciary net assets	
Cash and pooled investments	176,415
Investments	<u>10,250</u>
 Total Cash and Investments	 <u>\$ 13,703,023</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has adopted a policy for custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2009, the County's deposits were not exposed to custodial credit risk.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

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) and excess SIPC coverage available and that they qualify under Minn. Stat. § 118.06 to hold investment. Securities purchased that exceed available SIPC coverage or are purchased by a broker that does not qualify under Minn. Stat. § 118.06 to hold investment shall be transferred to the County's custodian. At December 31, 2009, 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 (Continued)

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, 2009, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Negotiable certificates of deposit					
Discover Bank - Greenwood, Delaware	N/A	N/A		11/28/2011	\$ 97,000
Provident Bank - Baltimore, Maryland	N/A	N/A		07/03/2013	97,000
Total negotiable certificates of deposit			N/A		\$ 194,000
Checking					177,933
Savings					6,392,575
MAGIC Fund					1,426,515
Certificates of deposit					5,510,250
Petty cash					1,750
Total Cash and Investments					\$ 13,703,023

N/A - Not applicable

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2009, 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	\$ 127,161	\$ -
Special assessments	640,997	380,708
Due from other governments	2,312,207	-
Accounts	31,468	-
Interest	122,698	-
Total Governmental Activities	\$ 3,234,531	\$ 380,708

3. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 814,822	\$ 2	\$ -	\$ 814,824
Construction in progress	557,263	57,732	557,263	57,732
Works of art and historical treasures	125,794	-	-	125,794
Total capital assets not depreciated	\$ 1,497,879	\$ 57,734	\$ 557,263	\$ 998,350
Capital assets depreciated				
Buildings	\$ 6,120,309	\$ -	\$ -	\$ 6,120,309
Land improvements	391,410	-	-	391,410
Machinery and equipment	4,769,897	361,325	259,121	4,872,101
Infrastructure	63,648,727	4,776,095	-	68,424,822
Total capital assets depreciated	\$ 74,930,343	\$ 5,137,420	\$ 259,121	\$ 79,808,642

**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	\$ 1,720,895	\$ 162,419	\$ -	\$ 1,883,314
Land improvements	78,222	11,381	-	89,603
Machinery and equipment	2,897,662	347,170	259,121	2,985,711
Infrastructure	15,715,683	1,368,780	-	17,084,463
	<u>\$ 20,412,462</u>	<u>\$ 1,889,750</u>	<u>\$ 259,121</u>	<u>\$ 22,043,091</u>
Total accumulated depreciation				
Total capital assets depreciated, net	\$ 54,517,881	\$ 3,247,670	\$ -	\$ 57,765,551
Capital Assets, Net	<u>\$ 56,015,760</u>	<u>\$ 3,305,404</u>	<u>\$ 557,263</u>	<u>\$ 58,763,901</u>

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

Governmental Activities	
General government	\$ 177,410
Public safety	73,955
Highways and streets, including depreciation of infrastructure assets	1,625,072
Sanitation	2,083
Human services	6,849
Culture and recreation	2,239
Conservation of natural resources	2,142
	<u>2,142</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,889,750</u>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2009, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Human Services	<u>\$ 1,071</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

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

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

C. Liabilities

1. Payables

Payables at December 31, 2009, were as follows:

Accounts	\$	200,618
Salaries		245,636
Contracts		48,415
Due to other governments		156,449
		156,449
Total	\$	651,118

2. Construction Commitments

The County has no active construction projects as of December 31, 2009.

3. Capital Leases

Yellow Medicine County has three lease agreements that qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The capital leases consist of the following at December 31, 2009:

Lease	Final Maturity	Installment	Payment Amount	Original Issue Amount	Outstanding Balance December 31, 2009
2007 postage machine	2012	Monthly	\$ 231	\$ 10,885	\$ 5,751
Highway excavator	2013	Monthly	1,715	80,000	60,954
Highway excavator attachments	2013	Monthly	649	30,000	22,906
					22,906
Total Capital Leases					\$ 89,611

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Capital Leases (Continued)

Capital lease payments for the postage machine are paid from the General Fund. The lease will be paid off in 2012. The total minimum lease payments of \$6,468 include \$5,751 representing the present value of future minimum lease payments and \$717 representing interest. Capital lease payments for the excavator and excavator attachments are paid from the Road and Bridge Special Revenue Fund and will be paid off in 2013. The total minimum lease payments for the excavator of \$73,745 include \$60,954 representing the present value of the future minimum lease payments and \$12,791 representing interest. The total minimum lease payments for the excavator attachments of \$27,911 include \$22,906 representing the present value of the future minimum lease payments and \$5,005 representing interest.

Year Ending December 31	Lease Payments
2010	\$ 31,141
2011	31,141
2012	29,293
2013	16,549
Total	\$ 108,124
Less: amount representing interest	(18,513)
Capital Leases Payable	\$ 89,611

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Loans Payable

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

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2009
Yellow Medicine River Watershed	2014	\$ 12,446	2.00	\$ 224,595	\$ 106,612
Redwood River Watershed Project Continuation	2017	2,369	2.00	52,115	44,233
Yellow Medicine River Watershed Continuation	2018	11,853	2.00	213,887	184,453
Lac qui Parle River Mainstem Water Quality Enhancement	2019	15,001	2.00	<u>252,865</u>	<u>263,065</u>
Total Loans Payable				<u>\$ 743,462</u>	<u>\$ 598,363</u>

5. Bonds Payable

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

Type of Indebtedness	Final Maturity	Installment Amount	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2009
General obligation bonds 2005 G.O. Refunding Bonds, Series 2005	2022	\$165,000 - \$250,000	3.9532	<u>\$ 2,615,000</u>	\$ 2,615,000
Less: unamortized discount					<u>(16,995)</u>
Total General Obligation Bonds, Net					<u>\$ 2,598,005</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Debt Issued

On March 10, 2009, Yellow Medicine County issued General Obligation Capital Equipment Notes, Series 2009, in the amount of \$695,000, with interest rates of 1.75 percent to 2.25 percent, to finance capital improvements to capital equipment purchases.

7. Debt Service Requirements

Payments on the refunding bonds and capital equipment notes are made by the Debt Service Fund. Debt service requirements at December 31, 2009, were as follows:

Year Ending December 31	Refunding Bonds		Capital Equipment Notes	
	Principal	Interest	Principal	Interest
2010	\$ 165,000	\$ 95,808	\$ 230,000	\$ 11,900
2011	165,000	90,734	230,000	7,587
2012	170,000	85,330	235,000	2,644
2013	180,000	79,420	-	-
2014	185,000	72,985	-	-
2015 - 2019	1,025,000	253,006	-	-
2020 - 2022	725,000	45,456	-	-
Total	<u>\$ 2,615,000</u>	<u>\$ 722,739</u>	<u>\$ 695,000</u>	<u>\$ 22,131</u>

Debt payments on the loans payable are made from the General Fund. Debt service requirements at December 31, 2009, were as follows:

Year Ending December 31	Loans Payable	
	Principal	Interest
2010	\$ 71,065	\$ 11,426
2011	72,493	9,998
2012	73,950	8,541
2013	75,437	7,055
2014	64,506	5,538
2015 - 2019	231,548	11,413
Total	<u>\$ 588,999</u>	<u>\$ 53,971</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Debt Service Requirements (Continued)

Loans payable to the Minnesota Pollution Control Agency of \$9,364 do not have fixed amortization schedules at December 31, 2009, and are not included in the preceding table.

8. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds					
Refunding Bonds of 2005	\$ 2,615,000	\$ -	\$ -	\$ 2,615,000	\$ 165,000
Jail and Courthouse Bonds of 1999	2,670,000	-	2,670,000	-	-
Less: deferred amounts for issuance discounts	(18,303)	-	(1,308)	(16,995)	-
Total bonds payable	<u>\$ 5,266,697</u>	<u>\$ -</u>	<u>\$ 2,668,692</u>	<u>\$ 2,598,005</u>	<u>\$ 165,000</u>
Notes payable					
General obligation notes					
Capital Equipment Notes of 2009	\$ -	\$ 695,000	\$ -	\$ 695,000	\$ 230,000
Less: deferred amounts for issuance discounts	-	(4,865)	(1,216)	(3,649)	-
Total notes payable	<u>\$ -</u>	<u>\$ 690,135</u>	<u>\$ (1,216)</u>	<u>\$ 691,351</u>	<u>\$ 230,000</u>
Total bonds and notes payable	<u>\$ 5,266,697</u>	<u>\$ 690,135</u>	<u>\$ 2,667,476</u>	<u>\$ 3,289,356</u>	<u>\$ 395,000</u>
Loans payable	598,138	46,349	46,124	598,363	71,065
Lease purchase	109,846	-	20,235	89,611	22,531
Compensated absences	508,561	22,314	-	530,875	58,769
Long-Term Liabilities	<u>\$ 6,483,242</u>	<u>\$ 758,798</u>	<u>\$ 2,733,835</u>	<u>\$ 4,508,205</u>	<u>\$ 547,365</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Yellow Medicine County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public 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.

Public 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. 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.

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 and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for 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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description (Continued)

Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all Public 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 Public 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 Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Funding Policy (Continued)

members and Coordinated Plan members are required to contribute 9.10 and 6.00 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.40 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2009:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.75
Public Employees Police and Fire Fund	14.10
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2009, 2008, and 2007, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2009	2008	2007
Public Employees Retirement Fund	\$ 254,943	\$ 239,093	\$ 210,308
Public Employees Police and Fire Fund	64,646	57,653	53,065
Public Employees Correctional Fund	43,561	43,044	45,212

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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2009, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 3,239	\$ 3,239
Percentage of covered payroll	5.00%	5.00%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

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

Funding Policy

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Funding Policy (Continued)

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 2009, there were approximately 109 participants in the plan, including 5 retirees. The implicit rate subsidy amount was determined by an actuary study to be \$3,407 for 2009.

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 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	\$	19,262
Interest on net OPEB obligation		-
Adjustment to ARC		-
		-
Annual OPEB cost (expense)	\$	19,262
Contributions made		(3,407)
		(3,407)
Increase in net OPEB obligation	\$	15,855
Net OPEB Obligation - Beginning of Year		15,344
		15,344
Net OPEB Obligation - End of Year	\$	31,199
		31,199

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, 2008 and 2009, were as follows:

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2008	\$ 19,262	\$ 3,918	20.34%	\$ 15,344
December 31, 2009	19,262	3,407	17.69	31,199

Funded Status and Funding Progress

As of January 1, 2008, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$187,091, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$187,091. The covered payroll (annual payroll of active employees covered by the plan) was \$4,227,170, and the ratio of the UAAL to the covered payroll was 4.4 percent.

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, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

In the January 1, 2008, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.5 percent investment rate of return (net of investment expenses), which is Yellow Medicine County's implicit rate of return on the General Fund.

The annual health care cost trend is 9.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 8 years. Both rates included a 3.0 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2009, was 28 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. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT), formerly the Minnesota Counties Insurance Trust. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For all other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$430,000 per claim in 2009 and \$450,000 per claim in 2010. Should the MCIT Workers' Compensation 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**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

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

B. Contingent Liabilities

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

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

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

Lincoln-Pipestone Rural Water System

At December 31, 2009, the Lincoln-Pipestone Rural Water System had \$36,989,000 of general obligation bonds outstanding through 2034. 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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities

Lincoln-Pipestone Rural Water System (Continued)

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 (Jackson, Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, and Yellow Medicine) have adopted board resolutions and have signed joint powers agreements to define their liability for a proportional share of the debt should the issuing counties make any debt service payments. In such a situation, each of the other counties will promptly reimburse the paying counties in proportion to the percentage of Lincoln-Pipestone Rural Water System customers located in such county, in accordance with Minn. Stat. § 116A.24, subd. 3. The outstanding bonds are reported as liabilities in the annual financial statements of the Lincoln-Pipestone Rural Water System and are not reported as liabilities in the financial statements of any of the ten participating counties. The participating counties disclose a contingent liability due to the guarantee of indebtedness.

In 2010, Nobles County issued a General Obligation Bond for \$800,000 on behalf of the Lincoln-Pipestone Rural Water System to finance the water expansion and internal improvements necessary for the delivery of water to its customers. Each of the participating counties adopted a board resolution to approve an updated joint powers agreement to guarantee the payment of the bond.

C. Joint Ventures

Lincoln-Pipestone Rural Water System

Yellow Medicine County, along with Jackson, 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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

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

Bonds were issued by Lincoln, Nobles, and Yellow Medicine Counties to finance the construction of the Rural Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2009, are \$36,989,000.

The Lincoln-Pipestone Rural Water System's 2009 financial report shows total net assets of \$37,083,055, including unrestricted net assets of \$26,538,044. The decrease in net assets for the year ended December 31, 2009, is \$979,969. Complete financial statements of the Lincoln-Pipestone Rural Water System can be obtained at East Highway 14, P. O. Box 188, Lake Benton, Minnesota 56149-0188.

Countryside Public Health Service

Yellow Medicine County participates with Big Stone, Chippewa, Lac qui Parle, and Swift Counties in a joint venture to provide community health services. The governing board consists of 11 members, 3 from Yellow Medicine County and 2 from each of the other participating counties. Yellow Medicine County's contribution to the Countryside Public Health Service of \$90,297 is shown as an intergovernmental expenditure in the General Fund.

Countryside Public Health Service has no long-term debt. Complete financial statements of the Health Service can be obtained at P. O. Box 313, Benson, Minnesota 56215.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Region 6W Community Corrections

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

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

Yellow Medicine County's contribution of \$148,678 to Region 6W Community Corrections is shown as an intergovernmental expenditure in the General Fund. Complete financial statements of Region 6W Community Corrections can be obtained at 1215 Black Oak Avenue, P. O. Box 551, Montevideo, Minnesota 56265.

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

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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

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

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

Southwestern Minnesota Adult Mental Health Consortium Board

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

The following is a summary of the Consortium Board's annual financial report for the year ended December 31, 2009:

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

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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

Supporting Hands Nurse Family Partnership

The Supporting Hands Nurse Family Partnership was established in July 2007 by a joint powers agreement among Big Stone County and eleven 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.

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2009, Yellow Medicine County did not make a contribution to the Partnership as a contribution was made by Countryside Public Health.

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

Southwest Minnesota Regional Radio Board

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwest Minnesota Regional Radio Board (Continued)

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

During 2009, Yellow Medicine County did not contribute to the Joint Powers Board.

D. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

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

Minnesota River Board

The Minnesota River Board promotes orderly water quality improvements and management of the Minnesota River watersheds. The County made \$1,163 in contributions to the Board in 2009.

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 \$1,320 in contributions to the RCRCA.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Lac qui Parle-Yellow Bank Watershed District

The County Board is responsible for appointing one of the Board of Managers for the District, but the County's responsibility does not extend beyond making the appointments. The County made \$5,000 in contributions to the District in 2009.

Yellow Medicine River Watershed District

The County Board is also responsible for appointing two members to the Board of Managers for the 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 Library System in order to provide efficient and improved regional public library service. During the year, the County contributed \$72,338 to the System.

E. Agricultural Best Management Loan Program

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

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REQUIRED SUPPLEMENTARY INFORMATION

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,975,635	\$ 3,345,219	\$ 3,331,368	\$ (13,851)
Special assessments	119,170	119,170	140,870	21,700
Licenses and permits	26,450	26,450	32,795	6,345
Intergovernmental	1,429,112	1,075,602	1,249,204	173,602
Charges for services	505,200	505,200	547,508	42,308
Fines and forfeits	21,000	21,000	19,366	(1,634)
Gifts and contributions	425	525	4,133	3,608
Investment earnings	294,310	294,310	265,812	(28,498)
Miscellaneous	274,812	274,812	332,485	57,673
Total Revenues	\$ 5,646,114	\$ 5,662,288	\$ 5,923,541	\$ 261,253
Expenditures				
Current				
General government				
Commissioners	\$ 215,748	\$ 215,748	\$ 201,125	\$ 14,623
Public defender	20,000	23,000	18,218	4,782
Administration	112,172	112,172	111,162	1,010
Auditor-treasurer	321,923	321,923	313,045	8,878
Assessor	158,234	158,234	158,472	(238)
Accounting and auditing	38,800	38,800	40,536	(1,736)
Data processing	66,700	66,700	61,032	5,668
Elections	1,775	6,648	2,985	3,663
Central services	36,500	36,500	23,714	12,786
Risk management	107,683	107,683	126,187	(18,504)
Information technology	91,562	91,562	78,053	13,509
Attorney	336,329	336,329	341,564	(5,235)
Recorder	302,718	302,718	261,702	41,016
Planning and zoning	101,742	104,742	98,486	6,256
Buildings	326,368	331,957	284,174	47,783
Veterans service officer	77,729	82,464	78,204	4,260
Other general government	9,500	9,500	6,592	2,908
Total general government	\$ 2,325,483	\$ 2,346,680	\$ 2,205,251	\$ 141,429

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 867,781	\$ 914,075	\$ 830,571	\$ 83,504
Boat and water safety	1,050	16,408	16,449	(41)
Snowmobile safety	1,350	1,350	-	1,350
Coroner	15,000	15,000	2,947	12,053
E-911 system	91,000	91,000	15,489	75,511
Jail	1,207,341	1,210,293	1,022,274	188,019
Jail canteen fund	45,000	45,000	41,438	3,562
Restorative justice	74,409	74,409	55,920	18,489
Civil defense	83,735	83,735	73,231	10,504
Total public safety	\$ 2,386,666	\$ 2,451,270	\$ 2,058,319	\$ 392,951
Sanitation				
Recycling	\$ 102,500	\$ 102,500	\$ 116,088	\$ (13,588)
Hazardous waste	5,000	5,000	3,303	1,697
Total sanitation	\$ 107,500	\$ 107,500	\$ 119,391	\$ (11,891)
Health				
Nursing service	\$ 1,000	\$ 1,000	\$ 1,000	\$ -
Culture and recreation				
Historical society	\$ 21,345	\$ 21,345	\$ 21,495	\$ (150)
Fairgrounds	21,000	21,100	21,100	-
Agricultural museum	26,700	26,700	25,961	739
Minnesota trails	-	32,760	53,887	(21,127)
Parks	59,475	59,475	44,233	15,242
County/regional library	72,338	72,338	72,338	-
Other	29,496	29,496	25,376	4,120
Total culture and recreation	\$ 230,354	\$ 263,214	\$ 264,390	\$ (1,176)

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Conservation of natural resources				
Extension	\$ 107,709	\$ 107,709	\$ 102,918	\$ 4,791
Soil and water conservation	114,025	114,025	114,025	-
Agricultural inspection	63,675	63,675	60,488	3,187
Water quality loan program	-	44,248	36,148	8,100
Water planning	30,258	30,258	26,688	3,570
Environmental officer	12,000	12,000	500	11,500
Other	18,414	19,074	18,970	104
	<u>18,414</u>	<u>19,074</u>	<u>18,970</u>	<u>104</u>
Total conservation of natural resources	\$ 346,081	\$ 390,989	\$ 359,737	\$ 31,252
Economic development				
Community development	\$ 29,455	\$ 30,575	\$ 29,533	\$ 1,042
	<u>29,455</u>	<u>30,575</u>	<u>29,533</u>	<u>1,042</u>
Intergovernmental				
Public safety	\$ 148,678	\$ 148,678	\$ 148,678	\$ -
Health	90,297	90,297	90,297	-
	<u>90,297</u>	<u>90,297</u>	<u>90,297</u>	<u>-</u>
Total intergovernmental	\$ 238,975	\$ 238,975	\$ 238,975	\$ -
Debt service				
Principal	\$ 51,381	\$ 51,381	\$ 48,209	\$ 3,172
Interest	8,022	8,022	7,898	124
	<u>8,022</u>	<u>8,022</u>	<u>7,898</u>	<u>124</u>
Total debt service	\$ 59,403	\$ 59,403	\$ 56,107	\$ 3,296
Total Expenditures	\$ 5,724,917	\$ 5,889,606	\$ 5,332,703	\$ 556,903
Excess of Revenues Over (Under)				
Expenditures	\$ (78,803)	\$ (227,318)	\$ 590,838	\$ 818,156
Other Financing Sources (Uses)				
Loans issued	-	44,248	36,148	(8,100)
	<u>-</u>	<u>44,248</u>	<u>36,148</u>	<u>(8,100)</u>
Net Change in Fund Balance	\$ (78,803)	\$ (183,070)	\$ 626,986	\$ 810,056
Fund Balance - January 1	4,733,432	4,733,432	4,733,432	-
	<u>4,733,432</u>	<u>4,733,432</u>	<u>4,733,432</u>	<u>-</u>
Fund Balance - December 31	\$ 4,654,629	\$ 4,550,362	\$ 5,360,418	\$ 810,056
	<u>4,654,629</u>	<u>4,550,362</u>	<u>5,360,418</u>	<u>810,056</u>

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,965,071	\$ 1,529,893	\$ 1,522,923	\$ (6,970)
Intergovernmental	2,639,368	5,033,373	5,009,337	(24,036)
Charges for services	20,000	70,000	77,231	7,231
Investment earnings	-	-	3,667	3,667
Miscellaneous	25,000	107,000	110,637	3,637
Total Revenues	\$ 4,649,439	\$ 6,740,266	\$ 6,723,795	\$ (16,471)
Expenditures				
Current				
Highways and streets				
Administration	\$ 243,690	\$ 243,690	\$ 235,551	\$ 8,139
Maintenance	1,535,013	1,515,163	1,442,385	72,778
Construction	1,845,244	4,368,744	4,400,957	(32,213)
Equipment and maintenance shops	1,158,394	1,120,164	841,480	278,684
Total highways and streets	\$ 4,782,341	\$ 7,247,761	\$ 6,920,373	\$ 327,388
Intergovernmental				
Highways and streets	\$ -	\$ 313,207	\$ 313,207	\$ -
Debt service				
Principal	\$ 27,000	\$ 18,200	\$ 18,188	\$ 12
Interest	-	10,180	10,181	(1)
Bond issuance costs	-	10,500	10,901	(401)
Total debt service	\$ 27,000	\$ 38,880	\$ 39,270	\$ (390)
Total Expenditures	\$ 4,809,341	\$ 7,599,848	\$ 7,272,850	\$ 326,998
Excess of Revenues Over (Under)				
Expenditures	\$ (159,902)	\$ (859,582)	\$ (549,055)	\$ 310,527
Other Financing Sources (Uses)				
Proceeds from sale of notes	\$ -	\$ 695,000	\$ 695,000	\$ -
Discount on notes issued	-	(5,000)	(4,865)	135
Total Other Financing Sources (Uses)	\$ -	\$ 690,000	\$ 690,135	\$ 135

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 2
(Continued)

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Net Change in Fund Balance	\$ (159,902)	\$ (169,582)	\$ 141,080	\$ 310,662
Fund Balance - January 1	3,654,927	3,654,927	3,654,927	-
Increase (decrease) in reserved for inventories	-	-	34,741	34,741
Fund Balance - December 31	<u>\$ 3,495,025</u>	<u>\$ 3,485,345</u>	<u>\$ 3,830,748</u>	<u>\$ 345,403</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,674,480	\$ 1,505,143	\$ 1,497,050	\$ (8,093)
Intergovernmental	1,788,550	1,951,332	2,128,347	177,015
Charges for services	140,000	140,000	159,925	19,925
Gifts and contributions	-	-	-	-
Investment earnings	-	-	-	-
Miscellaneous	48,000	48,000	9,389	(38,611)
Total Revenues	\$ 3,651,030	\$ 3,644,475	\$ 3,794,711	\$ 150,236
Expenditures				
Current				
Human services				
Income maintenance	\$ 981,800	\$ 981,800	\$ 938,358	\$ 43,442
Social services	2,738,080	2,754,080	2,371,276	382,804
Total Expenditures	\$ 3,719,880	\$ 3,735,880	\$ 3,309,634	\$ 426,246
Net Change in Fund Balance	\$ (68,850)	\$ (91,405)	\$ 485,077	\$ 576,482
Fund Balance - January 1	3,086,034	3,086,034	3,086,034	-
Fund Balance - December 31	\$ 3,017,184	\$ 2,994,629	\$ 3,571,111	\$ 576,482

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 200,000	\$ 200,000	\$ 203,195	\$ 3,195
Intergovernmental	196	196	196	-
Investment earnings	13,000	13,000	8,269	(4,731)
Miscellaneous	-	-	9,262	9,262
Total Revenues	\$ 213,196	\$ 213,196	\$ 220,922	\$ 7,726
Expenditures				
Current				
Conservation of natural resources				
Other	215,725	215,725	178,958	36,767
Net Change in Fund Balance	\$ (2,529)	\$ (2,529)	\$ 41,964	\$ 44,493
Fund Balance - January 1	402,658	402,658	402,658	-
Fund Balance - December 31	\$ 400,129	\$ 400,129	\$ 444,622	\$ 44,493

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 5

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2009

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%

See Note 4.C., Other Postemployment Benefits, for more information.

Multi-year trend information is not available at this time, as Governmental Accounting Standards Board Statement 45 was implemented in 2008. Future notes will provide additional trend analysis to meet the three actuarial valuations requirement as the information becomes available.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2009**

1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Budget Amendments

Expenditure budgets were amended in the following funds:

	<u>Original Budget</u>	<u>Increase (Decrease)</u>	<u>Final Budget</u>
General Fund	\$ 5,724,917	\$ 164,689	\$ 5,889,606
Road and Bridge Special Revenue Fund	4,809,341	2,790,507	7,599,848
Human Services Special Revenue Fund	3,719,880	16,000	3,735,880

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

4. Excess of Expenditures Over Budget

At December 31, 2009, there were no expenditures in excess of budget in the governmental funds.

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SUPPLEMENTARY INFORMATION

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 254,947	\$ 490,378	\$ 484,203	\$ (6,175)
Intergovernmental	23,600	43,500	40,571	(2,929)
Investment earnings	3,000	11,000	13,227	2,227
Total Revenues	\$ 281,547	\$ 544,878	\$ 538,001	\$ (6,877)
Expenditures				
Current				
Debt service				
Principal	\$ 135,000	\$ 2,670,000	\$ 2,670,000	\$ -
Interest	165,010	170,010	169,646	364
Administrative (fiscal) charges	2,500	3,000	750	2,250
Total Expenditures	\$ 302,510	\$ 2,843,010	\$ 2,840,396	\$ 2,614
Net Change in Fund Balance	\$ (20,963)	\$ (2,298,132)	\$ (2,302,395)	\$ (4,263)
Fund Balance - January 1	2,942,094	2,942,094	2,942,094	-
Fund Balance - December 31	\$ 2,921,131	\$ 643,962	\$ 639,699	\$ (4,263)

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

AGENCY FUNDS

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

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

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Statement 1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 29,142	\$ 205,029	\$ 216,001	\$ 18,170
<u>Liabilities</u>				
Due to other governments	\$ 29,142	\$ 205,029	\$ 216,001	\$ 18,170
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 236,976	\$ 13,645,722	\$ 13,724,453	\$ 158,245
<u>Liabilities</u>				
Due to other governments	\$ 236,976	\$ 13,645,722	\$ 13,724,453	\$ 158,245
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 266,118	\$ 13,850,751	\$ 13,940,454	\$ 176,415
<u>Liabilities</u>				
Due to other governments	\$ 266,118	\$ 13,850,751	\$ 13,940,454	\$ 176,415

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OTHER SCHEDULE

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 7

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Shared Revenue

State

Highway users tax	\$ 2,864,266
County program aid	702,798
PERA rate reimbursement	15,547
Disparity reduction aid	43,219
Police aid	54,009
Enhanced 911	83,707
Market value credit	578,825
Casino credit	22,753

Total shared revenue **\$ 4,365,124**

Reimbursement for Services

Minnesota Department of Human Services **\$ 372,011**

Payments

Local

Payments in lieu of taxes	\$ 56,297
Local grants	67,597

Total payments **\$ 123,894**

Grants

State

Minnesota Department/Board of	
Corrections	\$ 16,000
Human Services	602,498
Natural Resources	58,498
Water and Soil Resources	141,844
Peace Officer Standards and Training Board	3,171
Pollution Control Agency	55,475

Total state **\$ 877,486**

Federal

Department of	
Agriculture	\$ 85,041
Commerce	34,574
Justice	13,420
Transportation	1,808,620
Health and Human Services	708,772
Homeland Security	38,713

Total federal **\$ 2,689,140**

Total state and federal grants **\$ 3,566,626**

Total Intergovernmental Revenue **\$ 8,427,655**

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 8

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Yellow Medicine County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Yellow Medicine County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Yellow Medicine County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Yellow Medicine County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:
- | | |
|-------------------------------------------|--------------|
| Highway Planning and Construction Cluster | |
| Highway Planning and Construction | CFDA #20.205 |
| Highway Planning and Construction - ARRA | CFDA #20.205 |
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Yellow Medicine County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

04-1 Segregation of Duties

One basic objective of internal control is to provide for segregation of incompatible duties. In other words, responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction.

Due to the limited number of personnel within some County offices, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not always 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 internal control point of view.

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

We recommend that the County Board segregate accounting duties as much as possible. When it is not feasible to segregate certain duties, Yellow Medicine County management should be aware of the lack of segregation within the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being followed by staff.

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.

06-1 Audit Adjustments

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. During our audit, we proposed an adjustment of \$5,732,782 to increase unrestricted net assets and decrease net assets, invested in capital assets, net of related debt on the government-wide financial statements.

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

We recommend that the County modify internal controls over financial reporting to detect misstatements in the financial statements.

Client's Response:

The County will continue to train staff about financial reporting and will more closely monitor the results of the financial statements.

PREVIOUSLY REPORTED ITEMS RESOLVED

Adding New Vendors to the Accounting System (08-1)

Yellow Medicine County did not have any procedures for reviewing new vendors added to the accounts payable system to determine if the new vendors added were legitimate vendors.

Resolution

The Auditor/Treasurer prints a report from the financial system quarterly to research vendors for legitimacy. A procedure has also been implemented to remove duplicate and inactive vendors from the system at year-end.

Information System Risk Management (08-2)

Yellow Medicine County contracts with Computer Professionals Unlimited, Inc. (CPUI), a service organization, to provide: computer hardware for hosting the County's applications; processing of accounting transactions of other data; daily, weekly, and full system backups of applications and processed data; and disaster recovery planning for continued operations. During our site visit to CPUI, we noted that computers were not located in a restricted area away from public view. The computers were in an unlocked

cage. Daily backup tapes for information processed Monday through Thursday were kept on site in a locked metal cabinet; however, the cabinet was not designed to protect the tapes from the heat that would be generated in the event of a fire. One fire extinguisher was observed in the office. Weekly and full system backup information was kept at an offsite location.

Resolution

CPUI now has a Sentry Safe that protects up to 1700 degrees. If necessary, the safe could be extracted through a nearby window in the event of a fire. In addition, the CPUI office now has two fire extinguishers, and computers are maintained in a locked storage room overnight.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM RESOLVED

Family Services Reporting (CFDA Nos. 93.563 and 93.778) (08-3)

The instructions for the quarterly Income Maintenance Administrative Expense Report, DHS-2550, and the quarterly Social Services Fund Report, DHS-2556, require that a hard copy of the final report signed by the Director be kept on file. At the time of the audit, it was not the practice of the Human Services Director to print and sign the reports.

Resolution

During the audit, we noted Human Services was printing, requiring the Director to sign, and maintaining a copy of the final DHS reports.

IV. OTHER FINDINGS AND RECOMMENDATIONS

OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of this standard is to enhance the usefulness of information included in the

financial report about fund balance through clearer fund balance classifications that can be more consistently applied, as well as to clarify existing governmental fund type definitions.

Fund Balance Reporting

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

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in Statement 54. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of GASB Statement 54 are effective for the County for the year ending December 31, 2011.

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

Board of County Commissioners
Yellow Medicine County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Yellow Medicine County as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 26, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 04-1 and 06-1, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories.

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

Also included in the Schedule of Finding and Questioned Costs is an other item for consideration. We believe this information to be of benefit to the County, and it is reported for that purpose.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 26, 2010

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Yellow Medicine County

Compliance

We have audited the compliance of Yellow Medicine County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. Yellow Medicine County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Yellow Medicine County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Yellow Medicine County as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 26, 2010. Our audit was performed for the purpose of forming opinions on the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 26, 2010

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 9

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services		
State Administrative Matching Grants Cluster		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ 82,257
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program - ARRA	10.561	2,784
		<hr/>
Total U.S. Department of Agriculture		\$ 85,041
U.S. Department of Commerce		
Passed Through Southwest Minnesota Regional Radio Board		
Public Safety Interoperable Communications Grant Program	11.555	\$ 41,785
		<hr/>
U.S. Department of Justice		
Direct		
State Criminal Alien Assistance Program	16.606	\$ 13,420
		<hr/>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction Cluster		
Highway Planning and Construction	20.205	\$ 758,831
Highway Planning and Construction - ARRA	20.205	1,117,424
State and Community Highway Safety	20.600	1,500
		<hr/>
Total U.S. Department of Transportation		\$ 1,877,755
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	\$ 5,344
Temporary Assistance for Needy Families (TANF)	93.558	58,965
Child Support Enforcement Cluster		
Child Support Enforcement	93.563	191,823
Child Support Enforcement - ARRA	93.563	26,635
Refugee and Entrant Assistance	93.566	228
Child Care and Development Cluster		
Child Care and Development Block Grant	93.575	1,847
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	1,822
Foster Care - Title IV-E Cluster		
Foster Care - Title IV-E	93.658	27,123
Foster Care - Title IV-E - ARRA	93.658	612
Social Services Block Grant	93.667	90,246
Medical Assistance Program	93.778	288,497
		<hr/>
Total U.S. Department of Health and Human Services		\$ 693,142

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

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**Schedule 9
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Boating Safety Financial Assistance	97.012	\$ 11,908
Emergency Management Performance Grants	97.042	13,981
Homeland Security Grant Program	97.067	3,000
Passed Through United Way		
Emergency Food and Shelter National Board Program Cluster		
Emergency Food and Shelter National Board Program	97.024	6,295
Emergency Food and Shelter National Board Program - ARRA	97.024	3,529
Total U.S. Department of Homeland Security		\$ 38,713
Total Federal Awards		\$ 2,749,856

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Yellow Medicine County under programs of the federal government for the year ended December 31, 2009. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Yellow Medicine County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Yellow Medicine County.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 2,689,140
Grants received more than 60 days after year-end, deferred in 2009	
Public Safety Interoperable Communications Grant Program	7,211
Highway Planning and Construction	69,135
Child Support Enforcement	7,200
Medical Assistance Program	541
Deferred in 2008, recognized as revenue in 2009	
Medical Assistance Program	(23,371)
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 2,749,856

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Subrecipients

During 2009, the County did not pass any federal money to subrecipients.

6. American Recovery and Reinvestment Act

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