

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Year Ended December 31, 2004



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

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

ORGANIZATION
2004

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1st District	Jane Remiger ¹	January 2007
2nd District	Lynn Anderson ²	January 2007
3rd District	Gary Lee Johnson	January 2005
4th District	Ronald Antony	January 2007
5th District	Louis Sherlin	January 2005
Officers		
Elected		
Attorney	Thomas Kramer	January 2007
Auditor/Treasurer	Carolyn Sherlin	January 2007
District Judge	Bruce Christopherson	January 2007
County Recorder	Kay Zempel	January 2007
Sheriff	Richard T. Rollins	January 2007
Appointed		
Administrator	John Chattin	Indefinite
Assessor	Connie Erickson	Indefinite
Coroner	Kenneth Carter, M.D.	Indefinite
Highway Engineer	Andrew Sander	Indefinite
Planning and Zoning	Randy Jacobson	Indefinite
Veterans Service Officer	Michelle Gatz	Indefinite
Welfare		
Board		
Chair	Ronald Antony	January 2005
Secretary	Catherine Thomas	July 2007
Member	Louis Sherlin	January 2007
Member	Lynn Anderson	January 2007
Member	Jane Remiger	January 2007
Member	Gary Lee Johnson	January 2005
Director	Peggy Heglund	Indefinite
Lay Member	Leona Smith	July 2006

¹Chair 2004

²Chair 2005

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PATRICIA ANDERSON
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Yellow Medicine County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Yellow Medicine County as of and for the year ended December 31, 2004, 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 basic 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, 2004, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the Budgetary Comparison Schedules 1 through 4 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 conducted for the purpose of forming opinions on the basic financial statements of Yellow Medicine County. Schedules 5 and 6 and Statement 1 listed as supplementary information 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. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented 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 6, 2005, 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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 6, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Management's Discussion and Analysis
December 31, 2004
(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, 2004. 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 \$54,411,589, of which \$42,508,201 is invested in capital assets, net of related debt, and \$3,232,799 is restricted to specific purposes. The \$8,670,589 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

The County's net assets increased by \$2,332,101 for the year ended December 31, 2004. A large part of the increase is attributable to the County's investing in capital assets net of accumulated depreciation without increasing long-term debt.

The net cost of governmental activities for the current fiscal year was \$4,778,947. The net cost was funded by general revenues and other items totaling \$7,111,048.

The fund balances of the governmental funds increased by \$684,692. Most of the increase was due to less than anticipated costs in several departments, higher than anticipated jail fees received from other counties for boarding prisoners, and insurance dividends for expenditures of prior years.

For the year ended December 31, 2004, the unreserved fund balance of the General Fund was \$2,960,517, or 64.5 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 \$54,411,589 at the close of 2004. The largest portion of the net assets (78.1 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.

Yellow Medicine County Net Assets (in thousands)

	Governmental Activities	
	2004	2003
Assets		
Current and other assets	\$ 13,302	\$ 12,145
Capital assets	45,668	44,466
Total Assets	<u>\$ 58,970</u>	<u>\$ 56,611</u>
Liabilities		
Long-term liabilities	\$ 3,850	\$ 3,900
Other liabilities	708	632
Total Liabilities	<u>\$ 4,558</u>	<u>\$ 4,532</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 42,508	\$ 41,246
Restricted	3,233	2,690
Unrestricted	8,671	8,143
Total Net Assets	<u><u>\$ 54,412</u></u>	<u><u>\$ 52,079</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 15.9 percent of the net assets.

Governmental Activities

The County's governmental activities increased net assets by 4.5 percent (\$54,411,589 for 2004 compared to \$52,079,488 for 2003). Key elements in this increase in net assets are as follows:

Yellow Medicine County Changes in Net Assets (in thousands)

	Governmental Activities	
	2004	2003
Revenues		
Program revenues		
Charges for services	\$ 960	\$ 755
Operating grants and contributions	3,897	3,879
Capital grants and contributions	1,842	1,895
General revenue		
Property taxes	5,269	5,013
Other	1,842	1,926
Total Revenues	\$ 13,810	\$ 13,468
Expenses		
General government	\$ 1,934	\$ 1,599
Public safety	1,877	1,826
Highways and streets	3,422	2,672
Sanitation	83	99
Human services	3,209	3,414
Health	92	102
Culture and recreation	161	185
Conservation of natural resources	530	501
Economic development	4	19
Interest	165	172
Total Expenses	\$ 11,477	\$ 10,589
Excess of Revenues Over (Under) Expenses	\$ 2,333	\$ 2,879
Extraordinary Items	-	89
Increase in Net Assets	\$ 2,333	\$ 2,968
Net Assets - January 1	52,079	49,111
Net Assets - December 31	\$ 54,412	\$ 52,079

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 \$9,860,285, an increase of \$655,316 in comparison with the prior year. Of the combined ending fund balances, \$8,547,520 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 \$2,960,517. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund unreserved fund balance represents 64.5 percent of total General Fund expenditures. During 2004, the ending fund balance increased by \$309,997. The primary reason for this increase was due to less than anticipated costs in several departments, higher than anticipated jail fees received from other counties for boarding prisoners, and insurance dividends for expenses of prior years.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$2,983,242 at fiscal year-end, representing 65.4 percent of its annual expenditures. The ending fund balance increased \$65,649 during 2004, primarily due to a mild winter with less overtime for snow removal.

The Human Services Special Revenue Fund had an unreserved fund balance of \$1,929,434 at fiscal year-end, representing 60.3 percent of its annual expenditures. The ending fund balance increased \$196,429 during 2004, primarily due to more reimbursements for social workers' time, more recoveries of medical assistance, a reduction of administrative costs, and the amounts due for the reimbursement of attorney services for the third and fourth quarter of 2004 (\$33,842) that were not received in time to be included with the 2004 expenditures.

The Ditch Special Revenue Fund had an unreserved fund balance of \$674,327 at fiscal year-end. The ending fund balance increased \$17,282 during 2004, primarily due to the 114 ditches needing less maintenance than was anticipated.

The Jail Bond Debt Service Fund had a reserved fund balance of \$265,839 at fiscal year-end, representing 122.1 percent of its annual expenditures. The ending fund balance increased \$65,959 during 2004, primarily due to the bond covenant's requirement to levy 105 percent of the amount needed to make the subsequent years' principal and interest payments.

Governmental Activities

The County's total revenues were \$13,810,396. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2004.

Table 1
Total County Revenues

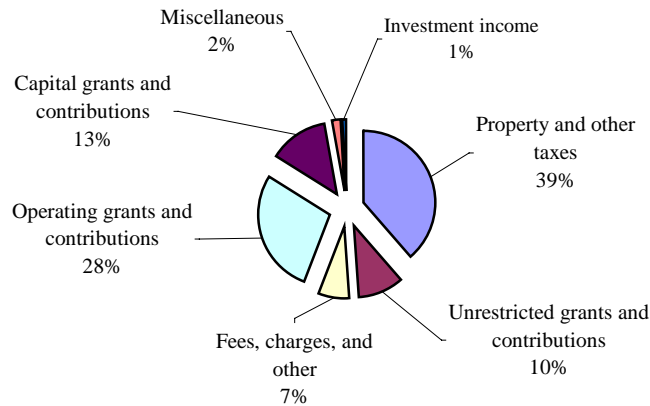
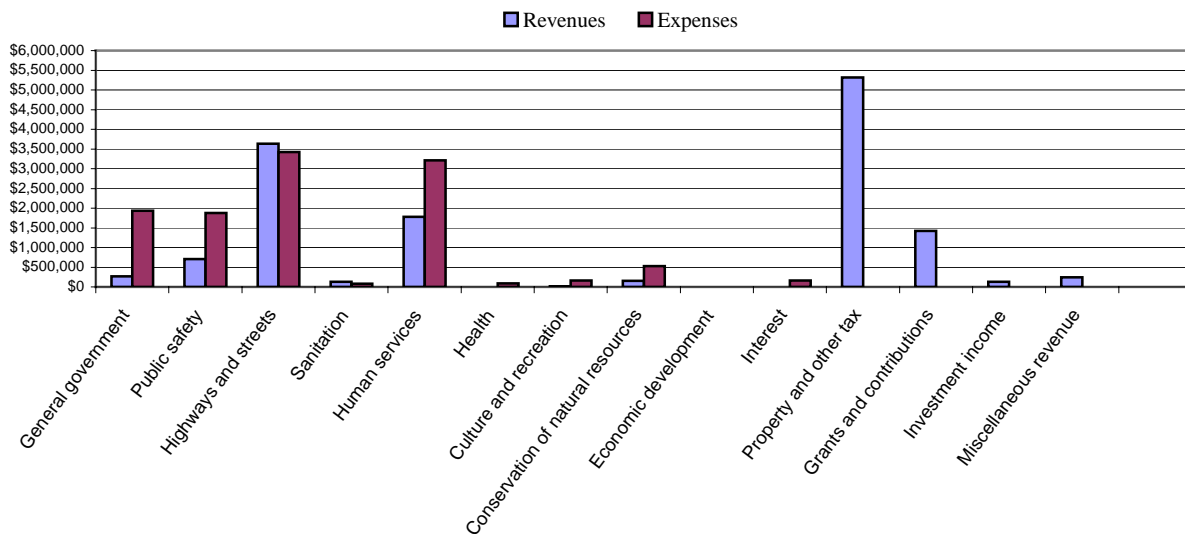


Table 2 presents the cost and revenue of each program as well as the County's general revenues.

Total revenues for the County were \$13,810,396, while total expenses were \$11,478,295. This reflects a \$2,332,101 increase in net assets for the year ended December 31, 2004.

Table 2
Expenses and Program Revenues 2004



The cost of all governmental activities this year was \$11,478,295. 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 \$5,268,752 because some of the cost was paid by those who directly benefited from the programs (\$960,250) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,739,098). The County paid for the remaining “public benefit” portion of governmental activities with \$7,111,048 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	
	2004	2003	2004	2003
Highways and streets	\$ 3,423	\$ 2,672	\$ (213)	\$ (927)
Human services	3,209	3,414	1,430	1,638
General government	1,934	1,599	1,663	1,256
Public safety	1,877	1,826	1,167	1,403
All others	1,035	1,078	732	690
Totals	<u>\$ 11,478</u>	<u>\$ 10,589</u>	<u>\$ 4,779</u>	<u>\$ 4,060</u>

General Fund Budgetary Highlights

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

With these adjustments, the actual charges to appropriations (expenditures) were \$380,860 below the final budget amounts. The most significant positive variance (\$103,794) occurred in the County’s Planning and Zoning Department, where not enough residents in the County applied for the grant funds available for low-interest sewer loans, resulting in a 2.1 percent reduction in expected expenditures. Reasons for other significant variances of actual expenditures to final budget include a lower than anticipated cost to operate the County buildings; the E911 System Department requested additional funds for capital outlay rather than reallocating unused appropriations earmarked for lease payments no longer needed; the Civil Defense Department spent less on costs qualifying for grant funds available which may result in revenues being deferred until 2005 or in the loss of grant funds available; and several other departments spent less than anticipated.

On the other hand, resources available for appropriation were \$368,248 above the final budgeted amount. The most significant positive variance (\$315,185) occurred in charges for services. The majority of this increase came from the collection of fees from other counties for boarding their prisoners in our jail. This increase, along with an insurance dividend, more than offset reductions in grant proceeds anticipated because the grants were not finalized until 2005, and lower than anticipated tax collections.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2004, totaled \$45,668,201 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$1,201,503 or 2.7 percent from the previous year. The major capital asset events were:

- \$1,884,863 Construction of highways and streets
- \$174,968 Purchase of a government agricultural building
- \$188,317 Purchase of highway equipment

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

	2004	2003
Land	\$ 665	\$ 663
Infrastructure	38,938	37,944
Buildings	4,557	4,522
Improvements other than buildings	358	370
Machinery and equipment	1,014	967
Construction in progress	136	-
Total	<u>\$ 45,668</u>	<u>\$ 44,466</u>

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

Long-Term Debt

At the end of the current fiscal year, the County had total outstanding debt of \$3,252,079, which was backed by the full faith and credit of the government.

Outstanding Debt
(in thousands)

	2004	2003
General Obligation Bonds	\$ 3,160	\$ 3,265
Capital Leases	92	133
Total	<u>\$ 3,252</u>	<u>\$ 3,398</u>

The County's debt related to general obligation bonds decreased by \$105,000 (3.2 percent) during the fiscal year.

Minnesota statutes limit the amount of debt a county may levy to two percent of its total market value. At the end of 2004, 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 2005 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Yellow Medicine County at the end of 2004 was 5.0 percent. This compares unfavorably with the state unemployment rate of 4.9 percent but shows a decrease from the County's 6.6 percent rate of one year ago. This could impact the level of services requested by County residents.
- Mortgage interest rates have been low, causing many to refinance their mortgages and/or finance new construction. New construction adds to the County's base for spreading future taxes.
- The County General Fund expenditures for 2005 are budgeted to increase 1.8 percent (\$78,291) over the 2004 original budget. The 2005 anticipated revenues, other than tax levy, state aid, and special assessments, are budgeted to increase 17.1 percent (\$158,519) over the 2004 original budget.
- The 2005 property tax levy for the County increased 0.9 percent (\$57,257) from 2004; but due to state aid increases (\$57,257), the net tax levy (the amount spread to tax payers) remained the same as 2004.
- A Racino could have an adverse effect on the County's economy as the local casino is a major employer and attraction to the County.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Yellow Medicine County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County's Auditor/Treasurer, Carolyn Sherlin, Yellow Medicine County Courthouse, 415 Ninth Avenue, Granite Falls, Minnesota 56241.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Assets

Cash and pooled investments	\$	604,756
Investments		9,266,440
Receivables - net		3,198,235
Inventories		125,800
Prepaid items		106,069
Capital assets		
Non-depreciable capital assets		800,895
Depreciable capital assets - net of accumulated depreciation		44,867,306
Total Assets	\$	58,969,501

Liabilities

Accounts payable and other current liabilities	\$	581,373
Accrued interest payable		64,997
Unearned revenue		61,461
Long-term liabilities		
Due within one year		176,624
Due in more than one year		3,673,457
Total Liabilities	\$	4,557,912

Net Assets

Invested in capital assets - net of related debt	\$	42,508,201
Restricted for		
Highways and streets		2,896,446
Public safety		69,541
Debt service		265,839
Other purposes		973
Unrestricted		8,670,589
Total Net Assets	\$	54,411,589

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

		Program Revenues			Net (Expense)
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
<u>Functions/Programs</u>					
Governmental activities					
General government	\$ 1,934,033	\$ 123,837	\$ 147,046	\$ -	\$ (1,663,150)
Public safety	1,876,808	484,394	219,506	6,000	(1,166,908)
Highways and streets	3,423,125	61,904	1,738,649	1,835,639	213,067
Sanitation	83,468	19,648	109,550	-	45,730
Human services	3,208,860	171,695	1,607,155	-	(1,430,010)
Health	91,697	1,150	-	-	(90,547)
Culture and recreation	161,505	303	19,728	-	(141,474)
Conservation of natural resources	530,029	97,319	55,825	-	(376,885)
Economic development	3,950	-	-	-	(3,950)
Interest	164,820	-	-	-	(164,820)
Total governmental activities	<u>\$ 11,478,295</u>	<u>\$ 960,250</u>	<u>\$ 3,897,459</u>	<u>\$ 1,841,639</u>	<u>\$ (4,778,947)</u>
General revenues					
Property taxes					\$ 5,268,752
Mortgage registry and deed tax					5,212
Payments in lieu of tax					40,260
Grants and contributions not restricted to specific programs					1,418,767
Unrestricted investment earnings					130,893
Miscellaneous					247,164
Total general revenues					<u>\$ 7,111,048</u>
Change in net assets					<u>\$ 2,332,101</u>
Net Assets - Beginning					<u>52,079,488</u>
Net Assets - Ending					<u>\$ 54,411,589</u>

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Jail Bond Debt Service</u>	<u>Total Governmental Funds</u>
<u>Assets</u>						
Cash and pooled investments	\$ 233,063	\$ 69,309	\$ 132,604	\$ 8,471	\$ 184	\$ 443,631
Undistributed cash in agency funds	65,526	28,871	32,577	4,896	5,855	137,725
Petty cash and change funds	1,850	50	-	-	-	1,900
Departmental cash	21,500	-	-	-	-	21,500
Investments	2,762,182	3,692,400	1,850,000	701,900	259,958	9,266,440
Taxes receivable						
Prior	78,365	41,188	43,456	-	7,335	170,344
Special assessments receivable						
Prior	3,645	-	-	-	-	3,645
Noncurrent	-	-	-	46,657	-	46,657
Accounts receivable	7,067	2,504	5,737	-	-	15,308
Accrued interest receivable	7,600	-	14	1,218	-	8,832
Loans receivable	203,111	-	-	-	-	203,111
Due from other funds	7,613	16	-	463	-	8,092
Due from other governments	139,074	2,447,354	155,524	8,386	-	2,750,338
Inventories	-	125,800	-	-	-	125,800
Prepaid items	51,169	19,800	35,100	-	-	106,069
Total Assets	<u>\$ 3,581,765</u>	<u>\$ 6,427,292</u>	<u>\$ 2,255,012</u>	<u>\$ 771,991</u>	<u>\$ 273,332</u>	<u>\$ 13,309,392</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Jail Bond Debt Service</u>	<u>Total Governmental Funds</u>
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 43,193	\$ 25,072	\$ 135,170	\$ 1,136	\$ 158	\$ 204,729
Salaries payable	84,485	42,320	54,966	1,914	-	183,685
Contracts payable	-	78,637	-	-	-	78,637
Due to other funds	125	1,200	6,767	-	-	8,092
Due to other governments	252,424	13,438	25,986	47,957	-	339,805
Deferred revenue - unavailable	82,010	2,393,240	43,456	46,657	7,335	2,572,698
Deferred revenue - unearned	37,328	-	24,133	-	-	61,461
Total Liabilities	\$ 499,565	\$ 2,553,907	\$ 290,478	\$ 97,664	\$ 7,493	\$ 3,449,107
Fund Balances						
Reserved for						
Debt service	\$ -	\$ -	\$ -	\$ -	\$ 265,839	\$ 265,839
Encumbrances	-	126,102	-	-	-	126,102
Inventories	-	125,800	-	-	-	125,800
Prepaid items	51,169	19,800	35,100	-	-	106,069
Recorder's equipment purchases	973	-	-	-	-	973
Enhanced 911	64,541	-	-	-	-	64,541
Sheriff's contingency	5,000	-	-	-	-	5,000
Highway allotments	-	618,441	-	-	-	618,441
Unreserved						
Designated for future expenditures	62,827	730,000	-	-	-	792,827
Designated for cash flows	2,300,000	1,400,000	1,600,000	-	-	5,300,000
Designated for compensated absences	132,485	108,984	117,991	8,844	-	368,304
Undesignated	465,205	744,258	211,443	665,483	-	2,086,389
Total Fund Balances	\$ 3,082,200	\$ 3,873,385	\$ 1,964,534	\$ 674,327	\$ 265,839	\$ 9,860,285
Total Liabilities and Fund Balances	\$ 3,581,765	\$ 6,427,292	\$ 2,255,012	\$ 771,991	\$ 273,332	\$ 13,309,392

**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, 2004**

Fund Balances - Total Governmental Funds (Exhibit 3)	\$	9,860,285
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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.		45,668,201
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,572,698
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.

General obligation bonds	\$	(3,160,000)	
Capital leases		(92,079)	
Compensated absences		(372,519)	
Accrued interest payable		(64,997)	
		(3,689,595)	(3,689,595)

Net Assets of Governmental Activities (Exhibit 1)	\$	<u>54,411,589</u>
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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General	Road and Bridge	Human Services	Ditch	Jail Bond Debt Service	Total Governmental Funds
Revenues						
Taxes	\$ 2,357,343	\$ 1,230,871	\$ 1,394,964	\$ -	\$ 251,521	\$ 5,234,699
Special assessments	59,227	-	-	225,230	-	284,457
Licenses and permits	25,686	-	-	-	-	25,686
Intergovernmental	1,532,010	3,282,850	1,796,680	196	30,776	6,642,512
Charges for services	535,475	10,152	33,999	-	-	579,626
Fines and forfeits	497	-	-	-	-	497
Gifts and contributions	37,078	6,240	10,920	-	-	54,238
Investment earnings	43,145	55,998	21,265	10,082	1,351	131,841
Miscellaneous	321,580	54,116	137,696	1,037	-	514,429
Total Revenues	\$ 4,912,041	\$ 4,640,227	\$ 3,395,524	\$ 236,545	\$ 283,648	\$ 13,467,985
Expenditures						
Current						
General government	\$ 1,980,424	\$ -	\$ -	\$ -	\$ -	\$ 1,980,424
Public safety	1,818,515	-	-	-	-	1,818,515
Highways and streets	-	4,257,448	-	-	-	4,257,448
Sanitation	82,817	-	-	-	-	82,817
Human services	-	-	3,199,095	-	-	3,199,095
Health	1,400	-	-	-	-	1,400
Culture and recreation	159,595	-	-	-	-	159,595
Conservation of natural resources	300,649	-	-	219,263	-	519,912
Economic development	3,950	-	-	-	-	3,950
Intergovernmental	146,307	300,768	-	-	-	447,075
Debt service						
Principal retirement	86,042	-	-	-	60,000	146,042
Interest	9,331	-	-	-	157,373	166,704
Administrative (fiscal) fees	-	-	-	-	316	316
Total Expenditures	\$ 4,589,030	\$ 4,558,216	\$ 3,199,095	\$ 219,263	\$ 217,689	\$ 12,783,293
Excess of Revenues Over (Under) Expenditures	\$ 323,011	\$ 82,011	\$ 196,429	\$ 17,282	\$ 65,959	\$ 684,692
Other Financing Sources (Uses)						
Transfers in	\$ -	\$ 13,014	\$ -	\$ -	\$ -	\$ 13,014
Transfers out	(13,014)	-	-	-	-	(13,014)
Total Other Financing Sources (Uses)	\$ (13,014)	\$ 13,014	\$ -	\$ -	\$ -	\$ -
Net Change in Fund Balances	\$ 309,997	\$ 95,025	\$ 196,429	\$ 17,282	\$ 65,959	\$ 684,692
Fund Balance - January 1	2,772,203	3,807,736	1,768,105	657,045	199,880	9,204,969
Increase (decrease) in reserved for inventories	-	(29,376)	-	-	-	(29,376)
Fund Balance - December 31	\$ 3,082,200	\$ 3,873,385	\$ 1,964,534	\$ 674,327	\$ 265,839	\$ 9,860,285

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Net Change in Fund Balances - Total Governmental Funds (Exhibit 5)	\$	684,692
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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 revenues between the fund statements and the statement of activities is the increase (decrease) in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 2,572,698	
Deferred revenue - January 1	<u>(2,207,057)</u>	365,641

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	\$ 2,526,052	
Current year depreciation	<u>(1,324,549)</u>	1,201,503

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 repayments		
General obligation bonds	\$ 105,000	
Capital leases	<u>41,042</u>	146,042

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	\$ 2,200	
Change in compensated absences	(38,601)	
Change in inventories	<u>(29,376)</u>	<u>(65,777)</u>

Change in Net Assets of Governmental Activities (Exhibit 2)	\$	<u>2,332,101</u>
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FIDUCIARY FUNDS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 7

**FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2004**

	<u>Cemetery Investment Trust</u>	<u>Agency</u>
<u>Assets</u>		
Cash and pooled investments	\$ 14	\$ 164,549
Investments	10,250	-
Total Assets	\$ 10,264	\$ 164,549
<u>Liabilities</u>		
Accounts payable	\$ 14	\$ -
Due to other governments	-	164,549
Total Liabilities	\$ 14	\$ 164,549
<u>Net Assets</u>		
Net assets, held in trust for pool participant	\$ 10,250	

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 8

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Cemetery Investment Trust</u>
<u>Additions</u>	
Investment earnings	\$ 122
<u>Deductions</u>	
Distributions to participant	<u>122</u>
Change in Net Assets	\$ -
Net Assets - January 1	<u>10,250</u>
Net Assets - December 31	<u><u>\$ 10,250</u></u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. 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 February 28, 1866, 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 which are described in Note 5.D. The County also participates in jointly-governed organizations which are described in Note 5.E.

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

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:

Investment Trust - to account for specific investments held by the County for Union (Don Castor) 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 to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be 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, then unrestricted resources as they are needed.

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

December 31, 2004, 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 2004 were \$16,502.

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**

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

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

Advances between funds, as reported in the fund financial statements, are offset by 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 on 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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

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 government 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 market 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 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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Compensated Absences (Continued)

who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Deferred Revenue

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

8. Long-Term Obligations

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

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

<u>Fund</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Road and Bridge	\$ 4,558,216	\$ 2,793,542	\$ 1,764,674
Ditch	219,263	155,494	63,769

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments are reported as follows:

Cash and pooled investments	\$ 604,756
Investments	9,266,440
Fiduciary funds	
Investment trust fund	10,264
Agency funds	164,549
Total Cash and Investments	<u>\$ 10,046,009</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions as directed by the County Board. At December 31, 2004, the carrying amount of the County's deposits totaled \$9,080,387. The bank balance deposit amount was \$9,288,232. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 953,446
Collateralized with securities held by the pledging financial institution's agent in the County's name	<u>8,334,786</u>
Total covered deposits	\$ 9,288,232
Uncollateralized	<u>-</u>
Total	<u><u>\$ 9,288,232</u></u>

Three levels of custodial credit risk for securities are defined by generally accepted accounting principles:

- (1) securities that are insured or registered, or for which the securities are held by the County or its agent in the County's name;
- (2) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the County's name; and
- (3) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the County's name.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Following is a summary of the fair values of the County's investments, categorized into the aforementioned levels of risk, at December 31, 2004:

	Category			Fair Value
	1	2	3	
Negotiable certificates of deposit with brokers	\$ 367,175	\$ -	\$ 324,745	\$ 691,920
Federal National Mortgage Association notes	79,759	-	70,543	150,302
Federal Home Loan Bank bonds	53,066	-	46,934	100,000
Total Investments	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 442,222</u>	\$ 942,222
Add				
Petty cash and change funds				1,900
Departmental cash				21,500
Checking				487,819
Money market savings				5,892,568
Certificates of deposit				<u>2,700,000</u>
Total Cash and Investments				<u>\$ 10,046,009</u>

2. Receivables

Receivables as of December 31, 2004, year-end 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	\$ 170,344	\$ -
Special assessments	50,302	-
Due from other governments	2,750,338	-
Accounts	15,308	-
Loans	203,111	180,132
Interest	8,832	-
Total Governmental Activities	<u>\$ 3,198,235</u>	<u>\$ 180,132</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 663,224	\$ 1,333	\$ -	\$ 664,557
Construction in progress	-	136,338	-	136,338
Total capital assets not depreciated	\$ 663,224	\$ 137,671	\$ -	\$ 800,895
Capital assets depreciated				
Buildings	\$ 5,469,490	\$ 182,844	\$ 5,000	\$ 5,647,334
Land improvements	391,410	-	-	391,410
Machinery and equipment	3,511,259	320,674	15,791	3,816,142
Infrastructure	47,994,161	1,884,863	-	49,879,024
Total capital assets depreciated	\$ 57,366,320	\$ 2,388,381	\$ 20,791	\$ 59,733,910
Less: accumulated depreciation for				
Buildings	\$ 946,701	\$ 148,742	\$ 5,000	\$ 1,090,443
Land improvements	21,320	11,378	-	32,698
Machinery and equipment	2,544,449	273,629	15,791	2,802,287
Infrastructure	10,050,376	890,800	-	10,941,176
Total accumulated depreciation	\$ 13,562,846	\$ 1,324,549	\$ 20,791	\$ 14,866,604
Total capital assets depreciated, net	\$ 43,803,474	\$ 1,063,832	\$ -	\$ 44,867,306
Capital Assets, Net	\$ 44,466,698	\$ 1,201,503	\$ -	\$ 45,668,201

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

Governmental Activities	
General government	\$ 176,437
Public safety	74,035
Highways and streets, including depreciation of infrastructure assets	1,061,634
Sanitation	651
Human services	7,941
Culture and recreation	1,910
Conservation of natural resources	1,941
Total Depreciation Expense - Governmental Activities	\$ 1,324,549

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2004, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Road and Bridge	\$ 1,200
	Human Services	6,413
Total Due to General Fund		<u>\$ 7,613</u>
Road and Bridge	General	<u>\$ 16</u>
Ditch	General	\$ 109
	Human Services	354
Total Due to Ditch Fund		<u>\$ 463</u>
Total Due to Other Funds		<u>\$ 8,092</u>

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2004, consisted of a \$13,014 transfer to the Road and Bridge Special Revenue Fund from the General Fund for a matured investment.

C. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

Accounts	\$ 204,729
Salaries	183,685
Contracts	78,637
Due to other government	<u>114,322</u>
Total Payables	<u>\$ 581,373</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Construction Commitments

The government has active construction projects as of December 31, 2004. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Roads and bridges	\$ 1,382,736	\$ 639,513
Grader Purchase	-	84,711
Truck Purchase	-	21,938
	<hr/>	<hr/>
Total Construction Commitments	<u>\$ 1,382,736</u>	<u>\$ 746,162</u>

3. Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of certain equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. These capital leases consist of the following at December 31, 2004:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
2001 Postage machine	2007	Monthly	\$ 239	\$ 12,202	\$ 6,429
1997 Johnson Controls	2007	Semi-annual	15,714	237,834	85,650
					<hr/>
Total Capital Leases					<u>\$ 92,079</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Capital Leases (Continued)

Capital leases are paid from the General Fund. The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2004, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2005	\$ 34,296
2006	34,296
2007	<u>33,101</u>
Total minimum lease payments	\$ 101,693
Less: amount representing interest	<u>(9,614)</u>
Present Value of Minimum Lease Payments	<u><u>\$ 92,079</u></u>

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.

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2004</u>
Clean water loans	2014	\$ 15,023	2.00	\$ 229,800	<u>\$ 225,483</u>

Loans payable are reported in the fund financial statements as due to other governments in the General Fund.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Bonded Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
General obligation bonds 1999 G. O. Jail and Courthouse Bonds	2022	\$55,000 - \$260,000	5.2054	<u>\$ 3,330,000</u>	<u>\$ 3,160,000</u>

Payments on the Jail and Courthouse Bonds are made by the Debt Service Fund.
Debt service requirements at December 31, 2004, were as follows:

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2005	\$ 115,000	\$ 153,347
2006	120,000	147,943
2007	125,000	142,307
2008	130,000	136,443
2009	135,000	130,348
2010 - 2014	790,000	544,801
2015 - 2019	1,005,000	322,010
2020 - 2022	<u>740,000</u>	<u>57,885</u>
Total	<u>\$ 3,160,000</u>	<u>\$ 1,635,084</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds					
Landfill closure bonds	\$ 45,000	\$ -	\$ 45,000	\$ -	\$ -
Jail and courthouse bonds	3,220,000	-	60,000	3,160,000	115,000
Total bonds payable	\$ 3,265,000	\$ -	\$ 105,000	\$ 3,160,000	\$ 115,000
Loans payable	167,790	67,893	10,200	225,483	20,707
Lease purchase	133,121	-	41,042	92,079	29,257
Compensated absences	333,918	38,601	-	372,519	11,660
Long-Term Liabilities	\$ 3,899,829	\$ 106,494	\$ 156,242	\$ 3,850,081	\$ 176,624

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description

All full-time and certain part-time employees of Yellow Medicine County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and 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 and have direct contact with inmates are covered by the Public Employees Correctional Fund.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description (Continued)

The 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 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 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 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. 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.

The 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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description (Continued)

That report may be obtained on the web at 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. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary. 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:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
Public Employees Police and Fire Fund	9.30
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2004, 2003, and 2002, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2004	\$ 154,312	\$ 33,798	\$ 32,496
2003	152,548	31,830	30,204
2002	162,441	30,980	16,863

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Funding Policy (Continued)

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

B. Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer deferred compensation plan for local government officials, except elected county sheriffs. The plan is established and administered in accordance with Minn. Stat. ch. 353D. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer.

No vesting period is required to receive benefits in the Defined Contribution Plan. At the time of retirement or termination, the market value of the member's account is distributed to the member or another qualified plan.

The County's contributions for the years ending December 31, 2004, 2003, and 2002, were \$1,887, \$1,802, and \$941, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Summary of Significant Contingency and Other Items

A. Subsequent Event

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 balance of the outstanding maturities to be refunded is \$2,535,000 and interest rates are 4.60 percent to 5.10 percent.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

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

B. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. 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 the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

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

C. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

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

D. 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 Water System's Board is solely responsible for the budgeting and financing of the Water System.

Bonds were issued by Lincoln 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, 2004, are \$20,374,465.

The System's 2004 financial report shows total net assets of \$37,728,801, including unrestricted of \$1,239,240. The increase in net assets for the year ended December 31, 2004 is \$2,037,687. 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, three from Yellow Medicine County and two from each of the other participating counties. Yellow Medicine County's contribution to the Countryside Public Health Service of \$90,297 is shown as an intergovernmental expenditure in the General Fund.

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingency and Other Items

D. Joint Ventures (Continued)

Community Corrections

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

The county boards of the participating counties have direct authority over and responsibility for community corrections activities.

Yellow Medicine County's contribution of \$56,010 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 Detention Center)

The County entered into a joint powers agreement to create and operate the Kandiyohi-Region 6W Community Corrections Agencies Detention Center (commonly referred to as the Prairie Lakes Detention Center) pursuant to Minn. Stat. § 471.59. The Detention Center provides detention services to juveniles under the jurisdiction of the counties that are parties to the agreement (Swift, Lac qui Parle, Yellow Medicine, and Chippewa--which are served by the Region 6W Community Corrections Agency) and Kandiyohi County.

Control of the Detention Center 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 Agency, and the directors of the family services or human services departments of the counties participating in the agreement. The Detention Center is located at the Willmar Regional Treatment Center in space rented from the State of Minnesota.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingency and Other Items

D. Joint Ventures

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

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

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the County entered into a joint powers agreement with Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Pipestone, Redwood, Renville, Rock, and Swift Counties; and Lincoln, Lyon, and Murray Counties represented by the Lincoln, Lyon, 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 board member from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

The following is a summary of the Board's annual financial report (the latest available) for the year ended December 31, 2003:

Total assets	\$ 220,978
Total liabilities	5,230
Total equity	215,748
Total revenues	889,414
Total expenditures	856,904
Net increase to fund balance	32,510

The Consortium Board reported no long-term obligations at December 31, 2003.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingency and Other Items

D. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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

E. 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

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 \$14,732 of the County levy to the Project.

Minnesota River Board

Minnesota River Board promotes orderly water quality improvements and management of the Minnesota River watersheds. The County made no contributions to the Board in 2004.

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 paid \$594 of the County levy to the RCRCA.

Lac qui Parle-Yellow Bank Watershed District

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingency and Other Items

E. Jointly-Governed Organizations (Continued)

Yellow Medicine River Watershed District

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

Western Plains Library System

Yellow Medicine County, along with several cities and other counties, participates in the Western Plains Library System in order to provide efficient and improved regional public library service. The financial activities of the Western Plains Library System are reported as part of the Pioneerland Regional Library System, and financial information for the Western Plains Library System is not available.

F. Agricultural Best Management Loan Program

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

REQUIRED SUPPLEMENTARY INFORMATION

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 2,022,002	\$ 2,367,330	\$ 2,357,343	\$ (9,987)
Special assessments	50,000	50,000	59,227	9,227
Licenses and permits	22,350	22,350	25,686	3,336
Intergovernmental	1,768,163	1,573,508	1,532,010	(41,498)
Charges for services	218,290	220,290	535,475	315,185
Fines and forfeits	-	-	497	497
Gifts and contributions	12,218	23,901	37,078	13,177
Investment earnings	40,550	40,550	43,145	2,595
Miscellaneous	215,720	245,864	321,580	75,716
Total Revenues	\$ 4,349,293	\$ 4,543,793	\$ 4,912,041	\$ 368,248
Expenditures				
Current				
General government				
Commissioners	\$ 171,199	\$ 171,199	\$ 169,582	\$ 1,617
County administration	59,344	59,394	58,626	768
County auditor/treasurer	270,639	273,720	262,563	11,157
County assessor	110,395	112,117	110,805	1,312
Elections	12,400	12,400	6,873	5,527
Risk management	72,300	82,800	83,040	(240)
Accounting and auditing	41,000	41,000	38,746	2,254
Data processing	62,200	74,840	72,614	2,226
Central services	35,682	35,682	26,319	9,363
Attorney	301,311	304,414	281,406	23,008
Recorder	183,546	206,717	193,101	13,616
Planning and zoning	244,970	254,648	150,854	103,794
Buildings and plant	274,741	506,692	470,494	36,198
Veterans service officer	69,275	72,846	53,791	19,055
Other general government	15,000	15,000	1,610	13,390
Total general government	\$ 1,924,002	\$ 2,223,469	\$ 1,980,424	\$ 243,045
Public safety				
Sheriff	\$ 651,474	\$ 668,339	\$ 647,953	\$ 20,386
Boat and water safety	5,500	5,500	5,501	(1)
Snowmobile safety	850	850	1,141	(291)
Coroner	8,600	8,600	8,444	156
E-911 system	20,100	35,494	14,447	21,047
County jail	901,024	915,768	905,486	10,282
Jail canteen fund	35,000	49,320	49,135	185
Civil defense	50,516	199,904	186,232	13,672
Weather radio	2,000	2,000	176	1,824
Total public safety	\$ 1,675,064	\$ 1,885,775	\$ 1,818,515	\$ 67,260

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Sanitation				
Recycling	\$ 105,000	\$ 105,000	\$ 81,086	\$ 23,914
Hazardous waste	4,000	4,000	1,731	2,269
Total sanitation	\$ 109,000	\$ 109,000	\$ 82,817	\$ 26,183
Health				
Nursing service	\$ 1,000	\$ 1,000	\$ 1,400	\$ (400)
Culture and recreation				
Historical society	\$ 20,900	\$ 20,900	\$ 19,796	\$ 1,104
Senior transport	1,000	1,000	889	111
Fairgrounds	14,500	14,500	14,500	-
Agricultural museum	24,300	24,300	24,319	(19)
Parks	16,966	17,028	18,499	(1,471)
County/Regional library	53,242	53,242	53,242	-
Other	10,100	23,100	28,350	(5,250)
Total culture and recreation	\$ 141,008	\$ 154,070	\$ 159,595	\$ (5,525)
Conservation of natural resources				
Extension	\$ 103,278	\$ 113,458	\$ 98,546	\$ 14,912
Soil and water conservation	82,509	82,509	77,680	4,829
Agricultural inspection	57,810	55,671	46,402	9,269
Predator control	800	800	902	(102)
Flood control	14,732	14,732	14,732	-
Water planning	22,546	38,531	37,505	1,026
Environmental officer	9,900	9,900	7,697	2,203
Wetland challenge	10,000	10,000	15,000	(5,000)
Other	594	9,894	2,185	7,709
Total conservation of natural resources	\$ 302,169	\$ 335,495	\$ 300,649	\$ 34,846
Economic development				
Community development	\$ 3,320	\$ 4,070	\$ 3,950	\$ 120
Intergovernmental				
Public safety	\$ 56,010	\$ 56,010	\$ 56,010	\$ -
Health	\$ 90,297	\$ 90,297	\$ 90,297	\$ -

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures (Continued)				
Debt service				
Principal retirement	\$ 98,577	\$ 98,577	\$ 86,042	\$ 12,535
Interest	\$ 11,902	\$ 11,902	\$ 9,331	\$ 2,571
Administrative (fiscal) fees	\$ 225	\$ 225	\$ -	\$ 225
Total Expenditures	\$ 4,412,574	\$ 4,969,890	\$ 4,589,030	\$ 380,860
Excess of Revenues Over (Under)				
Expenditures	\$ (63,281)	\$ (426,097)	\$ 323,011	\$ 749,108
Other Financing Sources (Uses)				
Transfers out	-	-	(13,014)	(13,014)
Net Change in Fund Balance	\$ (63,281)	\$ (426,097)	\$ 309,997	\$ 736,094
Fund Balance - January 1	2,772,203	2,772,203	2,772,203	-
Fund Balance - December 31	\$ 2,708,922	\$ 2,346,106	\$ 3,082,200	\$ 736,094

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 1,387,454	\$ 1,249,145	\$ 1,230,871	\$ (18,274)
Intergovernmental	1,287,226	1,425,535	3,282,850	1,857,315
Charges for services	20,000	20,000	10,152	(9,848)
Gifts and contributions	-	-	6,240	6,240
Investment earnings	80,000	80,000	55,998	(24,002)
Miscellaneous	19,500	19,500	54,116	34,616
Total Revenues	\$ 2,794,180	\$ 2,794,180	\$ 4,640,227	\$ 1,846,047
Expenditures				
Current				
Highways and streets				
Administration	\$ 157,208	\$ 157,208	\$ 202,362	\$ (45,154)
Maintenance	1,112,746	1,112,746	1,098,747	13,999
Construction	678,195	678,195	2,271,573	(1,593,378)
Equipment and maintenance shops	845,393	845,393	684,766	160,627
Total highways and streets	\$ 2,793,542	\$ 2,793,542	\$ 4,257,448	\$ (1,463,906)
Intergovernmental				
Highways and streets	-	-	300,768	(300,768)
Total Expenditures	\$ 2,793,542	\$ 2,793,542	\$ 4,558,216	\$ (1,764,674)
Excess of Revenues Over (Under)				
Expenditures	\$ 638	\$ 638	\$ 82,011	\$ 81,373
Other Financing Sources (Uses)				
Transfers in	-	-	13,014	13,014
Net Change in Fund Balance	\$ 638	\$ 638	\$ 95,025	\$ 94,387
Fund Balance - January 1	3,807,736	3,807,736	3,807,736	-
Increase (decrease) in reserved for inventories	-	-	(29,376)	(29,376)
Fund Balance - December 31	\$ 3,808,374	\$ 3,808,374	\$ 3,873,385	\$ 65,011

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 1,600,015	\$ 1,418,214	\$ 1,394,964	\$ (23,250)
Intergovernmental	1,440,200	1,622,001	1,796,680	174,679
Charges for services	33,600	33,600	33,999	399
Gifts and contributions	-	-	10,920	10,920
Investment earnings	20,000	20,000	21,265	1,265
Miscellaneous	67,500	67,500	137,696	70,196
Total Revenues	\$ 3,161,315	\$ 3,161,315	\$ 3,395,524	\$ 234,209
Expenditures				
Current				
Human services				
Income maintenance	\$ 787,950	\$ 772,950	\$ 850,889	\$ (77,939)
Social services	2,404,150	2,442,150	2,348,206	93,944
Total Expenditures	\$ 3,192,100	\$ 3,215,100	\$ 3,199,095	\$ 16,005
Net Change in Fund Balance	\$ (30,785)	\$ (53,785)	\$ 196,429	\$ 250,214
Fund Balance - January 1	1,768,105	1,768,105	1,768,105	-
Fund Balance - December 31	\$ 1,737,320	\$ 1,714,320	\$ 1,964,534	\$ 250,214

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Special assessments	\$ 226,000	\$ 226,000	\$ 225,230	\$ (770)
Intergovernmental	-	-	196	196
Investment earnings	10,000	10,000	10,082	82
Miscellaneous	300	300	1,037	737
Total Revenues	\$ 236,300	\$ 236,300	\$ 236,545	\$ 245
Expenditures				
Current				
Conservation of natural resources				
Other	148,301	155,494	219,263	(63,769)
Net Change in Fund Balance	\$ 87,999	\$ 80,806	\$ 17,282	\$ (63,524)
Fund Balance - January 1	657,045	657,045	657,045	-
Fund Balance - December 31	\$ 745,044	\$ 737,851	\$ 674,327	\$ (63,524)

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

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:

	<u>Original Budget</u>	<u>Increase (Decrease)</u>	<u>Final Budget</u>
General Fund	\$ 4,212,574	\$ 757,316	\$ 4,969,890
Human Services Special Revenue Fund	3,192,100	23,000	3,215,100
Ditch Special Revenue Fund	148,301	7,193	155,494

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

Expenditures exceeded final budgets in the following funds:

	<u>Final Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Road and Bridge Special Revenue Fund	\$ 2,793,542	\$ 4,558,216	\$ 1,764,674
Ditch Special Revenue Fund	155,494	219,263	63,769

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SUPPLEMENTARY INFORMATION

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
JAIL BOND DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 284,600	\$ 256,230	\$ 251,521	\$ (4,709)
Intergovernmental	-	28,370	30,776	2,406
Investment earnings	750	750	1,351	601
Total Revenues	\$ 285,350	\$ 285,350	\$ 283,648	\$ (1,702)
Expenditures				
Debt service				
Principal retirement	\$ 60,000	\$ 60,000	\$ 60,000	\$ -
Interest	157,373	157,373	157,373	-
Administrative (fiscal) fees	320	320	316	4
Total Expenditures	\$ 217,693	\$ 217,693	\$ 217,689	\$ 4
Net Change in Fund Balance	\$ 67,657	\$ 67,657	\$ 65,959	\$ (1,698)
Fund Balance - January 1	199,880	199,880	199,880	-
Fund Balance - December 31	\$ 267,537	\$ 267,537	\$ 265,839	\$ (1,698)

**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, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 20,840	\$ 211,506	\$ 200,163	\$ 32,183
<u>Liabilities</u>				
Due to other governments	\$ 20,840	\$ 211,506	\$ 200,163	\$ 32,183
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 137,664	\$ 13,402,470	\$ 13,407,768	\$ 132,366
<u>Liabilities</u>				
Due to other governments	\$ 137,664	\$ 13,402,470	\$ 13,407,768	\$ 132,366
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 158,504	\$ 13,613,976	\$ 13,607,931	\$ 164,549
<u>Liabilities</u>				
Due to other governments	\$ 158,504	\$ 13,613,976	\$ 13,607,931	\$ 164,549

OTHER SCHEDULE

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 6

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Shared Revenue

State

Highway users tax	\$ 3,086,963
County program aid	761,058
PERA rate reimbursement	15,547
Disparity reduction aid	43,341
Police aid	31,830
Enhanced 911	40,703
Market value credit	583,787
Casino credit	15,034
	<hr/>

Total Shared Revenue	\$ 4,578,263
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Reimbursement for Services

Minnesota Department of Human Services	\$ 815,765
	<hr/>

Payments

Payments in lieu of taxes	\$ 40,260
Local grants	32,322
	<hr/>

Total Payments	\$ 72,582
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Grants

State

Minnesota Department/Board of	
Examining Boards	\$ 2,507
Human Services	479,368
Natural Resources	45,522
Soil and Water Resources	72,317
Veterans Affairs	2,800
Office of Environmental Assistance	49,099
Pollution Control Agency	62,010
	<hr/>

Total State	\$ 713,623
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Federal

Department of	
Agriculture	\$ 405
Justice	953
Transportation	49,139
Health and Human Services	300,259
Homeland Security	111,523
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Total Federal	\$ 462,279
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Total State and Federal Grants	\$ 1,175,902
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Total Intergovernmental Revenue	\$ 6,642,512
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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 7

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

ITEM ARISING THIS YEAR

04-1 Internal Accounting Controls

Due to the limited number of office personnel within the various Yellow Medicine County departments, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not always possible. Although this is not unusual in small departmental situations, 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.

We recommend that County management be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff.

Client's Response:

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

PREVIOUSLY REPORTED ITEMS RESOLVED

Internal Accounting Controls (Sheriff and Jail) (99-1)

The Sheriff's Department maintains a checking account for fees collected; and the jail operation, also overseen by the Sheriff, maintains a jail administration checking account. The two employees responsible for these accounts do all of the receipting, depositing, and bank reconciliations.

Resolution

The Sheriff reviews the bank statements at the end of each month and puts his initials on both the checkbook and the bank statement after review. This practice was put in place during 2004.

Claims/Disbursements (02-1)

While reviewing claims submitted to the County Board, we noted that, in some cases, claims were paid from a nonitemized statement. We also noted finance charges on a statement from Cottonwood Co-Op Oil Company were paid by the County, and one County Commissioner was paid twice for mileage for the same meeting.

Resolution

The County follows Minn. Stat. § 471.38 and allows only claims to be paid that have the proper itemization, supporting documentation attached, and have been properly audited and verified by the officer authorized by law to audit and allow claims to be paid.

II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM RESOLVED

Highway Planning and Construction (CFDA #20.205) (03-1)

While auditing the Highway Planning and Construction Grant, we noted compliance with the Davis-Bacon Act was not adequately documented.

Resolution

The County established a monitoring system that demonstrates and provides necessary evidence that the Davis-Bacon requirements have been adequately monitored.

III. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

04-2 No Perfected Interest in Collateral Assignments

The County did not have current documentation demonstrating that it had a perfected interest in pledged collateral with the First Security Bank of Canby, the Granite Falls Bank, and the Yellow Medicine County Bank; and had no documentation for the State Bank of Taunton. These resolutions were signed in 2001. In a Federal Court decision, the Court ruled that if a municipality fails to

perfect a security interest under federal law, its right to such collateral in the event of default is not enforceable. Minn. Stat. § 118A.03, subd. 3, requires the County to obtain an assignment of pledged collateral equal to “at least ten percent more than the amount on deposit plus accrued interest at the close of the business day,” in excess of federal deposit insurance.

The County is not complying with the collateral requirement unless it obtains an enforceable assignment of pledged collateral. To obtain an enforceable assignment under federal law (12 U.S.C. § 1823(e)), the County must obtain a written assignment of collateral approved by the depository bank’s Board of Directors or loan committee and which is a continuous official record of the bank.

We recommend that the County obtain the documentation indicating it has perfected a security interest in pledged collateral.

Client’s Response:

Banks have been contacted for the necessary resolution from the bank for assignment of collateral.

PREVIOUSLY REPORTED ITEM RESOLVED

Employee Recognition Banquet (03-2)

Annually, the County hosts an employee recognition banquet. At these banquets, the County pays the cost of the dinner for the employee as well as the costs of entertainment and door prizes. Employees receive certificates, plaques, or other motivational gifts of a nominal value.

Resolution

The County recognizes employees each year at a special event. The County does provide a meal for the employee only. Spouses must pay for their own meal. All prizes given at this event are paid for from privately donated funds, and the County does not pay for any entertainment. The County amended its personnel policy to include this event as part of its benefit program for County employees.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

00-2 Payroll System

Previously, not all hourly employees prepared regular time sheets to report time worked or not worked. During 2003, all nonexempt employees were required to complete time sheets. However, the time sheets are used to record vacation and sick leave on the automated payroll system and not used to pay the employees for the hours actually worked. Employees are still paid based on a set amount on a bi-monthly basis. They also complete a separate form for any overtime worked, and comp time is not monitored on the payroll system.

A positive payroll system should be established whereby all County employees would prepare time sheets or attendance records to document hours worked and leave taken. These records should have the signature of the employee certifying that hours paid and leave taken are correct, as well as the signature of the supervisor attesting that the hours paid and leave taken have been reviewed and approved.

We recommend the County institute a payroll system that pays employees only for time worked, that has a monitoring system to document those hours, and continuously monitors vacation, sick leave, and comp time balances.

Client's Response:

Timesheets will be implemented immediately in these offices.

ITEM ARISING THIS YEAR

04-3 Disaster Recovery Plan

While reviewing the Data Processing Department, we noted Yellow Medicine County does not have a data processing disaster recovery plan or an agreement with Stevens County, their computer services provider. A disaster recovery plan would give greater assurance that the County is prepared for a disaster or major computer breakdown. The County needs to provide for the continuance of several important applications processed by its computer system, including the preparation of payroll, the calculation of tax assessments and settlements, and the recording of receipts and disbursements.

A disaster recovery plan should include, but not be limited to, the following:

- A list of key personnel, including the actual recovery team, who should be available during the recovery process.
- A description of the responsibilities of each member of the recovery team and of all other County employees.
- A plan as to how the County will continue operations until normal operations are re-established.
- A list of materials the County needs to continue operations and how they will be obtained.
- Identification of the work area to be used.
- A schedule for developing and periodically reviewing and updating the plan.

We recommend that the County develop, implement, and test the disaster recovery plan. All County employees should be familiar with the plan.

Client's Response:

Computer Programmer has been contacted and will furnish the plan.

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STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

Board of County Commissioners
Yellow Medicine County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Yellow Medicine County as of and for the year ended December 31, 2004, and have issued our report thereon dated October 6, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 04-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition indicated 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, except as described in the Schedule of Findings and Recommendations as item 04-2.

This report is intended solely for the information and use of the Board of Commissioners and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 6, 2005