

# STATE OF MINNESOTA

## Office of the State Auditor



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

---

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

**YEAR ENDED DECEMBER 31, 2008**

## **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.

Office of the State Auditor  
525 Park Street, Suite 500  
Saint Paul, Minnesota 55103  
(651) 296-2551  
state.auditor@state.mn.us  
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**Year Ended December 31, 2008**



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

This page was left blank intentionally.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
<b>Introductory Section</b>		
Organization		1
<b>Financial Section</b>		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	14
Statement of Activities	Exhibit 2	15
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	16
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	Exhibit 4	18
Statement of Revenues, Expenditures, and Changes in Fund Balance	Exhibit 5	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	Exhibit 6	21
Fiduciary Funds		
Statement of Fiduciary Net Assets	Exhibit 7	22
Statement of Changes in Fiduciary Net Assets	Exhibit 8	23
Notes to the Financial Statements		24
<b>Required Supplementary Information</b>		
Budgetary Comparison Schedules		
General Fund	Schedule 1	59
Special Revenue Funds		
Road and Bridge Fund	Schedule 2	62
Human Services Fund	Schedule 3	63
Ditch Fund	Schedule 4	64
Schedule of Funding Progress - Other Postemployment Benefits	Schedule 5	65
Notes to the Required Supplementary Information		66

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
<b>Financial Section (Continued)</b>		
Supplementary Information		
Governmental Funds		
Budgetary Comparison Schedule - Jail Bond Debt Service Fund	Schedule 6	67
Agency Funds		68
Combining Statement of Changes in Assets and Liabilities	Statement 1	69
Other Schedule		
Schedule of Intergovernmental Revenue	Schedule 7	70
<b>Management and Compliance Section</b>		
Schedule of Findings and Questioned Costs	Schedule 8	71
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		77
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		80
Schedule of Expenditures of Federal Awards	Schedule 9	83
Notes to the Schedule of Expenditures of Federal Awards		84



This page was left blank intentionally.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

ORGANIZATION  
2008

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

<sup>1</sup>Chair 2008

<sup>2</sup>Chair 2009

This page was left blank intentionally.



This page was left blank intentionally.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Yellow Medicine County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Yellow Medicine County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4.C. to the financial statements, during the year ended December 31, 2008, Yellow Medicine County adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2009, 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

October 8, 2009

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This page was left blank intentionally.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2008  
(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, 2008. 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 \$66,196,503, of which \$53,235,914 is invested in capital assets, net of related debt, and \$2,249,961 is restricted to specific purposes. The \$10,710,628 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

The County's net assets increased by \$1,865,004 for the year ended December 31, 2008. A large part of the increase is attributable to the County's investing in Road and Bridge capital assets, intergovernmental revenues from a two-year road project, and 2008 highway allotments.

The net cost of governmental activities for the current fiscal year was \$6,434,874. General revenues and other items totaling \$8,299,878 funded the net cost.

The fund balances of the governmental funds increased by \$493,726. Most of the increase was due to the Highway and Human Services revenues being \$162,632 and \$335,123, respectively, more than expenditures and the Highway capital lease proceeds of \$110,000. These increases less the decreases in the General Fund and Ditch Special Revenue Fund of \$50,863 and \$73,694, respectively, accounted for the increase in fund balance.

For the year ended December 31, 2008, the unreserved fund balance of the General Fund was \$4,138,527, or 71.2 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 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 balances 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 Jail Bond 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 \$66,196,503, at the close of 2008. The largest portion of the net assets (80.4 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	
	2008	2007
Assets		
Current and other assets	\$ 17,577	\$ 16,192
Capital assets	56,016	55,326
Total Assets	<u>\$ 73,593</u>	<u>\$ 71,518</u>
Liabilities		
Long-term liabilities	\$ 3,685	\$ 6,145
Other liabilities	3,712	1,042
Total Liabilities	<u>\$ 7,397</u>	<u>\$ 7,187</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 53,236	\$ 52,516
Restricted	2,250	1,026
Unrestricted	10,710	10,789
Total Net Assets	<u><u>\$ 66,196</u></u>	<u><u>\$ 64,331</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 16.2 percent of the net assets.

## Governmental Activities

The County's governmental activities increased net assets by 2.9 percent (\$66,196,503 for 2008 compared to \$64,331,499 for 2007). Key elements in this increase in net assets are as follows:

	Governmental Activities	
	2008	2007
<b>Changes in Net Assets (in thousands)</b>		
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 1,600	\$ 1,518
Operating grants and contributions	5,525	5,344
Capital grants and contributions	519	2,463
General revenue		
Property taxes	6,295	5,839
Other	2,005	2,349
Total Revenues	<u>\$ 15,944</u>	<u>\$ 17,513</u>
Expenses		
General government	\$ 2,437	\$ 2,053
Public safety	2,355	2,170
Highways and streets	4,289	3,988
Sanitation	112	81
Human services	3,601	3,563
Health	91	91
Culture and recreation	275	260
Conservation of natural resources	630	602
Economic development	34	29
Interest	255	248
Total Expenses	<u>\$ 14,079</u>	<u>\$ 13,085</u>
Excess of Revenues Over (Under) Expenses	\$ 1,865	\$ 4,428
Net Assets - January 1	<u>64,331</u>	<u>59,903</u>
Net Assets - December 31	<u>\$ 66,196</u>	<u>\$ 64,331</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 \$14,819,145, an increase of \$493,726, in comparison with the prior year. Of the combined ending fund balances, \$10,836,518 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 \$4,138,527. 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 71.2 percent of total General Fund expenditures. During 2008, the ending fund balance decreased by \$50,863. The primary reason for this decrease was due to the unallotment of \$127,100 in State County Program Aid and less than anticipated investment earnings. These losses were offset by the cancellation of the capital improvement project to build an addition to the courthouse to house the county attorneys, information technology, and restorative justice and the receipt of insurance dividends for expenses of prior years.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$2,865,810 at fiscal year-end, representing 58.1 percent of its annual expenditures. The ending fund balance increased \$260,732 during 2008, primarily due to receiving intergovernmental revenues from a two-year road project completed partly in the prior year.

The Human Services Special Revenue Fund had an unreserved fund balance of \$3,022,802 at fiscal year-end, representing 84.3 percent of its annual expenditures. The ending fund balance increased \$335,123 during 2008, primarily due to more than anticipated intergovernmental revenues and lower than anticipated social service costs.

The Ditch Special Revenue Fund had an unreserved fund balance of \$402,658 at fiscal year-end. The ending fund balance decreased \$73,694 during 2008, primarily due to the 114 ditches needing more maintenance than was assessed to benefiting land owners.

At fiscal year-end the Jail Bond Debt Service Fund had a reserved fund balance of \$2,535,373 held in escrow for the refunding of the 1999 General Obligation Jail and Courthouse Bonds and a unreserved fund balance of \$406,721 to be used for ongoing debt service costs. The ending fund balance increased \$22,428 during 2008, primarily due to the bond covenant's requirement to levy 105 percent of the amount needed to make the subsequent year's principal and interest payments.

## Governmental Activities

The County's total revenues were \$15,943,814. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2008.

**Table 1  
Total County Revenues**

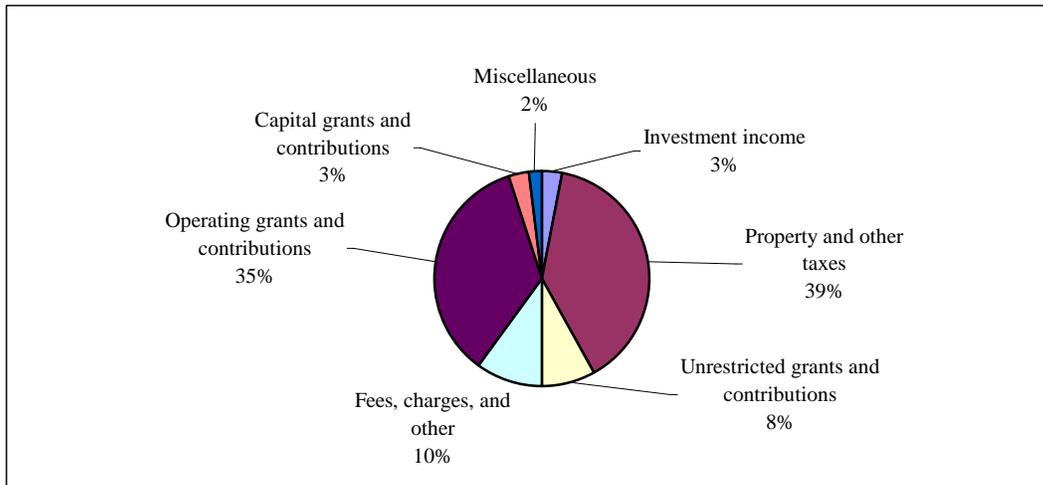
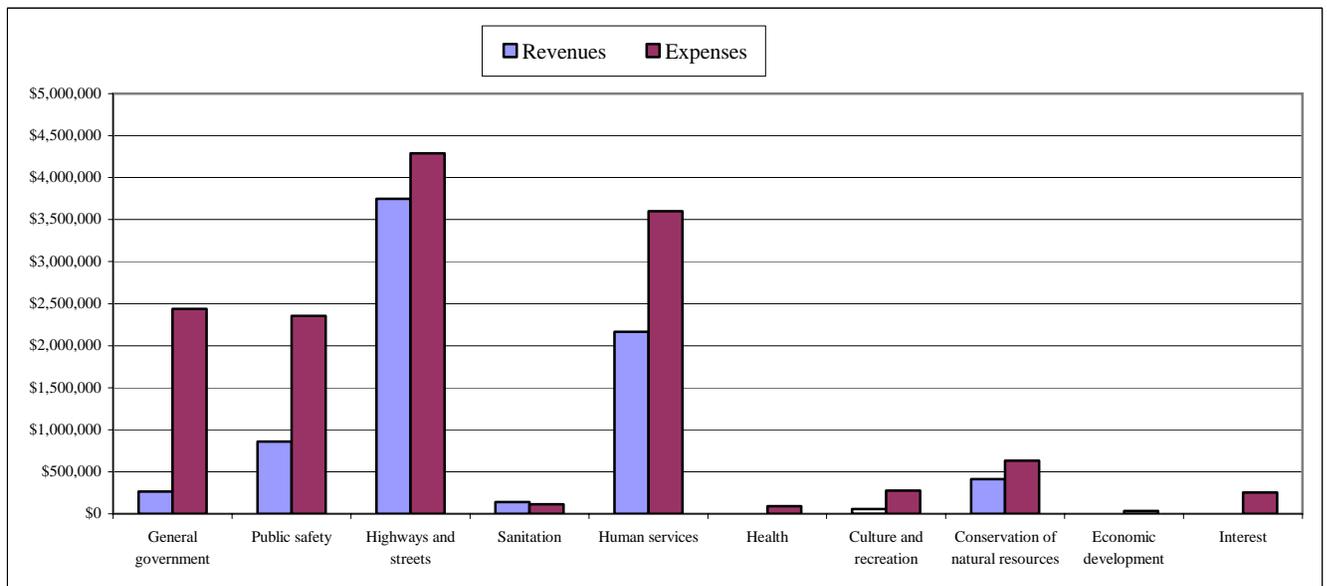


Table 2 presents the cost and revenue of each program as well as the County's general revenues. Total revenues for the County were \$15,943,814, while total expenses were \$14,078,810. This reflects a \$1,865,004 increase in net assets for the year ended December 31, 2008.

**Table 2  
Expenses and Program Revenues - 2008**



The costs of all governmental activities this year were \$14,078,810. However, as shown on the Statement of Activities on Exhibit 2, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$6,294,967 because some of the costs were paid by those who directly benefited from the programs (\$1,599,678) or by other governments, and organizations and individuals that subsidized certain programs with grants and contributions (\$6,044,258). The County paid for the remaining “public benefit” portion of governmental activities with \$8,299,878 in general revenues, primarily taxes (some of which could only be used for certain programs) and other revenues, such as grants and contributions not restricted to specific programs and interest.

Table 3 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.

**Table 3  
Governmental Activities  
(in thousands)**

	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Highways and streets	\$ 4,289	\$ 3,988	\$ 543	\$ (1,722)
Human services	3,601	3,563	1,434	1,388
Public safety	2,355	2,170	1,497	1,370
General government	2,437	2,053	2,173	1,803
All others	1,397	1,311	788	921
Totals	\$ 14,079	\$ 13,085	\$ 6,435	\$ 3,760

### 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 \$314,522 below the final budget amounts. The most significant positive variance (\$103,651) occurred in the Buildings where the budget and costs are located to start the capital improvement project which was canceled. This variance resulted in a 1.8 percent reduction in expected expenditures. Reasons for other significant variances of actual expenditures to final budget include less than anticipated improvements to the County parks (\$26,099); lower than anticipated payroll costs (\$24,688) in the Jail due to staffing changes or employee vacancies; the Jail Department spent less due to lower than anticipated medical services and youth prisoner boarding fees; several other departments also spent less than anticipated. The State auditing costs were \$10,500 more than anticipated, and the Wetlands Challenge Grant expenditure to SWCD was not budgeted, resulting in more than anticipated expenditures.

On the other hand, resources available for appropriation were \$216,618 above the final budgeted amount. The most significant positive variance (\$170,172) occurred in charges for services revenue mostly due to greater than anticipated jail boarding fees collected from other counties. Other significant increases came from an increase in tax and special assessment payments, an insurance dividend, and higher than anticipated fines and forfeitures.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The County's capital assets for its governmental activities at December 31, 2008, totaled \$56,015,760 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets, net of depreciation, increased \$689,639, or 1.3 percent, from the previous year. The major capital asset events were:

- \$ 911,072 construction of highways and streets,
- 693,526 purchase of highway equipment, and
- 125,794 completion of the Veterans Memorial Plaza.

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

	2008	2007
Land	\$ 815	\$ 763
Infrastructure	47,933	48,295
Buildings	4,400	4,562
Improvements other than buildings	313	325
Machinery and equipment	1,872	1,227
Works of art and historical treasures	126	-
Construction in progress	557	154
Total	\$ 56,016	\$ 55,326

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

### Long-Term Debt

At the end of the current fiscal year, the County had total net outstanding debt of \$5,376,543, which was backed by the full faith and credit of the government.

**Outstanding Debt  
(in thousands)**

	2008	2007
General obligation bonds	\$ 5,267	\$ 5,395
Capital leases	110	10
Total	\$ 5,377	\$ 5,405

The County's debt related to general obligation bonds decreased by \$130,000 (2.5 percent) during the fiscal year.

Minnesota statutes limit the amount of debt a county may levy to three percent of its total market value. At the end of 2008, the County's outstanding debt was 0.4 percent of its total estimated market value.

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

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

The County's elected and appointed officials considered many factors when setting the 2009 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Yellow Medicine County at the end of 2008 was 6.4 percent. This compares with the state and federal unemployment rates of 6.8 percent and 7.1 percent, respectively, but shows an increase from the County's 4.9 percent rate of one year ago. This could impact the level of services requested by County residents.
- New construction added \$9.3 million to the County's base for spreading future taxes.
- The rapid rising cost of health insurance has a large impact on the budgeting process.
- The County General Fund expenditures for 2009 are budgeted to increase 4.2 percent (\$596,360) over the 2008 original budget. The 2009 anticipated revenues, other than tax levy, state aid, and special assessments, are budgeted to decrease 3.4 percent (\$210,325) under the 2008 original budget.
- The 2009 property tax levy for the County increased 8.6 percent (\$650,738) from 2008; but due to state aid increases (\$68,774), the net tax levy (the amount spread to taxpayers) increased 8.5 percent (\$581,964) over the net tax levy for 2008.

- The County anticipates unallotment of the County program aid certified for 2009 and 2010 in the amounts \$97,679 and \$198,317, respectively. The 2008 unallotment of the County program aid certified in the amount of \$127,100, and the 2009 unallotment of \$97,679 can be special levied back on the 2010 taxes. The 2010 unallotment of \$198,317 can be special levied back on the 2011 taxes. This will shift the tax burden from the state to the taxpayers of the County. The County fund balances will need to be used to offset the losses until the County receives the 2010 and 2011 tax payments.
- The County is dependent on the State of Minnesota for a significant portion of its revenue. Recent experience demonstrates that the State Legislature may decrease revenues or funding in addition to the County program aid again in 2010.

### **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**

This page was left blank intentionally.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

This page was left blank intentionally.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2008**

**Assets**

Cash and pooled investments	\$	13,840,080
Investments		1,044,418
Receivables - net		2,401,725
Inventories		124,953
Prepaid items		135,975
Deferred charges		30,057
Capital assets		
Non-depreciable capital assets		1,497,879
Depreciable capital assets - net of accumulated depreciation		54,517,881
		<u>54,517,881</u>
<b>Total Assets</b>	<b>\$</b>	<b>73,592,968</b>

**Liabilities**

Accounts payable and other current liabilities	\$	724,932
Accrued interest payable		96,556
Unearned revenue		76,391
Net OPEB liability		15,344
Long-term liabilities		
Due within one year		2,798,452
Due in more than one year		3,684,790
		<u>3,684,790</u>
<b>Total Liabilities</b>	<b>\$</b>	<b>7,396,465</b>

**Net Assets**

Invested in capital assets - net of related debt	\$	53,235,914
Restricted for		
Highways and streets		1,502,249
Public safety		235,178
Human services		18,832
Debt service		310,165
Conservation of natural resources		5,723
Other purposes		177,814
Unrestricted		10,710,628
		<u>10,710,628</u>
<b>Total Net Assets</b>	<b>\$</b>	<b>66,196,503</b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*EXHIBIT 2*

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
<b><u>Functions/Programs</u></b>					
<b>Governmental activities</b>					
General government	\$ 2,437,165	\$ 183,923	\$ 73,252	\$ 7,556	\$ (2,172,434)
Public safety	2,355,094	638,520	170,778	48,900	(1,496,896)
Highways and streets	4,288,621	74,137	3,208,215	462,958	(543,311)
Sanitation	111,680	83,367	55,000	-	26,687
Human services	3,600,609	233,736	1,932,919	-	(1,433,954)
Health	91,297	1,025	-	-	(90,272)
Culture and recreation	275,062	3,032	54,700	-	(217,330)
Conservation of natural resources	630,336	381,938	29,980	-	(218,418)
Economic development	33,800	-	-	-	(33,800)
Interest	255,146	-	-	-	(255,146)
<b>Total Governmental Activities</b>	<b><u>\$ 14,078,810</u></b>	<b><u>\$ 1,599,678</u></b>	<b><u>\$ 5,524,844</u></b>	<b><u>\$ 519,414</u></b>	<b><u>\$ (6,434,874)</u></b>
<b>General Revenues</b>					
Property taxes					\$ 6,294,967
Mortgage registry and deed tax					6,303
Payments in lieu of tax					53,968
Grants and contributions not restricted to specific programs					1,258,808
Unrestricted investment earnings					444,092
Miscellaneous					241,740
<b>Total general revenues</b>					<b><u>\$ 8,299,878</u></b>
<b>Change in net assets</b>					<b><u>\$ 1,865,004</u></b>
<b>Net Assets - Beginning</b>					<b><u>64,331,499</u></b>
<b>Net Assets - Ending</b>					<b><u>\$ 66,196,503</u></b>

**FUND FINANCIAL STATEMENTS**

This page was left blank intentionally.

**GOVERNMENTAL FUNDS**

This page was left blank intentionally.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*EXHIBIT 3*

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2008**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Jail Bond Debt Service</u>	<u>Total</u>
<b><u>Assets</u></b>						
Cash and pooled investments	\$ 4,436,807	\$ 3,682,874	\$ 3,016,489	\$ 16,357	\$ 538	\$ 11,153,065
Undistributed cash in agency funds	76,066	35,588	32,441	514	5,283	149,892
Petty cash and change funds	1,700	50	-	-	-	1,750
Cash with escrow agent	-	-	-	-	2,535,373	2,535,373
Investments	287,428	-	-	396,453	360,537	1,044,418
Taxes receivable						
Prior	48,748	31,967	29,905	-	4,911	115,531
Special assessments receivable						
Prior	8,924	-	-	262	-	9,186
Noncurrent	492,009	-	-	201,596	-	693,605
Accounts receivable	19,330	248	49,450	-	-	69,028
Accrued interest receivable	81,901	-	-	3,934	40,579	126,414
Due from other funds	2,792	-	-	-	-	2,792
Due from other governments	66,841	1,109,310	205,441	6,369	-	1,387,961
Inventories	-	124,953	-	-	-	124,953
Prepaid items	74,000	17,575	44,400	-	-	135,975
<b>Total Assets</b>	<b>\$ 5,596,546</b>	<b>\$ 5,002,565</b>	<b>\$ 3,378,126</b>	<b>\$ 625,485</b>	<b>\$ 2,947,221</b>	<b>\$ 17,549,943</b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2008**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Jail Bond Debt Service</u>	<u>Total</u>
<b><u>Liabilities and Fund Balances</u></b>						
<b>Liabilities</b>						
Accounts payable	\$ 52,893	\$ 161,843	\$ 59,326	\$ 8,242	\$ 216	\$ 282,520
Salaries payable	122,694	53,058	63,388	2,338	-	241,478
Contracts payable	-	33,158	-	-	-	33,158
Due to other funds	-	900	1,892	-	-	2,792
Due to other governments	10,042	33,821	115,472	8,441	-	167,776
Deferred revenue - unavailable	601,094	1,064,858	52,014	203,806	4,911	1,926,683
Deferred revenue - unearned	76,391	-	-	-	-	76,391
<b>Total Liabilities</b>	<b>\$ 863,114</b>	<b>\$ 1,347,638</b>	<b>\$ 292,092</b>	<b>\$ 222,827</b>	<b>\$ 5,127</b>	<b>\$ 2,730,798</b>
<b>Fund Balances</b>						
Reserved for						
Inventories	\$ -	\$ 124,953	\$ -	\$ -	\$ -	\$ 124,953
Prepaid items	74,000	17,575	44,400	-	-	135,975
Recorder's technology fund	26,319	-	-	-	-	26,319
Recorder's compliance fund	48,880	-	-	-	-	48,880
Enhanced 911	210,402	-	-	-	-	210,402
Sheriff's contingency	5,000	-	-	-	-	5,000
Sheriff's forfeited property	15,240	-	-	-	-	15,240
Attorney's forfeited property	19,498	-	-	-	-	19,498
Gun permit fees	4,536	-	-	-	-	4,536
Septic/sewer loans	102,190	-	-	-	-	102,190
Election equipment grant	83,117	-	-	-	-	83,117
Unspent grant monies	5,723	-	18,832	-	-	24,555
Highway allotments	-	646,589	-	-	-	646,589
Investments with escrow agent	-	-	-	-	2,535,373	2,535,373
Unreserved						
Designated for						
Future expenditures	1,028,404	1,119,671	977,802	-	-	3,125,877
Cash flows	2,900,000	1,600,000	1,900,000	-	-	6,400,000
Compensated absences	207,056	146,139	145,000	10,366	-	508,561
Unspent contributions	3,067	-	-	-	-	3,067
Undesignated	-	-	-	392,292	406,721	799,013
<b>Total Fund Balances</b>	<b>\$ 4,733,432</b>	<b>\$ 3,654,927</b>	<b>\$ 3,086,034</b>	<b>\$ 402,658</b>	<b>\$ 2,942,094</b>	<b>\$ 14,819,145</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,596,546</b>	<b>\$ 5,002,565</b>	<b>\$ 3,378,126</b>	<b>\$ 625,485</b>	<b>\$ 2,947,221</b>	<b>\$ 17,549,943</b>

**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, 2008**

<b>Fund balance - total governmental funds (Exhibit 3)</b>		<b>\$ 14,819,145</b>
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.		56,015,760
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,926,683
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (5,285,000)	
Capital leases	(109,846)	
Loans payable	(598,138)	
Compensated absences	(508,561)	
Net OPEB liability	(15,344)	
Unamortized discount on general obligation refunding bonds	18,303	
Deferred debt issuance charges	30,057	
Accrued interest payable	<u>(96,556)</u>	<u>(6,565,085)</u>
<b>Net Assets of Governmental Activities (Exhibit 1)</b>		<b><u><u>\$ 66,196,503</u></u></b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*EXHIBIT 5*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Jail Bond Debt Service</u>	<u>Total</u>
<b>Revenues</b>						
Taxes	\$ 2,722,600	\$ 1,788,849	\$ 1,607,925	\$ -	\$ 260,720	\$ 6,380,094
Special assessments	126,842	-	-	52,869	-	179,711
Licenses and permits	33,960	-	-	-	-	33,960
Intergovernmental	1,368,606	3,224,562	2,073,626	196	25,754	6,692,744
Charges for services	681,582	37,642	156,298	-	-	875,522
Fines and forfeits	38,423	-	-	-	-	38,423
Gifts and contributions	10,360	-	1,550	-	-	11,910
Investment earnings	290,270	11,250	6,000	13,572	101,110	422,202
Miscellaneous	341,456	36,918	77,438	10,622	-	466,434
<b>Total Revenues</b>	<b>\$ 5,614,099</b>	<b>\$ 5,099,221</b>	<b>\$ 3,922,837</b>	<b>\$ 77,259</b>	<b>\$ 387,584</b>	<b>\$ 15,101,000</b>
<b>Expenditures</b>						
<b>Current</b>						
General government	\$ 2,330,258	\$ -	\$ -	\$ -	\$ -	\$ 2,330,258
Public safety	2,283,121	-	-	-	-	2,283,121
Highways and streets	-	4,636,057	-	-	-	4,636,057
Sanitation	139,561	-	-	-	-	139,561
Human services	-	-	3,587,714	-	-	3,587,714
Health	1,000	-	-	-	-	1,000
Culture and recreation	272,920	-	-	-	-	272,920
Conservation of natural resources	475,982	-	-	150,953	-	626,935
Economic development	33,800	-	-	-	-	33,800
<b>Intergovernmental</b>	<b>232,103</b>	<b>287,066</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>519,169</b>
<b>Debt service</b>						
Principal	37,486	7,990	-	-	130,000	175,476
Interest	6,769	3,831	-	-	234,725	245,325
Administrative (fiscal) fees	-	1,645	-	-	431	2,076
<b>Total Expenditures</b>	<b>\$ 5,813,000</b>	<b>\$ 4,936,589</b>	<b>\$ 3,587,714</b>	<b>\$ 150,953</b>	<b>\$ 365,156</b>	<b>\$ 14,853,412</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (198,901)</b>	<b>\$ 162,632</b>	<b>\$ 335,123</b>	<b>\$ (73,694)</b>	<b>\$ 22,428</b>	<b>\$ 247,588</b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*EXHIBIT 5  
(Continued)*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Jail Bond Debt Service</u>	<u>Total</u>
<b>Other Financing Sources (Uses)</b>						
Loans issued	\$ 146,612	\$ -	\$ -	\$ -	\$ -	\$ 146,612
Capital leases	-	110,000	-	-	-	110,000
Proceeds from the sale of assets	1,426	841	-	-	-	2,267
<b>Total Other Financing Sources (Uses)</b>	<u>\$ 148,038</u>	<u>\$ 110,841</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 258,879</u>
<b>Net Change in Fund Balance</b>	<b>\$ (50,863)</b>	<b>\$ 273,473</b>	<b>\$ 335,123</b>	<b>\$ (73,694)</b>	<b>\$ 22,428</b>	<b>\$ 506,467</b>
<b>Fund Balance - January 1</b>	<b>4,784,295</b>	<b>3,394,195</b>	<b>2,750,911</b>	<b>476,352</b>	<b>2,919,666</b>	<b>14,325,419</b>
<b>Increase (decrease) in reserved for inventories</b>	<u>-</u>	<u>(12,741)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,741)</u>
<b>Fund Balance - December 31</b>	<u><u>\$ 4,733,432</u></u>	<u><u>\$ 3,654,927</u></u>	<u><u>\$ 3,086,034</u></u>	<u><u>\$ 402,658</u></u>	<u><u>\$ 2,942,094</u></u>	<u><u>\$ 14,819,145</u></u>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*EXHIBIT 6*

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**Net change in fund balance - total governmental funds (Exhibit 5) \$ 506,467**

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	\$ 1,926,683	
Deferred revenue - January 1	<u>(1,086,136)</u>	840,547

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	\$ 2,454,011	
Current year depreciation	<u>(1,764,372)</u>	689,639

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

Debt issued		
Loans	\$ (153,402)	
Capital leases	<u>(110,000)</u>	(263,402)

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	\$ 130,000	
Loans payable	35,597	
Capital leases	<u>9,879</u>	175,476

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

Change in accrued interest payable	\$ 2,500	
Amortization of discounts and deferred issuance charges	(3,455)	
Change in compensated absences payable	(54,683)	
Change in net OPEB liability	(15,344)	
Change in inventories	<u>(12,741)</u>	<u>(83,723)</u>

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ 1,865,004**

**FIDUCIARY FUNDS**

This page was left blank intentionally.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*EXHIBIT 7*

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2008**

	<b>Cemetery Investment Trust</b>	<b>Agency</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ -	\$ 266,118
Investments	10,250	-
Accrued interest receivable	184	-
<b>Total Assets</b>	<b>\$ 10,434</b>	<b>\$ 266,118</b>
<b><u>Liabilities</u></b>		
Accounts payable	\$ 184	\$ -
Due to other governments	-	266,118
<b>Total Liabilities</b>	<b>\$ 184</b>	<b>\$ 266,118</b>
<b><u>Net Assets</u></b>		
Net assets, held in trust for pool participant	<b>\$ 10,250</b>	

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

***EXHIBIT 8***

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
DECEMBER 31, 2008**

	<u>Cemetery Investment Trust</u>
<b><u>Additions</u></b>	
Investment earnings	\$ 438
<b><u>Deductions</u></b>	
Distributions to participant	<u>438</u>
<b>Changes in Net Assets</b>	<b>\$ -</b>
<b>Net Assets - January 1</b>	<b><u>10,250</u></b>
<b>Net Assets - December 31</b>	<b><u><u>10,250</u></u></b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

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, 2008. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Blended Component Unit

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

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

---

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

---

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

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

The Jail Bond 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 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, 2008, 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 2008 were \$291,445.

Yellow Medicine County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

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

2. Receivables and Payables

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

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

All receivables are shown net of an allowance for uncollectibles.

Property taxes are levied as of January 1 on property values assessed as of the same date in the prior year. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

3. Inventories and Prepaid Items

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

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

4. Restricted Assets

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

---

---

1. Summary of Significant Accounting Policies

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

5. Capital Assets

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

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	30 - 40
Land improvements	5 - 20
Public domain infrastructure	20 - 80
Machinery and equipment	3 - 20

6. Compensated Absences

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

---

1. Summary of Significant Accounting Policies

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

7. Deferred Revenue

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

8. Long-Term Obligations

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

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

9. 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)

10. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

At December 31, 2008, there were no expenditures in excess of budget in the governmental funds.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 13,840,080
Investments	1,044,418
Statement of fiduciary net assets	
Cash and pooled investments	266,118
Investments	<u>10,250</u>
Total Cash and Investments	<u>\$ 15,160,866</u>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all County deposits be protected by 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, 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, 2008, 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

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the County:

- (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 does not have a policy on custodial credit risk. At December 31, 2008, \$2,035,373 of investments with the escrow agent held at US Bank was subject to custodial credit risk.

Concentration of Credit Risk

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's cash and investment balances at December 31, 2008, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. agency securities					
Federal National Mortgage Association	Aaa	Moody's	<5%	06/06/2022	\$ 100,226
Federal Home Loan Mortgage Corporation	AAA	N/A	14.6%	12/15/2013	\$ 500,000
U.S. Treasury securities					
U.S. Treasury state and local government series	N/A	N/A	N/A	02/01/2009	\$ 2,535,373
Negotiable certificates of deposit					
Bank of Northern Michigan - Petoskey, Michigan	N/A	N/A		06/29/2009	\$ 97,000
Discover Bank - Greenwood, Delaware	N/A	N/A		11/28/2011	97,000
Provident Bank - Baltimore, Maryland	N/A	N/A		07/03/2016	97,000
Total negotiable certificates of deposit			N/A		\$ 291,000
Total investments					\$ 3,426,599
Checking					264,434
Savings					3,611,393
MAGIC Fund					6,549,440
Certificates of deposit					1,307,250
Petty cash					1,750
Total Cash and Investments					\$ 15,160,866

N/A - Not applicable

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2008, 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	\$ 115,531	\$ -
Special assessments	702,791	424,994
Due from other governments	1,387,961	-
Accounts	69,028	-
Interest	126,414	-
	\$ 2,401,725	\$ 424,994
Total Governmental Activities		

3. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 763,103	\$ 51,719	\$ -	\$ 814,822
Construction in progress	153,851	557,263	153,851	557,263
Works of art and historical treasures	-	125,794	-	125,794
	\$ 916,954	\$ 734,776	\$ 153,851	\$ 1,497,879
Total capital assets not depreciated				
Capital assets depreciated				
Buildings	\$ 6,120,309	\$ -	\$ -	\$ 6,120,309
Land improvements	391,410	-	-	391,410
Machinery and equipment	4,280,768	962,014	472,885	4,769,897
Infrastructure	62,737,655	911,072	-	63,648,727
	\$ 73,530,142	\$ 1,873,086	\$ 472,885	\$ 74,930,343
Total capital assets depreciated				

**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	\$ 1,558,476	\$ 162,419	\$ -	\$ 1,720,895
Land improvements	66,841	11,381	-	78,222
Machinery and equipment	3,053,234	317,313	472,885	2,897,662
Infrastructure	14,442,424	1,273,259	-	15,715,683
Total accumulated depreciation	\$ 19,120,975	\$ 1,764,372	\$ 472,885	\$ 20,412,462
Total capital assets depreciated, net	\$ 54,409,167	\$ 108,714	\$ -	\$ 54,517,881
Capital Assets, Net	\$ 55,326,121	\$ 843,490	\$ 153,851	\$ 56,015,760

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

Governmental Activities	
General government	\$ 180,852
Public safety	84,216
Highways and streets, including depreciation of infrastructure assets	1,487,307
Sanitation	767
Human services	6,849
Culture and recreation	2,142
Conservation of natural resources	2,239
Total Depreciation Expense - Governmental Activities	<u>\$ 1,764,372</u>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2008, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Road and Bridge	\$ 900
General	Human Services	1,892
Total Due To/From Other Funds		<u>\$ 2,792</u>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

---

3. Detailed Notes on All Funds

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

The amounts due to the General Fund from the Road and Bridge Special Revenue Fund and 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, 2008, were as follows:

Accounts	\$	282,520
Salaries		241,478
Contracts		33,158
Due to other governments		167,776
Total Payables	\$	724,932

2. Construction Commitments

The government has active construction projects as of December 31, 2008. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Roads and bridges		
Grading	\$ 439,579	\$ 703,755
Bridge project	223,580	3,003
Total Construction Commitments	\$ 663,159	\$ 706,758

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Capital Leases

Yellow Medicine County has three lease agreements that qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The capital leases consist of the following at December 31, 2008:

<u>Lease</u>	<u>Final Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2008</u>
2007 postage machine	2012	Monthly	\$ 231	\$ 10,885	\$ 7,836
Highway excavator	2013	Monthly	1,715	80,000	74,182
Highway excavator attachments	2013	Monthly	649	30,000	<u>27,828</u>
Total Capital Leases					<u>\$ 109,846</u>

Capital lease payments for the postage machine are paid from the General Fund. The lease will be paid off in 2012. The total minimum lease payments of \$9,240 include \$7,836 representing the present value of future minimum lease payments and \$1,404 representing interest. Capital lease payments for the excavator and excavator attachments are paid from the Road and Bridge Fund and will be paid off in 2013. The total minimum lease payments for the excavator of \$94,325 include \$74,182 representing the present value of the future minimum lease payments and \$20,143 representing interest. The total minimum lease payments for the excavator attachments of \$35,700 include \$27,828 representing the present value of the future minimum lease payments and \$7,872 representing interest.

<u>Year Ending December 31</u>	<u>Lease Payments</u>
2009	\$ 31,141
2010	31,141
2011	31,141
2012	29,293
2013	<u>16,549</u>
Total	\$ 139,265
Less: amount representing interest	<u>(29,419)</u>
Capital Lease Payable	<u>\$ 109,846</u>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Loans Payable

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

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2008
Yellow Medicine River Watershed	2014	\$ 12,446	2.00	\$ 224,595	\$ 129,035
Redwood River Watershed Project Continuation	2017	2,369	2.00	42,751	38,849
Yellow Medicine River Watershed Continuation	2018	11,853	2.00	213,887	204,173
Lac qui Parle River Mainstem Water Quality Enhancement	2019	15,001	2.00	226,081	226,081
Total Loans Payable				<u>\$ 707,314</u>	<u>\$ 598,138</u>

5. Bonds Payable

Payments on the Jail and Courthouse Bonds and 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, 2008
General obligation bonds 2005 G.O. Refunding Bonds, Series 2005	2022	\$165,000 - \$250,000	3.9532	\$ 2,615,000	\$ 2,615,000
1999 G.O. Jail and Courthouse Bonds	2022	\$55,000 - \$260,000	5.2054	<u>3,330,000</u>	<u>2,670,000</u>
Total general obligation bonds				<u>\$ 5,945,000</u>	\$ 5,285,000
Less: unamortized discount					<u>(18,303)</u>
Total General Obligation Bonds, Net					<u>\$ 5,266,697</u>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Debt Service Requirements

Debt service requirements at December 31, 2008, were as follows:

Year Ending December 31	General Obligation Bonds		Loans Payable	
	Principal	Interest	Principal	Interest
2009	\$ 2,670,000	\$ 228,630	\$ 58,418	\$ 9,919
2010	165,000	95,808	47,051	6,285
2011	165,000	90,734	47,997	5,339
2012	170,000	85,330	48,961	4,374
2013	180,000	79,420	49,945	3,390
2014 - 2018	985,000	291,759	131,980	6,092
2019 - 2022	950,000	79,688	-	-
Total	<u>\$ 5,285,000</u>	<u>\$ 951,369</u>	<u>\$ 384,352</u>	<u>\$ 35,399</u>

Clean water loans in the amount of \$213,786 for the Lac qui Parle River Mainstem Water Quality Enhancement are not included in the debt service requirements because fixed repayment schedules are not available.

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds					
Refunding Bonds of 2005	\$ 2,615,000	\$ -	\$ -	\$ 2,615,000	\$ -
Jail and Courthouse Bonds of 1999	2,800,000	-	130,000	2,670,000	2,670,000
Less: deferred amounts for issuance discounts	(19,611)	-	(1,308)	(18,303)	-
Total bonds payable	\$ 5,395,389	\$ -	\$ 128,692	\$ 5,266,697	\$ 2,670,000
Loans payable	480,333	153,402	35,597	598,138	58,418
Lease purchase	9,725	110,000	9,879	109,846	20,236
Compensated absences	453,878	54,683	-	508,561	49,798
Long-Term Liabilities	<u>\$ 6,339,325</u>	<u>\$ 318,085</u>	<u>\$ 174,168</u>	<u>\$ 6,483,242</u>	<u>\$ 2,798,452</u>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

---

3. Detailed Notes on All Funds

C. Liabilities (Continued)

8. Crossover Refunding Debt

On February 22, 2005, Yellow Medicine County issued General Obligation Refunding Bonds, Series 2005, in the amount of \$2,615,000 with interest rates of 3.00 percent to 4.15 percent to crossover refund the General Obligation Jail and Courthouse Bonds, dated June 1, 1999, maturing after February 1, 2009.

The proceeds from the bonds were placed with an escrow agent in an irrevocable trust from which U.S. Treasury securities were purchased. The County is responsible for the principal and interest on the original issue through February 1, 2009. The refunded bonds will be called and paid by the escrow agent on February 1, 2009. The escrow agent will pay the interest due on the 1999 bonds through February 1, 2009; thereafter, the County will be responsible for the payment of debt service on the new bonds. The principal balance of both the original issue and the refunding issue will be shown on the statement of net assets until the call date of the refunded bonds, at which time the 1999 bonds will be paid, and the liability for those bonds will be removed.

The General Obligation Crossover Refunding Bonds, Series 2005, were issued at a discount of \$23,535 and, after paying debt issuance costs of \$38,645, the net proceeds were \$2,556,915. The County deposited \$15,533 of excess proceeds into the Debt Service Fund for future debt payments. The remaining \$2,541,382 of bond proceeds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the General Obligation Crossover Refunding Bonds, Series 2005, until February 1, 2009, at which time the refunded bonds will be paid off.

As a result of the crossover refunding, the County reduced its total debt service requirements by \$151,970, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt service) of \$107,564.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

---

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

---

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members were required to contribute 8.6 percent of their annual

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

---

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Funding Policy (Continued)

covered salary in 2008. That rate increased to 9.4 percent in 2009. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2008 and 2009:

	2008	2009
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.50	6.75
Public Employees Police and Fire Fund	12.90	14.10
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2008	2007	2006
Public Employees Retirement Fund	\$ 239,093	\$ 210,308	\$ 191,506
Public Employees Police and Fire Fund	57,653	53,065	47,207
Public Employees Correctional Fund	43,044	45,212	39,301

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 in accordance with Minn. Stat. ch. 353D. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

---

4. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. 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. 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, 2008, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 3,514	\$ 3,514
Percentage of covered payroll	5.00%	5.00%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

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

This statement required the County to calculate and record a net other postemployment benefit obligation (NOPEBO) at December 31, 2008. The NOPEBO is, in general, the cumulative difference between the actuarial required contribution and the actual contributions since January 1, 2008.

Plan Description

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

---

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funding Policy

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

The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the healthcare plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2008, there were approximately 109 participants in the plan, including 5 retirees.

Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$ 19,262
Interest on net OPEB obligation	-
Adjustment to ARC	-
	<hr/>
Annual OPEB cost (expense)	\$ 19,262
Contributions made	(3,918)
	<hr/>
Increase in net OPEB obligation	\$ 15,344
Net OPEB Obligation - Beginning of Year	-
	<hr/>
Net OPEB Obligation - End of Year	<u>\$ 15,344</u>

The County's annual OPEB cost for December 31, 2008, was \$19,262. The percentage of annual OPEB cost contributed to the plan was 20.3 percent, and the net OPEB obligation for 2008 was \$15,344. Trend information for the previous two years is not available at this time based on the implementation date of December 31, 2008.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

---

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Fund Status and Funding Progress

As of January 1, 2008, the most recent actuarial valuation date, the plan was not funded. The actuarial liability for benefits was \$187,091, and the actuarial value of assets was \$0, resulting in an unfunded actuarial 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 healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

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.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

---

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

The annual healthcare cost trend is 9.0 percent initially reduced by decrements to an ultimate rate of 5.0 percent over eight 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, 2008, was 29 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 Insurance 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 \$410,000 per claim in 2008 and \$430,000 per claim in 2009, respectively. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

---

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

B. Contingent Liabilities

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

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

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

Lincoln-Pipestone Rural Water System

At December 31, 2008, the Lincoln-Pipestone Rural Water System had \$19,423,000 of general obligation bonds outstanding through 2033. 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,

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

---

5. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities

Lincoln-Pipestone Rural Water System (Continued)

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

In 2009, Nobles County issued two series of general obligation bonds totaling \$19,415,000 on behalf of the Lincoln-Pipestone Rural Water System to finance the water expansion and internal improvements necessary for the delivery of water to its customers. Each of the participating counties adopted board resolutions to approve updated joint powers agreements to guarantee the payment of the bonds.

C. Joint Ventures

Lincoln-Pipestone Rural Water System

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

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

---

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

Bonds were issued by Lincoln County and Yellow Medicine County 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, 2008, are \$19,516,143.

The Lincoln-Pipestone Rural Water System's 2008 financial report shows total net assets of \$38,060,524, including unrestricted net assets of \$17,709,824. The decrease in net assets for the year ended December 31, 2008, is \$18,549. 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

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.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

---

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Region 6W Community Corrections (Continued)

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

Yellow Medicine County's contribution of \$141,806 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 the Region 6W Community Corrections and the directors of the family services or human services departments of the counties participating in the agreement. The PLYP is located at the Willmar Regional Treatment Center in space rented from the State of Minnesota.

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

---

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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, and Murray Human Services Board, creating and operating the Southwestern Minnesota Adult Mental Health Consortium Board under the authority of Minn. Stat. § 471.59. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host. The Board shall take actions and enter into such agreements as may be necessary to plan and develop within the Board's geographic jurisdiction, a system of care that will serve the needs of adults with serious and persistent mental illness. The governing board is composed of one Commissioner from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

The following is a summary of the Consortium Board's annual financial report for the year ended December 31, 2007 (the latest information available):

Total assets	\$ 1,683,591
Total liabilities	323,335
Total net assets	1,360,256
Total revenues	3,359,694
Total expenditures	2,947,615
Change in net assets	412,079

The Consortium Board reported no long-term obligations at December 31, 2007.

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

Supporting Hands Nurse Family Partnership

The Supporting Hands Nurse Family Partnership was established in July 2007 by a joint powers agreement among Big Stone County and eleven other counties under the authority of Minn. Stat. §§ 471.59 and 145A.17. Yellow Medicine County

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

---

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Supporting Hands Nurse Family Partnership (Continued)

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 2008, Yellow Medicine County did not make a contribution to the Partnership as a contribution was made by Countryside Public Health.

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

Southwest Minnesota Regional Radio Board

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

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

During 2008, Yellow Medicine County did not contribute to the Joint Powers Board.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

---

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

D. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

The Area II Minnesota River Basin Project provides programs for flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County paid \$15,058 of the County levy to the Project.

Minnesota River Board

The Minnesota River Board promotes orderly water quality improvements and management of the Minnesota River watersheds. The County made \$1,163 in contributions to the Board in 2008.

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 no contributions to the RCRCA in 2008.

Lac qui Parle-Yellow Bank Watershed District

The County Board is responsible for appointing one of the Board of Managers for the District, but the County's responsibility does not extend beyond making the appointments.

Yellow Medicine River Watershed District

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

---

5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Pioneer Land Regional Library System

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

E. Agricultural Best Management Loan Program

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

6. Subsequent Events

A. Debt Issued

On March 10, 2009, Yellow Medicine County passed a resolution authorizing the issuance and sale of General Obligation Capital Equipment Notes, Series 2009, in the amount of \$695,000, with interest rates of 1.75 percent to 2.25 percent, to finance the acquisition of various items of capital equipment.

B. County Program Aid

Yellow Medicine County has been notified of County Program Aid unallotments of \$97,679 for 2009, and \$198,319 for 2010.

This page was left blank intentionally.

**REQUIRED SUPPLEMENTARY INFORMATION**

This page was left blank intentionally.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**Schedule 1**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Taxes	\$ 2,638,537	\$ 2,638,537	\$ 2,722,600	\$ 84,063
Special assessments	112,916	112,916	126,842	13,926
Licenses and permits	27,450	27,450	33,960	6,510
Intergovernmental	1,372,793	1,476,297	1,368,606	(107,691)
Charges for services	510,000	511,410	681,582	170,172
Fines and forfeits	2,500	2,500	38,423	35,923
Gifts and contributions	5,000	6,179	10,360	4,181
Investment earnings	345,530	345,530	290,270	(55,260)
Miscellaneous	276,662	276,662	341,456	64,794
<b>Total Revenues</b>	<b>\$ 5,291,388</b>	<b>\$ 5,397,481</b>	<b>\$ 5,614,099</b>	<b>\$ 216,618</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 196,216	\$ 197,216	\$ 193,089	\$ 4,127
Public defender	7,000	20,000	24,101	(4,101)
Administration	103,890	104,537	103,528	1,009
Auditor-treasurer	297,450	310,461	303,641	6,820
Assessor	143,607	156,193	147,757	8,436
Accounting and auditing	38,800	38,800	48,974	(10,174)
Data processing	100,850	122,151	93,776	28,375
Elections	28,900	28,900	21,342	7,558
Central services	30,700	34,700	39,050	(4,350)
Risk management	98,600	107,900	98,235	9,665
Information technology	-	29,515	28,251	1,264
Attorney	288,019	303,150	299,657	3,493
Recorder	290,294	339,807	314,088	25,719
Planning and zoning	93,965	94,536	86,454	8,082
Buildings	327,977	549,077	445,426	103,651
Telecommunications	-	-	2,915	(2,915)
Veterans service officer	78,521	78,532	73,000	5,532
Other general government	9,500	9,500	6,974	2,526
<b>Total general government</b>	<b>\$ 2,134,289</b>	<b>\$ 2,524,975</b>	<b>\$ 2,330,258</b>	<b>\$ 194,717</b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**Schedule 1**  
**(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 812,445	\$ 864,083	\$ 862,828	\$ 1,255
Boat and water safety	1,050	19,954	22,503	(2,549)
Snowmobile safety	1,350	1,350	-	1,350
Coroner	16,700	16,700	7,043	9,657
E-911 system	91,000	91,000	78,512	12,488
Jail	1,136,827	1,148,405	1,097,934	50,471
Jail canteen fund	45,000	45,000	42,831	2,169
Restorative justice	70,607	82,361	70,361	12,000
Civil defense	73,727	104,117	101,109	3,008
<b>Total public safety</b>	<b>\$ 2,248,706</b>	<b>\$ 2,372,970</b>	<b>\$ 2,283,121</b>	<b>\$ 89,849</b>
<b>Sanitation</b>				
Recycling	\$ 102,500	\$ 132,500	\$ 136,199	\$ (3,699)
Hazardous waste	4,000	4,000	3,362	638
<b>Total sanitation</b>	<b>\$ 106,500</b>	<b>\$ 136,500</b>	<b>\$ 139,561</b>	<b>\$ (3,061)</b>
<b>Health</b>				
Nursing service	\$ 4,500	\$ 4,500	\$ 1,000	\$ 3,500
<b>Culture and recreation</b>				
Historical society	\$ 21,375	\$ 22,175	\$ 21,645	\$ 530
Fairgrounds	21,100	21,100	21,100	-
Agricultural museum	26,400	26,400	26,605	(205)
Minnesota trails	-	54,600	54,600	-
Parks	76,110	76,982	50,883	26,099
County/regional library	71,928	71,928	71,928	-
Other	27,191	29,584	26,159	3,425
<b>Total culture and recreation</b>	<b>\$ 244,104</b>	<b>\$ 302,769</b>	<b>\$ 272,920</b>	<b>\$ 29,849</b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**Schedule 1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Conservation of natural resources</b>				
Extension	\$ 101,893	\$ 104,459	\$ 101,142	\$ 3,317
Soil and water conservation	106,269	106,269	116,269	(10,000)
Agricultural inspection	57,192	62,428	59,137	3,291
Water quality loan program	-	146,613	146,612	1
Water planning	22,809	32,317	30,234	2,083
Environmental officer	12,000	12,000	5,231	6,769
Other	17,881	17,881	17,357	524
<b>Total conservation of natural resources</b>	<b>\$ 318,044</b>	<b>\$ 481,967</b>	<b>\$ 475,982</b>	<b>\$ 5,985</b>
<b>Economic development</b>				
Community development	\$ 34,410	\$ 34,410	\$ 33,800	\$ 610
<b>Intergovernmental</b>				
Public safety	\$ 141,806	\$ 141,806	\$ 141,806	\$ -
Health	\$ 90,297	\$ 90,297	\$ 90,297	\$ -
<b>Debt service</b>				
Principal	\$ 32,694	\$ 32,694	\$ 37,486	\$ (4,792)
Interest	\$ 4,634	\$ 4,634	\$ 6,769	\$ (2,135)
<b>Total Expenditures</b>	<b>\$ 5,359,984</b>	<b>\$ 6,127,522</b>	<b>\$ 5,813,000</b>	<b>\$ 314,522</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (68,596)</b>	<b>\$ (730,041)</b>	<b>\$ (198,901)</b>	<b>\$ 531,140</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ -	\$ 105,000	\$ -	\$ (105,000)
Transfers out	-	(100,000)	-	100,000
Loans issued	-	146,613	146,612	(1)
Proceeds from sale of assets	-	-	1,426	1,426
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ 151,613</b>	<b>\$ 148,038</b>	<b>\$ (3,575)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (68,596)</b>	<b>\$ (578,428)</b>	<b>\$ (50,863)</b>	<b>\$ 527,565</b>
<b>Fund Balance - January 1</b>	<b>4,784,295</b>	<b>4,784,295</b>	<b>4,784,295</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,715,699</b>	<b>\$ 4,205,867</b>	<b>\$ 4,733,432</b>	<b>\$ 527,565</b>

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,770,878	\$ 1,770,878	\$ 1,788,849	\$ 17,971
Intergovernmental	2,507,300	2,794,366	3,224,562	430,196
Charges for services	18,000	18,000	37,642	19,642
Investment earnings	-	-	11,250	11,250
Miscellaneous	21,000	21,000	36,918	15,918
<b>Total Revenues</b>	<b>\$ 4,317,178</b>	<b>\$ 4,604,244</b>	<b>\$ 5,099,221</b>	<b>\$ 494,977</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 244,165	\$ 244,165	\$ 233,164	\$ 11,001
Maintenance	1,473,900	1,453,284	1,314,733	138,551
Construction	1,750,440	1,750,440	1,716,928	33,512
Equipment and maintenance shops	1,009,195	1,316,857	1,371,232	(54,375)
<b>Total highways and streets</b>	<b>\$ 4,477,700</b>	<b>\$ 4,764,746</b>	<b>\$ 4,636,057</b>	<b>\$ 128,689</b>
<b>Intergovernmental</b>				
Highways and streets	\$ -	\$ 287,066	\$ 287,066	\$ -
<b>Debt service</b>				
Principal	\$ -	\$ 7,914	\$ 7,990	\$ (76)
Interest	-	3,907	3,831	76
Administrative charges	-	1,645	1,645	-
<b>Total Expenditures</b>	<b>\$ 4,477,700</b>	<b>\$ 5,065,278</b>	<b>\$ 4,936,589</b>	<b>\$ 128,689</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (160,522)</b>	<b>\$ (461,034)</b>	<b>\$ 162,632</b>	<b>\$ 623,666</b>
<b>Other Financing Sources (Uses)</b>				
Capital leases	\$ -	\$ 110,000	\$ 110,000	\$ -
Proceeds from sale of capital assets	-	-	841	841
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ 110,000</b>	<b>\$ 110,841</b>	<b>\$ 841</b>
<b>Net Change in Fund Balance</b>	<b>\$ (160,522)</b>	<b>\$ (351,034)</b>	<b>\$ 273,473</b>	<b>\$ 624,507</b>
<b>Fund Balance - January 1</b>	<b>3,394,195</b>	<b>3,394,195</b>	<b>3,394,195</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>(12,741)</b>	<b>(12,741)</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,233,673</b>	<b>\$ 3,043,161</b>	<b>\$ 3,654,927</b>	<b>\$ 611,766</b>

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

Page 62

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,585,480	\$ 1,584,747	\$ 1,607,925	\$ 23,178
Intergovernmental	1,922,200	1,922,933	2,073,626	150,693
Charges for services	148,000	148,000	156,298	8,298
Gifts and contributions	-	-	1,550	1,550
Investment earnings	-	-	6,000	6,000
Miscellaneous	72,000	72,000	77,438	5,438
<b>Total Revenues</b>	<b>\$ 3,727,680</b>	<b>\$ 3,727,680</b>	<b>\$ 3,922,837</b>	<b>\$ 195,157</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 950,450	\$ 958,770	\$ 950,553	\$ 8,217
Social services	2,797,230	2,806,019	2,637,161	168,858
<b>Total Expenditures</b>	<b>\$ 3,747,680</b>	<b>\$ 3,764,789</b>	<b>\$ 3,587,714</b>	<b>\$ 177,075</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (20,000)</b>	<b>\$ (37,109)</b>	<b>\$ 335,123</b>	<b>\$ 372,232</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	(5,000)	-	5,000
<b>Net Change in Fund Balance</b>	<b>\$ (20,000)</b>	<b>\$ (42,109)</b>	<b>\$ 335,123</b>	<b>\$ 377,232</b>
<b>Fund Balance - January 1</b>	<b>2,750,911</b>	<b>2,750,911</b>	<b>2,750,911</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,730,911</b>	<b>\$ 2,708,802</b>	<b>\$ 3,086,034</b>	<b>\$ 377,232</b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*Schedule 4*

**BUDGETARY COMPARISON SCHEDULE  
DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Special assessments	\$ 52,500	\$ 52,500	\$ 52,869	\$ 369
Intergovernmental	196	196	196	-
Investment earnings	18,000	18,000	13,572	(4,428)
Miscellaneous	-	-	10,622	10,622
<b>Total Revenues</b>	<b>\$ 70,696</b>	<b>\$ 70,696</b>	<b>\$ 77,259</b>	<b>\$ 6,563</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Other	179,423	179,423	150,953	28,470
<b>Net Change in Fund Balance</b>	<b>\$ (108,727)</b>	<b>\$ (108,727)</b>	<b>\$ (73,694)</b>	<b>\$ 35,033</b>
<b>Fund Balance - January 1</b>	<b>476,352</b>	<b>476,352</b>	<b>476,352</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 367,625</b>	<b>\$ 367,625</b>	<b>\$ 402,658</b>	<b>\$ 35,033</b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**Schedule 5**

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2008**

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

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

Multi-year trend information is not available at this time, as Governmental Accounting Standards Board Statement 45 was implemented in 2008.

This page was left blank intentionally.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2008

---

---

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund, the special revenue funds, and the Jail Bond 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	\$ 5,359,984	\$ 767,538	\$ 6,127,522
Road and Bridge Special Revenue Fund	4,477,700	587,578	5,065,278

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

4. Excess of Expenditures Over Budget

At December 31, 2008, there were no expenditures in excess of budget in the governmental funds.

This page was left blank intentionally.

**SUPPLEMENTARY INFORMATION**

This page was left blank intentionally.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*Schedule 6*

**BUDGETARY COMPARISON SCHEDULE  
JAIL BOND DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 256,529	\$ 256,529	\$ 260,720	\$ 4,191
Intergovernmental	25,371	25,371	25,754	383
Investment earnings	100,000	100,000	101,110	1,110
<b>Total Revenues</b>	<b>\$ 381,900</b>	<b>\$ 381,900</b>	<b>\$ 387,584</b>	<b>\$ 5,684</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Debt service</b>				
Principal	\$ 130,000	\$ 130,000	\$ 130,000	\$ -
Interest	234,726	234,726	234,725	1
Administrative (fiscal) charges	1,500	1,500	431	1,069
<b>Total Expenditures</b>	<b>\$ 366,226</b>	<b>\$ 366,226</b>	<b>\$ 365,156</b>	<b>\$ 1,070</b>
<b>Net Change in Fund Balance</b>	<b>\$ 15,674</b>	<b>\$ 15,674</b>	<b>\$ 22,428</b>	<b>\$ 6,754</b>
<b>Fund Balance - January 1</b>	<b>2,919,666</b>	<b>2,919,666</b>	<b>2,919,666</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,935,340</b>	<b>\$ 2,935,340</b>	<b>\$ 2,942,094</b>	<b>\$ 6,754</b>

This page was left blank intentionally.

**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.

This page was left blank intentionally.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*Statement 1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>STATE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 21,973	\$ 253,877	\$ 246,708	\$ 29,142
<b><u>Liabilities</u></b>				
Due to other governments	\$ 21,973	\$ 253,877	\$ 246,708	\$ 29,142
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 136,987	\$ 13,088,564	\$ 12,988,575	\$ 236,976
<b><u>Liabilities</u></b>				
Due to other governments	\$ 136,987	\$ 13,088,564	\$ 12,988,575	\$ 236,976
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 158,960	\$ 13,342,441	\$ 13,235,283	\$ 266,118
<b><u>Liabilities</u></b>				
Due to other governments	\$ 158,960	\$ 13,342,441	\$ 13,235,283	\$ 266,118

This page was left blank intentionally.

**OTHER SCHEDULE**

This page was left blank intentionally.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

Schedule 7

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**Shared Revenue**

**State**

Highway users tax	\$ 3,042,164
County program aid	604,600
PERA rate reimbursement	15,547
Disparity reduction aid	43,253
Police aid	53,068
Enhanced 911	83,708
Market value credit	573,629
Casino credit	21,779
	21,779

**Total Shared Revenue** **\$ 4,437,748**

**Reimbursement for Services**

Minnesota Department of Human Services **\$ 318,888**

**Payments**

**Local**

Payments in lieu of taxes	\$ 53,968
Local grants	92,770
	92,770

**Total Payments** **\$ 146,738**

**Grants**

**State**

Minnesota Department of Corrections	\$ 8,000
Human Services	754,632
Natural Resources	59,672
Public Safety	342
Veterans Affairs	3,435
Water and Soil Resources Board	77,450
Peace Officer Standards and Training Board	3,204
Pollution Control Agency	55,000
	55,000

**Total State** **\$ 961,735**

**Federal**

Department of Agriculture	\$ 82,278
Transportation	830
Health and Human Services	706,029
Homeland Security	38,498
	38,498

**Total Federal** **\$ 827,635**

**Total State and Federal Grants** **\$ 1,789,370**

**Total Intergovernmental Revenue** **\$ 6,692,744**

This page was left blank intentionally.



This page was left blank intentionally.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

Schedule 8

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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

- A. Our report expresses unqualified opinions on the basic financial statements of Yellow Medicine County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Yellow Medicine County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Yellow Medicine County were disclosed during the audit.
- D. A significant deficiency relating to the audit of the major federal award programs is reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133." The significant deficiency is not a material weakness.
- E. The Auditor's Report on Compliance for the major federal award programs for Yellow Medicine County expresses an unqualified opinion.
- F. A finding relative to a major federal award program for Yellow Medicine County was reported as required by Section 510(a) of OMB Circular A-133.
- G. The major programs are:
- |                                      |              |
|--------------------------------------|--------------|
| Child Support Enforcement Title IV-D | 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 ITEMS NOT RESOLVED

04-1 Segregation of Duties

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

Due to the limited number of personnel within some County offices, segregation of accounting duties 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 Yellow Medicine County's management be aware of the lack of segregation of duties within the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being followed by staff.

Client's Response:

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

06-1 Audit Adjustments

A control deficiency 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 misstatements of the financial statements on a timely basis. A control deficiency that typically is considered significant is the identification by the auditor of a material misstatement in the financial statements not initially identified by the entity's internal controls.

During our audit, we proposed material adjustments that resulted in significant changes to the County's financial statements. The adjustments resulted from errors made in recording transactions and with mapping of various account codes. The inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements would not be fairly presented.

We recommend that the County review internal controls currently in place, then design and implement procedures to improve internal control over financial reporting to detect misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

Client's Response:

*The County will work on account mapping and continue to train persons coding receipts and disbursements as well as more closely monitor the transactions during the year.*

ITEMS ARISING THIS YEAR

08-1 Adding New Vendors to the Accounting System

Yellow Medicine County does not have any procedures for reviewing new vendors added to the accounts payable system or determining if the new vendors added are legitimate vendors.

Periodically, a report called "Vendors Added List by Number" should be printed and reviewed by someone independent of the accounts payable system. That person should document the review by signing off on the report.

When invoices are submitted for vendors that have not previously done business with the County, some procedures should be required to verify whether the vendor is legitimate. Procedures could include looking up the vendor in the phone book or on the internet or requiring the company to send information about its business. Periodically, the vendor listing should be reviewed for old, unused vendors, and those vendors should be removed from the system.

Client's Response:

*The County will develop the procedures to periodically review new vendors added to the accounts payable system, verify whether the vendor is legitimate, and purge unused vendors.*

08-2 Information System Risk Management

County management is responsible for internal controls related to its information system. This responsibility extends to monitoring ongoing activities provided by service organizations. Yellow Medicine County contracts with Computer Professionals Unlimited, Inc. (CPUI), a service organization, to provide:

- computer hardware for hosting the County's applications;
- processing of accounting transactions and other data;
- daily, weekly, and full system backups of applications and processed data; and
- disaster recovery planning for continued operations.

The County has not developed a formal plan to identify and manage risks associated with this information system arrangement. The County could partially manage these risks if CPUI obtained an audit of its control objectives and control activities in accordance with Statement on Auditing Standards (SAS) No. 70, *Service Organizations, As Amended*. At the present time, a SAS 70 Service Auditor's Report for CPUI was not available.

During our site visit to CPUI, we noted that computers were not located in a restricted area away from public view. The computers are in an unlocked cage. Daily backup tapes for information processed Monday through Thursday are kept onsite in a locked metal cabinet; however, the cabinet is not designed to protect the tapes from the heat that would be generated in the event of a fire. One fire extinguisher was observed in the office. Weekly and full system backup information is kept at an offsite location.

We recommend that Yellow Medicine County management establish a formal plan to meet its responsibilities for monitoring internal controls related to its information system. This should include documented consideration of services provided by CPUI. To specifically address hardware and backup physical control weaknesses associated with CPUI, we recommend County management work with CPUI to manage and minimize those risks. Also, the County should request that CPUI obtain a SAS 70 audit.

**Client's Response:**

*The County will recommend that Mid-State Computer Cooperative, the group of Minnesota counties that works with CPUI, develop a formal plan for monitoring internal controls related informational systems. We will also suggest that CPUI obtain a SAS 70 audit.*

**PREVIOUSLY REPORTED ITEMS RESOLVED**

**Computer Risk Management (06-2)**

Proper controls should be maintained over the computer systems to allow for proper financial reporting. The County needed to take steps to improve the control over its computer systems by requiring strong passwords and testing its disaster recovery plan.

**Resolution**

The County made progress in strengthening controls over the computer systems.

**Capital Assets Policies and Procedures (06-3)**

The County's capitalization policy did not address redetermination of the useful lives of the capital assets, nor when redetermination of the capital assets will take place. Also, it was not clear how the costs of replaced infrastructure assets are being deleted, if at all. A physical inventory of capital assets was not periodically performed.

**Resolution**

The capital assets policy was re-evaluated by the County and updated in an accounting policies and procedures manual that defines the County's accounting policies over capital assets, such as capitalization thresholds, useful lives, and depreciation methods.

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

INTERNAL CONTROL

ITEM ARISING THIS YEAR

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

The instructions for the quarterly Income Maintenance Administrative Expense Report, DHS-2550, and the quarterly Social Services Fund Report, DHS-2556, require that a hard copy of the final report be kept on file signed by the Director. At the time of the audit, it was not the practice of the Human Services Director to print and sign the reports. The County is not in compliance with Minnesota Department of Human Services' reporting requirements and is at risk for possible undetected errors in reporting due to lack of inspection and approval.

We recommend that the Director review and sign all quarterly reports to comply with the Department of Human Services' instructions and to ensure accurate reporting.

Corrective Action Plan:

Contact Person Responsible for Corrective Action:

*Peg Heglund, Family Services Director*

Action Planned:

*The Fiscal Supervisor will continue to submit, by electronic mail, the quarterly Income Maintenance Administrative Expense Report, DHS-2550, and the quarterly Social Services Fund Report, DHS-2556.*

*The Fiscal Supervisor will print the quarterly DHS-2550 and DHS-2556, and the Director will review and sign the report. The hard copy of the report will be kept on file.*

Completion Date:

*The quarterly reports will be reviewed and signed by the Director effective with the March 31, 2009, quarterly reports.*



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

## **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, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 8, 2009. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 04-1, 06-1, 08-1, and 08-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Yellow Medicine County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

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

#### Minnesota Legal Compliance

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

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

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

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

This report is intended solely for the information and use of the Board of County Commissioners, management, others within 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*

*/s/Greg Hierlinger*

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

October 8, 2009

This page was left blank intentionally.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

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

Board of County Commissioners  
Yellow Medicine County

### Compliance

We have audited the compliance of Yellow Medicine County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. Yellow Medicine County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Yellow Medicine County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

### Internal Control Over Compliance

The 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, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the County's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 08-3 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Yellow Medicine County's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Yellow Medicine County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 8, 2009. Our audit was performed for the purpose of forming opinions on the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

October 8, 2009

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

This page was left blank intentionally.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*Schedule 9*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	<u>\$ 82,278</u>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation State and Community Highway Safety	20.600	<u>\$ 830</u>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Human Services Temporary Assistance for Needy Families (TANF)	93.558	\$ 59,035
Child Support Enforcement Title IV-D	93.563	192,020
Refugee and Entrant Assistance	93.566	203
Child Care Cluster		
Child Care and Development Block Grant	93.575	41,194
Child Care Mandatory Matching Funds	93.596	16,893
Child Welfare Services	93.645	7,159
Foster Care - Title IV-E	93.658	26,140
Social Services Block Grant Title XX	93.667	90,474
Chafee Foster Care Independence Program	93.674	425
Children's Health Insurance Program	93.767	226
Medical Assistance Program	93.778	285,204
Block Grants for Community Mental Health Services	93.958	10,427
<b>Total U.S. Department of Health and Human Services</b>		<u>\$ 729,400</u>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety Boating Safety Financial Assistance	97.012	\$ 18,900
Emergency Management Performance Grant	97.042	15,475
Passed Through United Way Emergency Food and Shelter National Board Program	97.024	4,123
<b>Total U.S. Department of Homeland Security</b>		<u>\$ 38,498</u>
<b>Total Federal Awards</b>		<u>\$ 851,006</u>

This page was left blank intentionally.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

---

---

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 accounting records for grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual--when both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Yellow Medicine County considers all revenues to be available if they are collected within 60 days of the current period. Expenditures are recorded when the liability is incurred.

The information in the schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

3. Reconciliation to Schedule of Intergovernmental Revenues

Federal grant revenue per Schedule of Intergovernmental Revenues	\$ 827,635
Medical Assistance Program grant monies expended in 2008 but not received in January or February 2009 and therefore considered deferred revenue (CFDA #93.778)	<u>23,371</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 851,006</u>

4. Passed Through to Subrecipients

During 2008, the County did not pass any federal money to subrecipients.

5. Pass-Through Grant Numbers

Pass-through grant numbers were not assigned by the pass-through agencies.