

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA

YEAR ENDED DECEMBER 31, 2010

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Year Ended December 31, 2010



**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
2010

Office	Name	Term Expires
Commissioners		
1st District	Jane Remiger ¹	January 2011
2nd District	Dick Wambeke ²	January 2015
3rd District	Gary Lee Johnson	January 2013
4th District	Ronald Antony	January 2015
5th District	Louis Sherlin	January 2013
Officers		
Elected		
Attorney	Keith Helgeson	January 2015
District Judge	Dwayne Knutsen	January 2015
Sheriff	Bill Flaten	January 2015
Appointed		
Administrator	Ryan Krosch	Indefinite
Auditor-Treasurer	Lois Bonde	Indefinite
Assessor	Connie Erickson	Indefinite
Coroner	Kenneth Carter, M.D.	Indefinite
Highway Engineer	Andrew Sander	Indefinite
Planning and Zoning	Randy Jacobson	Indefinite
Recorder	Kay Zempel	Indefinite
Veterans Service Officer	Michelle Gatz	Indefinite

¹Chair 2010

²Chair 2011

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Yellow Medicine County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Yellow Medicine County, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2011, 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 29, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
(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, 2010. 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 \$72,373,537, of which \$55,408,890 is invested in capital assets, net of related debt, and \$4,211,072 is restricted to specific purposes. The \$12,753,575 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

The County's net assets increased by \$1,769,345 for the year ended December 31, 2010. 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 \$7,098,687. General revenues and other items totaling \$8,868,032 funded the net cost.

The fund balances of the governmental funds increased by \$2,214,027. The increase was largely due to Road and Bridge Special Revenue Fund revenues being \$1,539,356 higher than expenditures. This increase, plus the increases due to the General Fund, Human Services Special Revenue Fund, and Debt Service Fund revenues being \$357,741, \$384,725, and \$11,282, respectively, more than expenditures, and the decrease of \$80,021 to the Ditch Special Revenue Fund accounted for the increase in total fund balance for all funds.

For the year ended December 31, 2010, the unreserved fund balance of the General Fund was \$4,931,049, or 88 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 \$72,373,537 at the close of 2010. The largest portion of the net assets (76.6 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure such as roads and bridges), less any related outstanding debt used to acquire those assets. However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

	Net Assets (in Thousands)	
	Governmental Activities	
	2010	2009
Assets		
Current and other assets	\$ 19,042	\$ 17,077
Capital assets	58,327	58,764
Total Assets	<u>\$ 77,369</u>	<u>\$ 75,841</u>
Liabilities		
Long-term liabilities	\$ 4,142	\$ 3,961
Other liabilities	853	1,276
Total Liabilities	<u>\$ 4,995</u>	<u>\$ 5,237</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 55,409	\$ 55,894
Restricted	4,211	3,106
Unrestricted	12,754	11,604
Total Net Assets	<u><u>\$ 72,374</u></u>	<u><u>\$ 70,604</u></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 17.6 percent of the net assets.

Governmental Activities

The County's governmental activities increased net assets by 2.5 percent (\$1,769,345 for 2010 compared to \$4,407,689 for 2009). Key elements in this increase in net assets are as follows:

	Governmental Activities	
	2010	2009
Changes in Net Assets (in Thousands)		
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 1,116	\$ 1,335
Operating grants and contributions	5,856	5,479
Capital grants and contributions	20	2,176
General revenues		
Property taxes	7,236	6,842
Other	1,632	1,986
Total Revenues	<u>\$ 15,860</u>	<u>\$ 17,818</u>
Expenses		
General government	\$ 2,423	\$ 2,367
Public safety	2,225	2,249
Highways and streets	4,728	4,271
Sanitation	107	121
Human services	3,343	3,309
Health	91	91
Culture and recreation	270	267
Conservation of natural resources	745	549
Economic development	21	30
Interest	137	156
Total Expenses	<u>\$ 14,090</u>	<u>\$ 13,410</u>
Excess of Revenues Over (Under) Expenses	\$ 1,770	\$ 4,408
Net Assets - January 1	<u>70,604</u>	<u>66,196</u>
Net Assets - December 31	<u>\$ 72,374</u>	<u>\$ 70,604</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 \$16,060,625, an increase of \$2,214,027 in comparison with the prior year. Of the combined ending fund balances, \$13,115,761 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 \$4,931,049. 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 88.0 percent of total General Fund expenditures. During 2010, the ending fund balance increased by \$357,741. The primary reason for this increase was due to less expenditures than anticipated in public safety, buildings, and Recorder of \$213,539, \$33,539, and \$31,679, respectively, and more charges for services and investment earnings than anticipated of \$49,557 and \$45,649, respectively, and the receipt of insurance dividends for expenses of prior years.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$3,323,530 at fiscal year-end, representing 75.0 percent of its annual expenditures. The ending fund balance increased \$1,540,300 during 2010, primarily due to receiving state-aid funds for a two-year road project, and only a portion of funds were expended.

The Human Services Special Revenue Fund had an unreserved fund balance of \$3,884,349 at fiscal year-end, representing 116.6 percent of its annual expenditures. The ending fund balance increased \$384,725 during 2010, primarily due to lower than anticipated social services costs.

The Ditch Special Revenue Fund had an unreserved fund balance of \$325,852 at fiscal year-end. The ending fund balance decreased \$80,021 during 2010, primarily due to ditch repairs being higher than anticipated.

The Debt Service Fund had an unreserved fund balance of \$650,981 to be used for ongoing debt service costs. The ending fund balance increased \$11,282 during 2010, primarily due to the bond covenant's requirement to levy 105.0 percent of the amount needed to make the subsequent year's principal and interest payments.

Governmental Activities

The County's total revenues were \$15,859,312. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2010.

Table 1
Total County Revenues - 2010

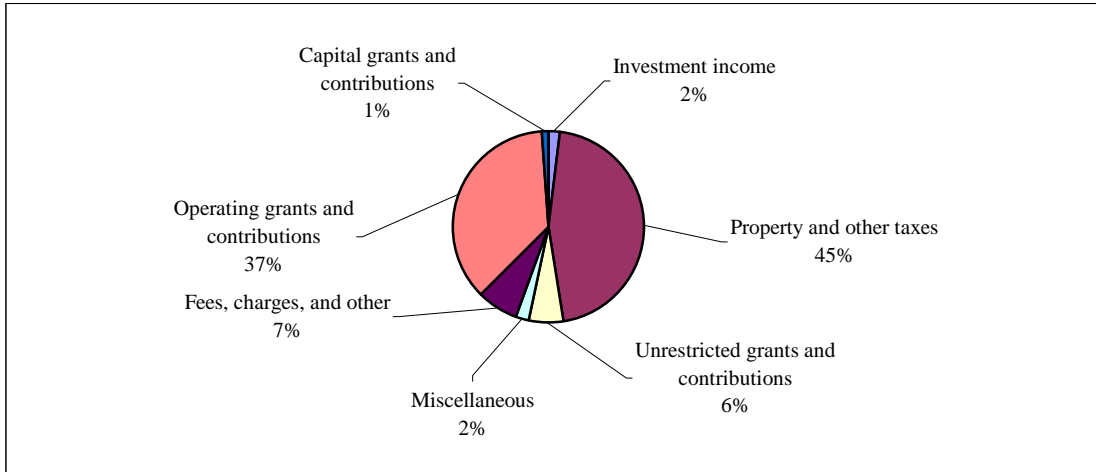
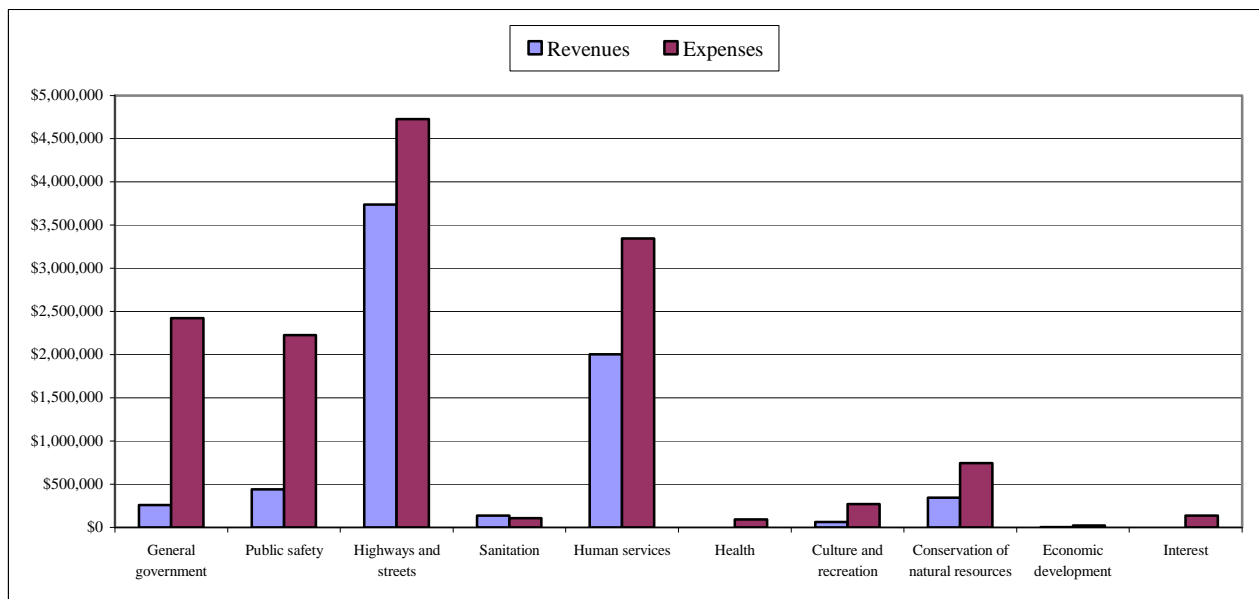


Table 2 presents the cost and revenues of each program as well as the County's general revenues. Total revenues for the County were \$15,859,312, while total expenses were \$14,089,967. This reflects a \$1,769,345 increase in net assets for the year ended December 31, 2010.

Table 2
Expenses and Program Revenues - 2010



The costs of all governmental activities this year were \$14,089,967. However, as shown on the Statement of Activities on Exhibit 2, the amount that taxpayers ultimately financed for these activities through County taxes was only \$7,235,788 because some of the costs were paid by those who directly benefited from the programs (\$1,115,539) or by other governments, organizations, and individuals that subsidized certain programs with grants and contributions (\$5,875,741). The County paid for the remaining “public benefit” portion of governmental activities with \$8,868,032 in general revenues, primarily taxes (some of which could be used only 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	
	2010	2009	2010	2009
Highways and streets	\$ 4,728	\$ 4,271	\$ 989	\$ (1,231)
Human services	3,343	3,309	1,339	1,330
General government	2,422	2,367	2,163	2,085
Public safety	2,225	2,249	1,785	1,517
All others	1,372	1,214	823	720
Totals	<u>\$ 14,090</u>	<u>\$ 13,410</u>	<u>\$ 7,099</u>	<u>\$ 4,421</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 \$348,806 below the final budget amounts. The most significant positive variance (\$213,539) occurred in public safety where changes in Sheriff and jail staff resulted in wage and health insurance costs being \$13,050 less than anticipated, jail housing costs were \$108,097 less than anticipated, as well as various other costs were less than anticipated. This \$213,539 variance resulted in a 3.6 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 (\$19,142), lower than anticipated utility costs in building operations (\$19,023), and several other departments also spent less than anticipated.

On the other hand, resources available for appropriation were \$154,573 above the final budgeted amount. The most significant positive variances (\$91,506) occurred in miscellaneous revenue due to receiving a larger Minnesota Counties Intergovernmental Trust dividend than anticipated; there were also greater than anticipated charges for services and investment earnings.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2010, totaled \$58,327,338 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets, net of depreciation, decreased \$436,563, or 0.7 percent, from the previous year. The major capital asset events were:

- \$241,473 construction of highways and streets and
- \$213,827 purchase of highway equipment.

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

	2010	2009
Land	\$ 827	\$ 815
Infrastructure	50,221	51,340
Buildings	4,074	4,237
Improvements other than buildings	290	302
Machinery and equipment	1,951	1,887
Works of art and historical treasures	126	126
Construction in progress	838	57
	<u>58,327</u>	<u>58,764</u>
Total	<u>\$ 58,327</u>	<u>\$ 58,764</u>

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

Long-Term Debt

At the end of the current fiscal year, the County had total net outstanding debt of \$2,900,328, which was backed by the full faith and credit of the government.

	Outstanding Debt (in Thousands)	
	<u>2010</u>	<u>2009</u>
General obligation bonds	\$ 2,434	\$ 2,598
General obligation notes	463	691
Capital leases	<u>3</u>	<u>90</u>
Total	<u>\$ 2,900</u>	<u>\$ 3,379</u>

The County's debt related to general obligation bonds decreased by \$165,000 (6.3 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 2010, 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 Note 3.C. of 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 2011 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Yellow Medicine County at the end of 2010 was 5.7 percent. This compares with the state and federal unemployment rates of 6.8 percent and 9.4 percent, respectively, but shows an 0.8 percent decrease from the County's 6.5 percent rate of one year ago. This rate of unemployment could impact the level of services requested by County residents.
- The County has a strong agricultural base. New construction added \$9.1 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 rapidly rising cost of health insurance has a large impact on the budgeting process.

- General Fund expenditures for 2011 are budgeted to decrease 4.7 percent (\$281,192) over the 2010 original budget. The 2011 anticipated revenues, other than tax levy, special assessments, state county program aid, and state market value credits, are budgeted to decrease 15.6 percent (\$275,386) from the 2010 original budget.
- The 2011 gross property tax levy for the County decreased 3.5 percent (\$294,234) from 2010; but, due to a reduction in state county program aid (\$442,021), the net tax levy (the amount spread to taxpayers) increased 1.9 percent (\$147,787) over the net tax levy for 2010.
- 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 2012.
- 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 in 2011.
- 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, 2010**

Assets

Cash and pooled investments	\$	14,362,700
Investments		1,666,782
Receivables - net		2,674,774
Inventories		160,638
Prepaid items		145,366
Deferred charges		31,214
Capital assets		
Non-depreciable capital assets		1,790,873
Depreciable capital assets - net of accumulated depreciation		56,536,465
Total Assets	\$	77,368,812

Liabilities

Accounts payable and other current liabilities	\$	764,978
Accrued interest payable		43,008
Long-term liabilities		
Due within one year		531,036
Due in more than one year		3,656,253
Total Liabilities	\$	4,995,275

Net Assets

Invested in capital assets - net of related debt	\$	55,408,890
Restricted for		
Highways and streets		2,997,977
Public safety		297,995
Human services		24,735
Debt service		616,727
Conservation of natural resources		63,960
Other purposes		209,678
Unrestricted		12,753,575
Total Net Assets	\$	72,373,537

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

		Program Revenues			
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets	
<u>Functions/Programs</u>					
Governmental activities					
General government	\$ 2,422,658	\$ 157,952	\$ 101,615	\$ -	\$ (2,163,091)
Public safety	2,224,845	214,736	206,190	19,557	(1,784,362)
Highways and streets	4,727,738	85,415	3,653,239	-	(989,084)
Sanitation	107,138	80,170	55,950	-	28,982
Human services	3,342,825	247,736	1,755,821	-	(1,339,268)
Health	91,097	800	-	-	(90,297)
Culture and recreation	269,983	8,410	55,319	-	(206,254)
Conservation of natural resources	745,167	320,320	23,550	-	(401,297)
Economic development	21,128	-	4,500	-	(16,628)
Interest	137,388	-	-	-	(137,388)
Total Governmental Activities	\$ 14,089,967	\$ 1,115,539	\$ 5,856,184	\$ 19,557	\$ (7,098,687)
 General Revenues					
Property taxes				\$ 7,235,788	
Mortgage registry and deed tax				6,328	
Payments in lieu of tax				70,455	
Grants and contributions not restricted to specific programs				982,513	
Unrestricted investment earnings				284,233	
Miscellaneous				288,715	
Total general revenues				\$ 8,868,032	
Change in net assets				\$ 1,769,345	
Net Assets - Beginning				70,604,192	
Net Assets - Ending				\$ 72,373,537	

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, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
<u>Assets</u>						
Cash and pooled investments	\$ 5,424,044	\$ 5,040,261	\$ 3,761,033	\$ 7,114	\$ 499	\$ 14,232,951
Undistributed cash in agency funds	71,888	22,883	22,174	4,083	6,971	127,999
Petty cash and change funds	1,700	50	-	-	-	1,750
Investments	319,097	268,676	-	435,498	643,511	1,666,782
Taxes receivable						
Prior	66,608	32,125	31,237	-	8,754	138,724
Special assessments receivable						
Prior	10,550	-	-	2,389	-	12,939
Noncurrent	524,985	-	-	135,549	-	660,534
Accounts receivable	25,366	1,627	57,503	-	-	84,496
Accrued interest receivable	111,386	-	-	1,784	-	113,170
Due from other funds	15,154	-	-	-	-	15,154
Due from other governments	62,634	1,270,475	320,921	5,154	-	1,659,184
Inventories	-	160,638	-	-	-	160,638
Prepaid items	68,849	28,840	46,752	925	-	145,366
Total Assets	<u>\$ 6,702,261</u>	<u>\$ 6,825,575</u>	<u>\$ 4,239,620</u>	<u>\$ 592,496</u>	<u>\$ 659,735</u>	<u>\$ 19,019,687</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	<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	\$ 158,745	\$ 47,533	\$ 76,426	\$ 72,783	\$ -	\$ 355,487
Salaries payable	117,121	61,955	66,273	2,450	-	247,799
Contracts payable	-	48,594	-	-	-	48,594
Due to other funds	-	-	15,154	-	-	15,154
Due to other governments	20,627	13,150	50,076	12,940	-	96,793
Deferred revenue - unavailable	687,609	1,283,295	75,855	139,722	8,754	2,195,235
Total Liabilities	\$ 984,102	\$ 1,454,527	\$ 283,784	\$ 227,895	\$ 8,754	\$ 2,959,062
Fund Balances						
Reserved for						
Inventories	\$ -	\$ 160,638	\$ -	\$ -	\$ -	\$ 160,638
Highway allotments	-	1,447,723	-	-	-	1,447,723
Prepaid items	68,849	28,840	46,752	925	-	145,366
Recorder's technology fund	69,928	-	-	-	-	69,928
Recorder's compliance fund	62,736	-	-	-	-	62,736
Enhanced 911	252,025	-	-	-	-	252,025
Sheriff's contingency	5,000	-	-	-	-	5,000
Sheriff's forfeited property	17,750	-	-	-	-	17,750
Inmate social welfare	13,390	-	-	-	-	13,390
Attorney's forfeited property	7,531	-	-	-	-	7,531
Gun permit fees	9,830	-	-	-	-	9,830
Septic/sewer loans	146,628	-	-	-	-	146,628
Election equipment grant	69,483	-	-	-	-	69,483
Unspent grant monies	63,960	-	24,735	-	-	88,695
Unspent G.O. note proceeds	-	268,767	-	-	-	268,767
Encumbrances	-	141,550	-	37,824	-	179,374
Unreserved						
Designated for						
Future expenditures	184,589	680,000	-	-	-	864,589
Cash flows	2,900,000	1,800,000	1,800,000	-	-	6,500,000
Compensated absences	251,537	162,094	135,130	13,362	-	562,123
Unspent contributions	4,510	-	-	-	-	4,510
Undesignated	1,590,413	681,436	1,949,219	312,490	650,981	5,184,539
Total Fund Balances	\$ 5,718,159	\$ 5,371,048	\$ 3,955,836	\$ 364,601	\$ 650,981	\$ 16,060,625
Total Liabilities and Fund Balances	\$ 6,702,261	\$ 6,825,575	\$ 4,239,620	\$ 592,496	\$ 659,735	\$ 19,019,687

**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, 2010**

Fund balance - total governmental funds (Exhibit 3)		\$ 16,060,625
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.		58,327,338
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,195,235
An additional payable was accrued for governmental activities due to an installment on a capital asset purchase.		(16,305)
An additional receivable was accrued for governmental activities as monies were received in April 2011 for which a septic loan had been issued during 2010.		5,727
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (2,450,000)	
Capital equipment notes	(465,000)	
Capital leases	(3,448)	
Loans payable	(679,201)	
Compensated absences	(562,123)	
Net OPEB liability	(45,637)	
Unamortized discount on general obligation refunding bonds	15,687	
Unamortized discount on capital equipment notes	2,433	
Deferred debt issuance charges	31,214	
Accrued interest payable	(43,008)	(4,199,083)
Net Assets of Governmental Activities (Exhibit 1)		\$ 72,373,537

**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, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
Revenues						
Taxes	\$ 3,642,697	\$ 1,577,385	\$ 1,528,536	\$ -	\$ 481,935	\$ 7,230,553
Special assessments	153,462	-	-	170,196	-	323,658
Licenses and permits	31,881	-	-	-	-	31,881
Intergovernmental	1,043,757	4,304,723	1,939,924	196	28,139	7,316,739
Charges for services	304,567	44,919	202,113	-	-	551,599
Fines and forfeits	4,466	-	-	-	-	4,466
Gifts and contributions	2,038	-	-	-	-	2,038
Investment earnings	271,684	3,215	-	7,489	4,340	286,728
Miscellaneous	355,518	39,093	45,623	27,601	-	467,835
Total Revenues	\$ 5,810,070	\$ 5,969,335	\$ 3,716,196	\$ 205,482	\$ 514,414	\$ 16,215,497
Expenditures						
Current						
General government	\$ 2,291,588	\$ -	\$ -	\$ -	\$ -	\$ 2,291,588
Public safety	2,084,865	-	-	-	-	2,084,865
Highways and streets	-	3,997,460	-	-	-	3,997,460
Sanitation	105,055	-	-	-	-	105,055
Human services	-	-	3,331,471	-	-	3,331,471
Health	800	-	-	-	-	800
Culture and recreation	280,245	-	-	-	-	280,245
Conservation of natural resources	477,731	-	-	285,503	-	763,234
Economic development	21,128	-	-	-	-	21,128
Intergovernmental	253,732	336,783	-	-	-	590,515
Debt service						
Principal	73,368	83,860	-	-	395,000	552,228
Interest	11,896	13,644	-	-	107,707	133,247
Administrative (fiscal) fees	-	60	-	-	425	485
Total Expenditures	\$ 5,600,408	\$ 4,431,807	\$ 3,331,471	\$ 285,503	\$ 503,132	\$ 14,152,321
Excess of Revenues Over (Under) Expenditures	\$ 209,662	\$ 1,537,528	\$ 384,725	\$ (80,021)	\$ 11,282	\$ 2,063,176

**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, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
Other Financing Sources (Uses)						
Loans issued	\$ 146,176	\$ -	\$ -	\$ -	\$ -	\$ 146,176
Proceeds from the sale of capital assets	1,903	1,828	-	-	-	3,731
Total Other Financing Sources (Uses)	\$ 148,079	\$ 1,828	\$ -	\$ -	\$ -	\$ 149,907
Net Change in Fund Balance	\$ 357,741	\$ 1,539,356	\$ 384,725	\$ (80,021)	\$ 11,282	\$ 2,213,083
Fund Balance - January 1	5,360,418	3,830,748	3,571,111	444,622	639,699	13,846,598
Increase (decrease) in reserved for inventories	-	944	-	-	-	944
Fund Balance - December 31	\$ 5,718,159	\$ 5,371,048	\$ 3,955,836	\$ 364,601	\$ 650,981	\$ 16,060,625

**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, 2010**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 2,213,083

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	\$ 2,195,235	
Deferred revenue - January 1	<u>(2,543,759)</u>	(348,524)

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	\$ 1,472,028	
Current year depreciation	<u>(1,924,896)</u>	(452,868)

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		(146,176)
---------------------	--	-----------

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

Principal payments		
General obligation bonds	\$ 395,000	
Loans payable	71,065	
Capital leases	<u>86,163</u>	552,228

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	\$ 3,740	
Amortization of discounts and deferred issuance charges	(7,396)	
Change in compensated absences payable	(31,248)	
Change in net OPEB liability	(14,438)	
Change in inventories	<u>944</u>	<u>(48,398)</u>

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 1,769,345

FIDUCIARY FUNDS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2010**

	Cemetery Investment Trust	Agency
<u>Assets</u>		
Cash and pooled investments	\$ -	\$ 195,185
Investments	10,250	-
Accrued interest receivable	105	-
Total Assets	\$ 10,355	\$ 195,185
<u>Liabilities</u>		
Accounts payable	\$ 105	\$ -
Due to other governments	-	195,185
Total Liabilities	\$ 105	\$ 195,185
<u>Net Assets</u>		
Net assets, held in trust for pool participant	\$ 10,250	

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Cemetery Investment Trust</u>
<u>Additions</u>	
Investment earnings	\$ 254
<u>Deductions</u>	
Distributions to participant	<u>254</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, 2010

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

Blended Component Unit

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

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

The 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, 2010, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2010 were \$271,684.

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 or November 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

3. Inventories and Prepaid Items

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

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

4. Capital Assets

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

**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	15 - 40
Land improvements	5 - 40
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

The Ditch Special Revenue Fund had expenditures in excess of budget for the year ended December 31, 2010.

Fund	Expenditures	Budget	Excess
Ditch	\$ 285,503	\$ 228,437	\$ 57,066

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	\$ 14,362,700
Investments	1,666,782
Statement of fiduciary net assets	
Cash and pooled investments	195,185
Investments	10,250
	<hr/>
Total Cash and Investments	\$ 16,234,917

**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, 2010, 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) coverage and excess SIPC coverage available and that they qualify under Minn. Stat. § 118.06 to hold investments. Securities purchased that exceed available SIPC coverage or are purchased by a broker that does not qualify under Minn. Stat. § 118.06 to hold investments shall be transferred to the County's custodian. At December 31, 2010, none of the County's investments were subject to custodial credit risk.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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

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

Investment Type	Credit Risk		Interest Rate Risk	Market Value
	Credit Rating	Rating Agency	Maturity Date	
U.S. government agency securities				
Federal Home Loan Bank Bonds	AAA	S&P	06/28/2011	\$ 200,001
Federal National Mortgage Association Notes	AAA	S&P	06/30/2011	199,882
Illinois State Taxable Bond	A+	S&P	01/01/2013	200,504
Investment pools				
MAGIC Fund	N/R	N/A	N/A	956
Negotiable certificates of deposit	N/R	N/A	Varies	570,000
Total investments				\$ 1,171,343
Checking				275,972
Savings				7,475,602
Certificates of deposit				7,310,250
Petty cash				1,750
Total Cash and Investments				\$ 16,234,917

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

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

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 138,724	\$ -
Special assessments	673,473	437,878
Due from other governments	1,664,911	-
Accounts	84,496	-
Interest	113,170	-
Total Governmental Activities	\$ 2,674,774	\$ 437,878

An additional receivable was accrued for governmental activities as \$5,727 was received in April 2011 for which a septic loan had been issued during 2010.

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 814,824	\$ 11,720	\$ -	\$ 826,544
Construction in progress	57,732	816,968	36,165	838,535
Works of art and historical treasures	125,794	-	-	125,794
Total capital assets not depreciated	\$ 998,350	\$ 828,688	\$ 36,165	\$ 1,790,873
Capital assets depreciated				
Buildings	\$ 6,120,309	\$ -	\$ -	\$ 6,120,309
Land improvements	391,410	-	-	391,410
Machinery and equipment	4,872,101	441,637	223,009	5,090,729
Infrastructure	68,424,822	254,173	-	68,678,995
Total capital assets depreciated	\$ 79,808,642	\$ 695,810	\$ 223,009	\$ 80,281,443

**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	\$ 1,883,314	\$ 162,429	\$ -	\$ 2,045,743
Land improvements	89,603	11,381	-	100,984
Machinery and equipment	2,985,711	377,180	223,009	3,139,882
Infrastructure	17,084,463	1,373,906	-	18,458,369
	<u>\$ 22,043,091</u>	<u>\$ 1,924,896</u>	<u>\$ 223,009</u>	<u>\$ 23,744,978</u>
Total accumulated depreciation				
	<u>\$ 22,043,091</u>	<u>\$ 1,924,896</u>	<u>\$ 223,009</u>	<u>\$ 23,744,978</u>
Total capital assets depreciated, net	<u>\$ 57,765,551</u>	<u>\$ (1,229,086)</u>	<u>\$ -</u>	<u>\$ 56,536,465</u>
Capital Assets, Net	<u><u>\$ 58,763,901</u></u>	<u><u>\$ (400,398)</u></u>	<u><u>\$ 36,165</u></u>	<u><u>\$ 58,327,338</u></u>

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

Governmental Activities	
General government	\$ 167,774
Public safety	85,005
Highways and streets, including depreciation of infrastructure assets	1,651,258
Sanitation	2,083
Human services	6,849
Culture and recreation	2,438
Conservation of natural resources	9,489
	<u>9,489</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 1,924,896</u></u>

B. Interfund Receivables, Payables, and Transfers

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

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Human Services	<u><u>\$ 15,154</u></u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

Due To/From Other Funds (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, 2010, were as follows:

Accounts	\$	371,792
Salaries		247,799
Contracts		48,594
Due to other governments		<u>96,793</u>
Total	<u>\$</u>	<u>764,978</u>

An additional payable was accrued for governmental activities due to a \$16,305 installment on a capital asset purchase at December 31, 2010.

2. Construction Commitments

The government has active construction projects as of December 31, 2010. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Roads and bridges	\$ 971,871	\$ 1,599,080

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Capital Leases

Yellow Medicine County has a lease agreement that qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The capital lease consists of the following at December 31, 2010:

Lease	Final Maturity	Installment	Payment Amount	Original Issue Amount	Outstanding Balance December 31, 2010
2007 postage machine	2012	Monthly	\$ 231	\$ 10,885	<u>\$ 3,448</u>

Capital lease payments for the postage machine are paid from the General Fund. The lease will be paid off in 2012. The future minimum lease obligations and the net present value of the minimum lease payments as of December 31, 2010, were as follows:

Year Ending December 31	Lease Payments
2011	\$ 2,772
2012	<u>924</u>
Total	\$ 3,696
Less: amount representing interest	<u>(248)</u>
Capital Leases Payable	<u>\$ 3,448</u>

**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	Semi-Annual Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2010
Yellow Medicine River Watershed	2014	\$ 12,446	2.00	\$ 224,595	\$ 83,739
Redwood River Watershed Project Continuation	2017	2,369	2.00	52,115	40,170
Yellow Medicine River Watershed Continuation	2018	11,853	2.00	213,887	164,337
Lac qui Parle River Mainstem Water Quality Enhancement	2019	14,578	2.00	268,072	254,259
AG BMP Septic Loans	N/A			<u>136,696</u>	<u>136,696</u>
Total Loans Payable				<u>\$ 895,365</u>	<u>\$ 679,201</u>

N/A - Not Applicable

5. Bonds Payable

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

Type of Indebtedness	Final Maturity	Installment Amount	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2010
General obligation bonds 2005 G.O. Refunding Bonds, Series 2005	2022	\$165,000 - \$250,000	3.9532	<u>\$ 2,615,000</u>	\$ 2,450,000
Less: unamortized discount					<u>(15,687)</u>
Total General Obligation Bonds, Net					<u>\$ 2,434,313</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Notes Payable

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

Type of Indebtedness	Final Maturity	Installment Amount	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2010
General obligation capital equipment notes					
G.O. Capital Equipment Notes, Series 2009	2012	\$230,000 - \$235,000	2.00	<u>\$ 695,000</u>	\$ 465,000
Less: unamortized discount					<u>(2,433)</u>
Total General Obligation Bonds, Net					<u>\$ 462,567</u>

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, 2010, were as follows:

Year Ending December 31	General Obligation Bonds		General Obligation Notes	
	Principal	Interest	Principal	Interest
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	190,000	66,093	-	-
2016 - 2020	1,070,000	211,887	-	-
2021 - 2022	490,000	20,482	-	-
Total	<u>\$ 2,450,000</u>	<u>\$ 626,931</u>	<u>\$ 465,000</u>	<u>\$ 10,231</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Debt Service Requirements (Continued)

Debt payments on the loans payable are made from the General Fund. Debt service requirements at December 31, 2010, were as follows:

Year Ending December 31	Loans Payable	
	Principal	Interest
2011	\$ 72,493	\$ 9,998
2012	73,950	8,541
2013	75,437	7,055
2014	64,507	5,538
2015	53,232	4,366
2016 - 2020	178,315	7,047
Total	<u>\$ 517,934</u>	<u>\$ 42,545</u>

Loans of \$136,696 for AG BMP Septic Loans, \$15,207 for Lac qui Parle River Mainstem Water Quality Enhancement, and \$9,364 for Redwood River Watershed Project are not included in the debt service requirements because fixed repayment schedules are not available.

8. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, 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	\$ -	\$ 165,000	\$ 2,450,000	\$ 165,000
Less: deferred amounts for issuance discounts	(16,995)	-	(1,308)	(15,687)	-
Total bonds payable	<u>\$ 2,598,005</u>	<u>\$ -</u>	<u>\$ 163,692</u>	<u>\$ 2,434,313</u>	<u>\$ 165,000</u>
Notes payable					
General obligation notes					
Capital Equipment Notes of 2009	\$ 695,000	\$ -	\$ 230,000	\$ 465,000	\$ 230,000
Less: deferred amounts for issuance discounts	(3,649)	-	(1,216)	(2,433)	-
Total notes payable	<u>\$ 691,351</u>	<u>\$ -</u>	<u>\$ 228,784</u>	<u>\$ 462,567</u>	<u>\$ 230,000</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

8. Changes in Long-Term Liabilities (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Total bonds and notes payable	\$ 3,289,356	\$ -	\$ 392,476	\$ 2,896,880	\$ 395,000
Loans payable	598,363	151,903	71,065	679,201	72,493
Lease purchase	89,611	-	86,163	3,448	2,543
Compensated absences	530,875	31,248	-	562,123	61,000
Net OPEB liability	31,199	20,910	6,472	45,637	-
Long-Term Liabilities	<u>\$ 4,539,404</u>	<u>\$ 204,061</u>	<u>\$ 556,176</u>	<u>\$ 4,187,289</u>	<u>\$ 531,036</u>

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description

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

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description (Continued)

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

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

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description (Continued)

For all General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.00 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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Funding Policy (Continued)

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

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.00
Public Employees Police and Fire Fund	14.10
Public Employees Correctional Fund	8.75

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

	2010	2009	2008
General Employees Retirement Fund	\$ 269,347	\$ 254,943	\$ 239,093
Public Employees Police and Fire Fund	67,960	64,646	57,653
Public Employees Correctional Fund	41,192	43,561	43,044

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

B. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.0 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

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, 2010, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 3,245	\$ 3,245
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

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

Funding Policy

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

The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2010, there were approximately 109 participants in the plan, including 5 retirees. The implicit rate subsidy amount was determined by an actuarial study to be \$6,472 for 2010.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$	19,262
Interest on net OPEB obligation		2,458
Adjustment to ARC		(810)

Annual OPEB cost (expense)	\$	20,910
Contributions made		(6,472)

Increase in net OPEB obligation	\$	14,438
Net OPEB Obligation - Beginning of Year		31,199

Net OPEB Obligation - End of Year	\$	45,637

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, 2009, and 2010, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2008	\$ 19,262	\$ 3,918	20.34%	\$ 15,344
December 31, 2009	19,262	3,407	17.69	31,199
December 31, 2010	19,252	6,472	25.04	45,637

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

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

Actuarial Methods and Assumptions

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

**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, 2010, was 27 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). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For all other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

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

**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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities (Continued)

Lincoln-Pipestone Rural Water System

At December 31, 2010, the Lincoln-Pipestone Rural Water System had \$36,859,000 of general obligation bonds outstanding through 2050. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

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

C. Joint Ventures

Lincoln-Pipestone Rural Water System

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

**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, 2010, are \$36,859,000.

The Lincoln-Pipestone Rural Water System's 2010 financial report shows total net assets of \$42,424,191, including unrestricted net assets of \$18,949,248. The increase in net assets for the year ended December 31, 2010, is \$5,340,636. 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 \$163,435 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 Board's annual financial report for the year ended December 31, 2009 (the most recent information available):

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

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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

Supporting Hands Nurse Family Partnership

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

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2010, Yellow Medicine County did not make a contribution to the Partnership as a contribution was made by Countryside Public Health.

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

Southwest Minnesota Regional Radio Board

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwest Minnesota Regional Radio Board (Continued)

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

During 2010, 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 did not make any contributions to the Board in 2010.

Redwood-Cottonwood Rivers Control Area (RCRCA)

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

**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 Lac qui Parle-Yellow Bank Watershed District, but the County's responsibility does not extend beyond making the appointments. The County did not make any contributions to the District in 2010.

Yellow Medicine River Watershed District

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

Pioneer Land Regional Library System

Yellow Medicine County, along with several cities and other counties, participates in the Pioneer Land Regional Library System in order to provide efficient and improved regional public library service. During the year, the County contributed \$71,852 to the System.

E. Agricultural Best Management Loan Program

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

REQUIRED SUPPLEMENTARY INFORMATION

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT A-1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,669,458	\$ 3,669,458	\$ 3,642,697	\$ (26,761)
Special assessments	131,967	137,167	153,462	16,295
Licenses and permits	24,750	24,750	31,881	7,131
Intergovernmental	1,042,349	1,074,040	1,043,757	(30,283)
Charges for services	255,010	255,010	304,567	49,557
Fines and forfeits	5,000	5,000	4,466	(534)
Gifts and contributions	25	25	2,038	2,013
Investment earnings	226,035	226,035	271,684	45,649
Miscellaneous	264,012	264,012	355,518	91,506
Total Revenues	\$ 5,618,606	\$ 5,655,497	\$ 5,810,070	\$ 154,573
Expenditures				
Current				
General government				
Commissioners	\$ 211,130	\$ 211,130	\$ 197,568	\$ 13,562
Public defender	20,000	20,000	15,695	4,305
Administration	119,249	119,249	117,075	2,174
Auditor-treasurer	325,244	331,339	322,496	8,843
Assessor	163,113	163,113	160,981	2,132
Accounting and auditing	43,350	43,350	39,885	3,465
Data processing	65,100	65,100	60,987	4,113
Elections	29,825	34,475	32,597	1,878
Central services	36,500	36,500	27,132	9,368
Risk management	121,800	121,800	107,053	14,747
Information technology	121,978	121,978	114,967	7,011
Attorney	337,203	337,203	340,498	(3,295)
Recorder	302,004	302,004	270,325	31,679
Planning and zoning	101,696	101,696	90,665	11,031
Buildings	316,545	346,545	313,006	33,539
Veterans service officer	79,710	79,710	73,147	6,563
Other general government	10,500	10,500	7,511	2,989
Total general government	\$ 2,404,947	\$ 2,445,692	\$ 2,291,588	\$ 154,104

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**EXHIBIT A-1
(Continued)**

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

	<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	\$ 844,208	\$ 928,417	\$ 849,110	\$ 79,307
Boat and water safety	1,250	21,250	22,833	(1,583)
Snowmobile safety	1,450	1,450	4,067	(2,617)
Coroner	11,000	11,000	3,184	7,816
E-911 system	88,000	88,000	117,671	(29,671)
Jail	1,090,364	1,090,364	966,060	124,304
Jail canteen fund	35,000	35,000	26,388	8,612
Restorative justice	56,504	56,504	32,587	23,917
Civil defense	66,419	66,419	62,965	3,454
Total public safety	\$ 2,194,195	\$ 2,298,404	\$ 2,084,865	\$ 213,539
Sanitation				
Recycling	\$ 115,500	\$ 115,500	\$ 100,818	\$ 14,682
Hazardous waste	5,000	5,000	4,237	763
Total sanitation	\$ 120,500	\$ 120,500	\$ 105,055	\$ 15,445
Health				
Nursing service	\$ 1,000	\$ 1,000	\$ 800	\$ 200
Culture and recreation				
Historical society	\$ 21,960	\$ 42,960	\$ 45,729	\$ (2,769)
Agricultural museum	26,200	26,200	26,268	(68)
Minnesota trails	-	31,691	52,818	(21,127)
Parks	59,115	59,115	56,371	2,744
County/regional library	71,852	71,852	71,852	-
Other	29,400	29,400	27,207	2,193
Total culture and recreation	\$ 208,527	\$ 261,218	\$ 280,245	\$ (19,027)

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**EXHIBIT A-1
(Continued)**

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

	<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	\$ 103,006	\$ 103,006	\$ 100,855	\$ 2,151
Soil and water conservation	101,599	101,599	100,229	1,370
Agricultural inspection	64,947	64,947	62,193	2,754
Water quality loan program	-	134,477	151,903	(17,426)
Water planning	31,333	31,333	32,538	(1,205)
Environmental officer	12,000	12,000	12,774	(774)
Other	17,251	17,251	17,239	12
Total conservation of natural resources	\$ 330,136	\$ 464,613	\$ 477,731	\$ (13,118)
Economic development				
Community development	\$ 19,000	\$ 19,000	\$ 21,128	\$ (2,128)
Intergovernmental				
Public safety	\$ 152,395	\$ 163,435	\$ 163,435	\$ -
Health	90,297	90,297	90,297	-
Total intergovernmental	\$ 242,692	\$ 253,732	\$ 253,732	\$ -
Debt service				
Principal	\$ 65,880	\$ 73,380	\$ 73,368	\$ 12
Interest	10,325	11,675	11,896	(221)
Total debt service	\$ 76,205	\$ 85,055	\$ 85,264	\$ (209)
Total Expenditures	\$ 5,597,202	\$ 5,949,214	\$ 5,600,408	\$ 348,806
Excess of Revenues Over (Under)				
Expenditures	\$ 21,404	\$ (293,717)	\$ 209,662	\$ 503,379

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**EXHIBIT A-1
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Loans issued	\$ -	\$ 134,477	\$ 146,176	\$ 11,699
Proceeds from sale of capital assets	-	-	1,903	1,903
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ 134,477</u>	<u>\$ 148,079</u>	<u>\$ 13,602</u>
Net Change in Fund Balance	\$ 21,404	\$ (159,240)	\$ 357,741	\$ 516,981
Fund Balance - January 1	<u>5,360,418</u>	<u>5,360,418</u>	<u>5,360,418</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 5,381,822</u>	<u>\$ 5,201,178</u>	<u>\$ 5,718,159</u>	<u>\$ 516,981</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT A-2

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,583,838	\$ 1,583,838	\$ 1,577,385	\$ (6,453)
Intergovernmental	4,254,590	4,254,590	4,304,723	50,133
Charges for services	20,000	20,000	44,919	24,919
Investment earnings	-	-	3,215	3,215
Miscellaneous	25,000	25,000	39,093	14,093
Total Revenues	\$ 5,883,428	\$ 5,883,428	\$ 5,969,335	\$ 85,907
Expenditures				
Current				
Highways and streets				
Administration	\$ 254,661	\$ 254,661	\$ 253,303	\$ 1,358
Maintenance	1,580,843	1,580,843	1,499,230	81,613
Construction	2,989,534	2,989,534	1,422,625	1,566,909
Equipment and maintenance shops	998,145	998,145	822,302	175,843
Total highways and streets	\$ 5,823,183	\$ 5,823,183	\$ 3,997,460	\$ 1,825,723
Intergovernmental	\$ 313,207	\$ 313,207	\$ 336,783	\$ (23,576)
Debt service				
Principal	\$ 20,046	\$ 20,046	\$ 83,860	\$ (63,814)
Interest	8,323	8,323	13,644	(5,321)
Administrative (fiscal) fees	-	-	60	(60)
Total debt service	\$ 28,369	\$ 28,369	\$ 97,564	\$ (69,195)
Total Expenditures	\$ 6,164,759	\$ 6,164,759	\$ 4,431,807	\$ 1,732,952
Excess of Revenues Over (Under) Expenditures	\$ (281,331)	\$ (281,331)	\$ 1,537,528	\$ 1,818,859
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	1,828	1,828
Net Change in Fund Balance	\$ (281,331)	\$ (281,331)	\$ 1,539,356	\$ 1,820,687
Fund Balance - January 1	3,830,748	3,830,748	3,830,748	-
Increase (decrease) in reserved for inventories	-	-	944	944
Fund Balance - December 31	\$ 3,549,417	\$ 3,549,417	\$ 5,371,048	\$ 1,821,631

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

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT A-3

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,534,796	\$ 1,534,796	\$ 1,528,536	\$ (6,260)
Intergovernmental	1,987,934	1,987,934	1,939,924	(48,010)
Charges for services	136,000	136,000	202,113	66,113
Miscellaneous	43,000	43,000	45,623	2,623
Total Revenues	\$ 3,701,730	\$ 3,701,730	\$ 3,716,196	\$ 14,466
Expenditures				
Current				
Human services				
Income maintenance	\$ 973,980	\$ 973,980	\$ 931,344	\$ 42,636
Social services	2,806,000	2,806,000	2,400,127	405,873
Total Expenditures	\$ 3,779,980	\$ 3,779,980	\$ 3,331,471	\$ 448,509
Net Change in Fund Balance	\$ (78,250)	\$ (78,250)	\$ 384,725	\$ 462,975
Fund Balance - January 1	3,571,111	3,571,111	3,571,111	-
Fund Balance - December 31	\$ 3,492,861	\$ 3,492,861	\$ 3,955,836	\$ 462,975

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 170,000	\$ 170,000	\$ 170,196	\$ 196
Intergovernmental	196	196	196	-
Investment earnings	7,250	7,250	7,489	239
Miscellaneous	-	-	27,601	27,601
Total Revenues	\$ 177,446	\$ 177,446	\$ 205,482	\$ 28,036
Expenditures				
Current				
Conservation of natural resources				
Other	189,437	228,437	285,503	(57,066)
Net Change in Fund Balance	\$ (11,991)	\$ (50,991)	\$ (80,021)	\$ (29,030)
Fund Balance - January 1	444,622	444,622	444,622	-
Fund Balance - December 31	\$ 432,631	\$ 393,631	\$ 364,601	\$ (29,030)

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2010**

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%

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

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

1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Budget Amendments

Expenditure budgets were amended in the following funds:

	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 5,597,202	\$ 352,012	\$ 5,949,214
Ditch Special Revenue Fund	189,437	39,000	228,437

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

4. Excess of Expenditures Over Budget

The Ditch Fund had expenditures in excess of budget for the year ended December 31, 2010.

Fund	Expenditures	Final Budget	Excess
Ditch	\$ 285,503	\$ 228,437	\$ 57,066

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Other Postemployment Benefits Funding Status

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

SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUNDS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 486,473	\$ 486,473	\$ 481,935	\$ (4,538)
Intergovernmental	35,000	35,000	28,139	(6,861)
Investment earnings	5,450	5,450	4,340	(1,110)
Total Revenues	\$ 526,923	\$ 526,923	\$ 514,414	\$ (12,509)
Expenditures				
Debt service				
Principal	\$ 395,000	\$ 395,000	\$ 395,000	\$ -
Interest	107,800	107,800	107,707	93
Administrative (fiscal) charges	1,350	1,350	425	925
Total Expenditures	\$ 504,150	\$ 504,150	\$ 503,132	\$ 1,018
Net Change in Fund Balance	\$ 22,773	\$ 22,773	\$ 11,282	\$ (11,491)
Fund Balance - January 1	639,699	639,699	639,699	-
Fund Balance - December 31	\$ 662,472	\$ 662,472	\$ 650,981	\$ (11,491)

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

AGENCY FUNDS

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

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

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT C-1

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

	<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	\$ 18,170	\$ 253,446	\$ 216,643	\$ 54,973
<u>Liabilities</u>				
Due to other governments	\$ 18,170	\$ 254,240	\$ 217,437	\$ 54,973
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 158,245	\$ 14,691,928	\$ 14,709,961	\$ 140,212
<u>Liabilities</u>				
Due to other governments	\$ 158,245	\$ 21,785,757	\$ 21,803,790	\$ 140,212
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 176,415	\$ 14,945,374	\$ 14,926,604	\$ 195,185
<u>Liabilities</u>				
Due to other governments	\$ 176,415	\$ 22,039,997	\$ 22,021,227	\$ 195,185

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OTHER SCHEDULES

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT D-1

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

Shared Revenue

State

Highway users tax	\$ 3,999,690
County program aid	508,467
PERA rate reimbursement	15,546
Disparity reduction aid	43,208
Police aid	52,947
Enhanced 911	83,707
Market value credit	389,640
Casino credit	25,652

Total shared revenue **\$ 5,118,857**

Reimbursement for Services

Minnesota Department of Human Services	\$ 362,535
--	------------

Payments

Local

Payments in lieu of taxes	\$ 70,455
Local grants	43,068

Total payments **\$ 113,523**

Grants

State

Minnesota Department/Board of	
Human Services	\$ 573,266
Natural Resources	61,888
Public Safety	25,827
Veterans Affairs	1,400
Water and Soil Resources	75,109
Peace Officer Standards and Training Board	2,868
Pollution Control Agency	55,950

Total state **\$ 796,308**

Federal

Department of	
Agriculture	\$ 83,818
Justice	14,177
Transportation	70,411
Health and Human Services	674,681
Homeland Security	82,429

Total federal **\$ 925,516**

Total state and federal grants **\$ 1,721,824**

Total Intergovernmental Revenue **\$ 7,316,739**

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT D-2

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ 83,818
U.S. Department of Justice		
Direct		
State Criminal Alien Assistance Program	16.606	\$ 2,808
Bulletproof Vest Partnership Program	16.607	650
Passed Through Minnesota Department of Public Safety Edward Byrne Memorial Justice Assistance Grant Program	16.738	21,181
Total U.S. Department of Justice		\$ 24,639
U.S. Department of Transportation		
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	\$ 2,500
U.S. Election Assistance Commission		
Passed Through Minnesota Secretary of State Help America Vote Act Requirements Payments	90.401	\$ 12,401
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	\$ 7,764
Temporary Assistance for Needy Families (TANF)	93.558	61,887
Child Support Enforcement Cluster		
Child Support Enforcement	93.563	198,159
Child Support Enforcement - ARRA	93.563	15,424
Refugee and Entrant Assistance - State-Administered Programs	93.566	100
Child Care and Development Cluster		
Child Care and Development Block Grant	93.575	1,108
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	2,057
Foster Care - Title IV-E	93.658	16,342
Social Services Block Grant	93.667	89,963
Children's Health Insurance Program	93.767	136
Medical Assistance Program	93.778	274,541
Total U.S. Department of Health and Human Services		\$ 667,481

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**EXHIBIT D-2
(Continued)**

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Boating Safety Financial Assistance	97.012	\$ 19,557
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	15,923
Emergency Management Performance Grants	97.042	18,073
Homeland Security Grant Program	97.067	28,845
Passed Through United Way		
Emergency Food and Shelter National Board Program	97.024	5,740
Total U.S. Department of Homeland Security		\$ 88,138
Total Federal Awards		\$ 878,977

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

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

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, 2010. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of 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	\$ 925,516
Grants received more than 60 days after year-end, deferred in 2010	
Edward Byrne Memorial Justice Assistance Grant Program	10,462
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	5,709
Deferred in 2009, recognized as revenue in 2010	
Highway Planning and Construction	(67,911)
Child Support Enforcement	(7,200)
Help America Vote Act Requirements Payments grant monies unspent in previous years and expended in 2010 (CFDA #90.401)	<u>12,401</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 878,977</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Subrecipients

During 2010, 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.

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

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

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Yellow Medicine County.
- B. A significant deficiency in internal control was disclosed by the audit of financial statements of Yellow Medicine County and is 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*." It was not a material weakness.
- 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 That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for 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:
- | | |
|-----------------------------------|--------------|
| Child Support Enforcement Cluster | |
| Child Support Enforcement | CFDA #93.563 |
| Child Support Enforcement - ARRA | CFDA #93.563 |
| Medical Assistance Program | CFDA #93.778 |
- 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 ITEM 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.

PREVIOUSLY REPORTED ITEM RESOLVED

Audit Adjustments (06-1)

During our audit, we proposed a material adjustment that resulted in significant changes to the County's government-wide financial statements.

Resolution

The County has continued to implement procedures over financial reporting to detect misstatements in the financial statements. No material audit adjustments were proposed for the 2010 audit.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

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

Fund Balance Reporting

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

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

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

- review the requirements of GASB Statement 54;
- review current fund balances and compare to the new classifications;
- reclassify January 1, 2011, fund balance using the new classifications;
- review/update/prepare a comprehensive fund balance policy;
- prepare appropriate Board resolutions to commit fund balance; and
- if the County Board intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

Governmental Fund Type Definitions

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

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

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

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

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

http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_state ment.pdf.

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STATE AUDITOR

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

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, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 a deficiency in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as item 04-1, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because the County does not have any tax increment financing districts of its own.

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

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 response to the internal control finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of County Commissioners, management, 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 29, 2011

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

Board of County Commissioners
Yellow Medicine County

Compliance

We have audited Yellow Medicine County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. 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 could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

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

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

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 29, 2011