

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA

YEAR ENDED DECEMBER 31, 2005

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.

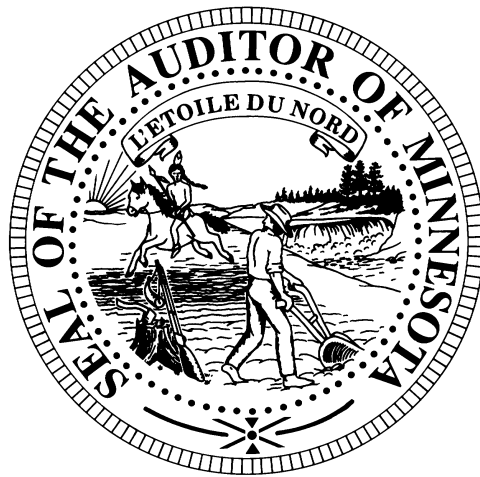
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Year Ended December 31, 2005



**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
2005

Office	Name	Term Expires
Commissioners		
1st District	Jane Remiger	January 2007
2nd District	Lynn Anderson ^{1, 2}	January 2007
3rd District	Gary Lee Johnson	January 2009
4th District	Ronald Antony	January 2007
5th District	Louis Sherlin	January 2009
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 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 ¹	January 2007
Secretary	Catherine Thomas	July 2007
Member	Louis Sherlin	January 2009
Member	Lynn Anderson	January 2007
Member	Jane Remiger ²	January 2007
Member	Gary Lee Johnson	January 2009
Director	Peggy Heglund	Indefinite
Lay Member	Leona Smith	July 2006

¹Chair 2005

²Chair 2006

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Yellow Medicine County

We have audited the 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, 2005, 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, 2005, 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 November 27, 2006, on our consideration of Yellow Medicine County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: November 27, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005
(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, 2005. 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 \$57,045,591, of which \$45,570,362 is invested in capital assets, net of related debt, and \$4,782,296 is restricted to specific purposes. The \$6,692,933 remaining may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's net assets increased by \$2,634,002 for the year ended December 31, 2005. A large part of the increase is attributable to the County's investing in capital assets, net of accumulated depreciation.
- The net cost of governmental activities for the current fiscal year was \$4,830,911. General revenues and other items totaling \$7,464,913 funded the net cost.
- The fund balances of the governmental funds increased by \$3,967,764. Most of the increase was due to proceeds from the sale of refunding bonds. The balance 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, 2005, the unreserved fund balance of the General Fund was \$3,494,113, or 78.2 percent, of the total General Fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The basic financial statements consist of three parts: (1) government-wide financial statements, (2) fund level financial statements, and (3) notes to the financial statements. This report also contains other required supplementary information.

Government-Wide Financial Statements

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 Financial Statements

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund 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--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 \$57,045,591 at the close of 2005. The largest portion of the net assets (79.9 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.

Table 1
Net Assets
(in thousands)

	Governmental Activities	
	2005	2004
Assets		
Current and other assets	\$ 15,597	\$ 13,302
Capital assets	48,623	45,668
Total Assets	\$ 64,220	\$ 58,970
Liabilities		
Long-term liabilities	\$ 6,344	\$ 3,850
Other liabilities	830	708
Total Liabilities	\$ 7,174	\$ 4,558
Net Assets		
Invested in capital assets, net of related debt	\$ 45,570	\$ 42,508
Restricted	4,783	3,233
Unrestricted	6,693	8,671
Total Net Assets	\$ 57,046	\$ 54,412

(Unaudited)

Page 6

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 11.7 percent of the net assets.

Governmental Activities

The County's governmental activities increased net assets by 4.8 percent (\$57,045,591 for 2005 compared to \$54,411,589 for 2004). Key elements in this increase in net assets are as follows:

Table 2
Changes in Net Assets
(in thousands)

	Governmental Activities	
	2005	2004
Revenues		
Program revenues		
Charges for services	\$ 1,195	\$ 960
Operating grants and contributions	3,934	3,897
Capital grants and contributions	1,800	1,842
General revenues	s	
Property taxes	5,296	5,269
Other	2,169	1,842
Total Revenues	<u>\$ 14,394</u>	<u>\$ 13,810</u>
Expenses		
General government	\$ 1,866	\$ 1,934
Public safety	1,967	1,877
Highways and streets	3,430	3,422
Sanitation	110	83
Human services	3,401	3,209
Health	91	92
Culture and recreation	202	161
Conservation of natural resources	439	530
Economic development	8	4
Interest	246	165
Total Expenses	<u>\$ 11,760</u>	<u>\$ 11,477</u>
Increase in Net Assets	\$ 2,634	\$ 2,333
Net Assets - January 1	<u>54,412</u>	<u>52,079</u>
Net Assets - December 31	<u>\$ 57,046</u>	<u>\$ 54,412</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$13,828,049, an increase of \$3,967,764 in comparison with the prior year. Of the combined ending fund balances, \$8,872,876 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 \$3,494,113. 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 78.2 percent of total General Fund expenditures. During 2005, the ending fund balance increased by \$667,823. 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, an increase in investment earnings, and insurance dividends for expenses of prior years.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$2,782,130 at fiscal year-end, representing 42.6 percent of its annual expenditures. The ending fund balance increased \$690,023 during 2005, primarily due to highway allotments for two large projects that were not completed.

The Human Services Special Revenue Fund had an unreserved fund balance of \$1,980,939 at fiscal year-end, representing 58.0 percent of its annual expenditures. The ending fund balance increased \$55,255 during 2005, primarily due to lower than anticipated social service costs and an increase in interest earnings.

The Ditch Special Revenue Fund had an unreserved fund balance of \$615,694 at fiscal year-end. The ending fund balance decreased \$58,633 during 2005, primarily due to the 114 ditches needing more maintenance than was assessed to benefiting land owners.

The Jail Bond Debt Service Fund had a reserved fund balance of \$2,879,135 at fiscal year-end. The fund had a reserved for debt service fund balance of \$341,522, representing 98.1 percent of its annual expenditures. The remaining reserved fund balance of \$2,537,613 is reserved in escrow for the refunding of the 1999 General Obligation Jail and Courthouse Bonds. The ending

fund balance increased \$2,613,296 during 2005, primarily due to the proceeds from the sale of refunding bonds and 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 \$14,394,007. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2005.

**Table 1
Total County Revenues**

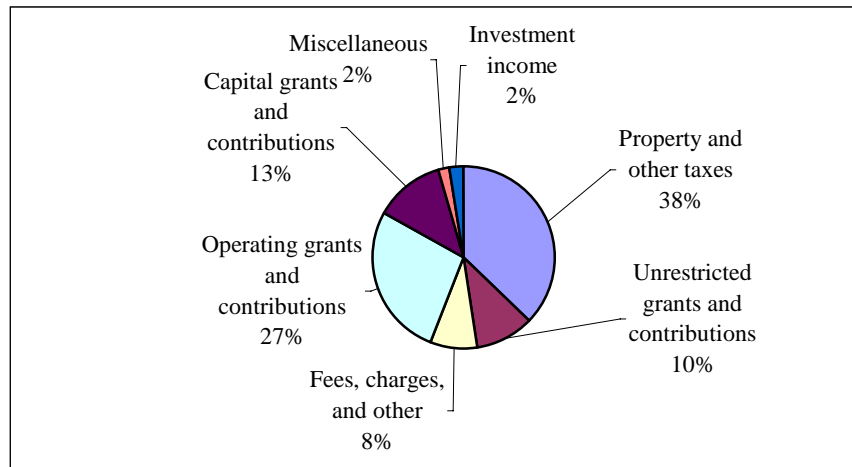
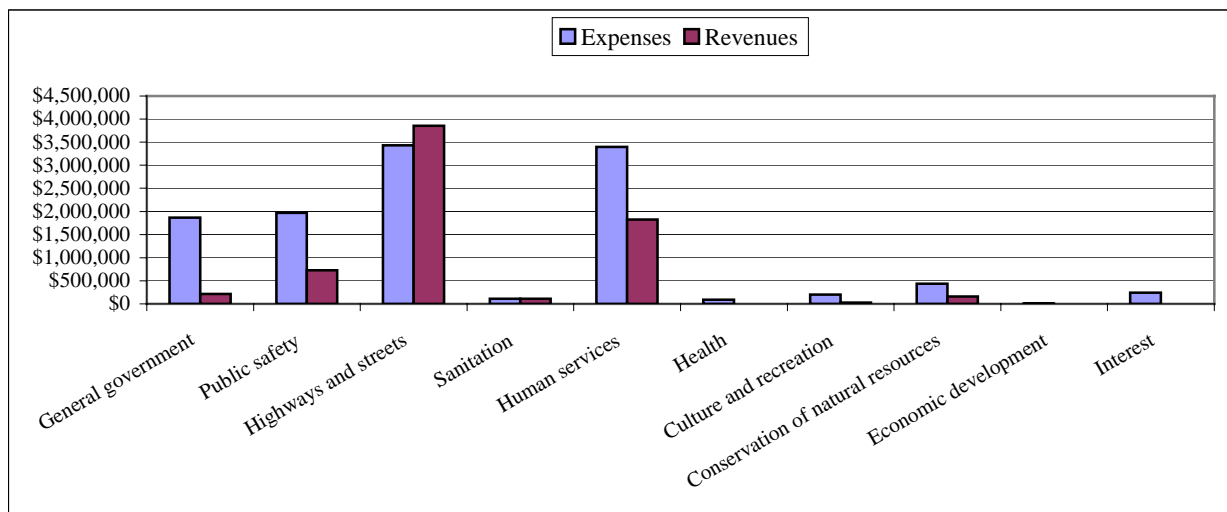


Table 2 presents the cost and revenue of each program as well as the County's general revenues. Total revenues for the County were \$14,394,007, while total expenses were \$11,760,005. This reflects a \$2,634,002 increase in net assets for the year ended December 31, 2005.

**Table 2
Expenses and Program Revenues - 2005**



The cost of all governmental activities this year was \$11,760,005. 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 \$5,296,418 because some of the costs were paid by those who directly benefited from the programs (\$1,194,828) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,734,266). The County paid for the remaining “public benefit” portion of governmental activities with \$7,464,913 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	
	2005	2004	2005	2004
Highways and streets	\$ 3,430	\$ 3,423	\$ (427)	\$ (213)
Human services	3,401	3,209	1,578	1,430
General government	1,866	1,934	1,648	1,663
Public safety	1,967	1,877	1,239	1,167
All others	1,096	1,035	793	732
Totals	\$ 11,760	\$ 11,478	\$ 4,831	\$ 4,779

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 \$167,104 below the final budget amounts. The most significant positive variance (\$44,209) occurred in the Data Processing Department, where we leased time on an AS400 instead of owning an AS400 and budgeted to hire a part-time technical support person and actually used an outside service instead, resulting in a one percent reduction in expected expenditures. Reasons for other significant variances of actual expenditures to final budget include a lower than anticipated cost of the 2004 audit; the E-911 System Department spent less than anticipated of its restricted grant proceeds, which will result in revenues being deferred; the Central Services Department spent less on professional and technical services and rental and service agreements than anticipated; the Attorney received a larger reimbursement of expenditures than anticipated from the Human Services Department; the Jail had lower than anticipated costs; and several other departments spent less than anticipated.

On the other hand, resources available for appropriation were \$516,218 above the final budgeted amount. The most significant positive variance (\$213,372) 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 and the law change increasing recording fees effective on July 1, 2005. Other significant increases came from an insurance dividend, higher than anticipated collection of grant proceeds, an increase to investment earnings, and an increase to delinquent tax collections.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2005, totaled \$48,623,184 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$2,954,983 or 6.5 percent from the previous year. The major capital asset events were:

- \$3,927,246 Construction of highways and streets
- 280,362 Purchase of highway equipment
- 159,158 Construction of a highway shop addition

Table 4
Capital Assets at Year-End
Net of Depreciation
(in thousands)

	2005	2004
Land	\$ 672	\$ 665
Infrastructure	41,789	38,938
Buildings	4,561	4,557
Improvements other than buildings	347	358
Machinery and equipment	1,155	1,014
Construction in progress	99	136
Total	\$ 48,623	\$ 45,668

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

Long-Term Debt

At the end of the current fiscal year, the County had total net outstanding debt of \$5,700,595, which was backed by the full faith and credit of the government.

Table 5
Outstanding Debt
(in thousands)

	2005	2004
General obligation bonds	\$ 5,638	\$ 3,160
Capital leases	63	92
Total	\$ 5,701	\$ 3,252

The County's debt related to general obligation bonds increased by \$2,477,773 (78.4 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 2005, the County's outstanding debt was 0.6 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 2006 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Yellow Medicine County at the end of 2005 was 4.5 percent. This compares unfavorably with the state unemployment rate of 4.0 percent, but shows a decrease from the County's 5.0 percent rate of one year ago. This could impact the level of services requested by County residents.
- Mortgage interest rates have been fairly low, causing many to finance new construction. New construction adds to the County's base for spreading future taxes.
- The County General Fund expenditures for 2006 are budgeted to increase 7.5 percent (\$334,617) over the 2005 original budget. The 2006 anticipated revenues, other than tax levy, state aid, and special assessments, are budgeted to increase 12.4 percent (\$156,068) over the 2005 original budget.
- The 2006 property tax levy for the County increased 2.3 percent (\$153,264) from 2005, but due to state aid decreases (\$22,206), the net tax levy (the amount spread to taxpayers) increased 3.0 percent (\$175,470) over the net tax levy for 2005.

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 Auditor/Treasurer, Carolyn Sherlin, Yellow Medicine County Courthouse, 415 Ninth Avenue, Suite 102, Granite Falls, Minnesota 56241.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005**

Assets

Cash and pooled investments	\$	2,853,075
Investments		10,977,947
Receivables - net		1,436,489
Inventories		175,494
Prepaid items		117,475
Deferred charges		36,498
Capital assets		
Non-depreciable capital assets		771,394
Depreciable capital assets - net of accumulated depreciation		47,851,790
Total Assets	\$	64,220,162

Liabilities

Accounts payable and other current liabilities	\$	674,370
Accrued interest payable		103,743
Unearned revenue		51,891
Long-term liabilities		
Due within one year		207,072
Due in more than one year		6,137,495
Total Liabilities	\$	7,174,571

Net Assets

Invested in capital assets - net of related debt	\$	45,570,362
Restricted for		
Highways and streets		1,749,625
Public safety		124,406
Debt service		2,879,135
Other purposes		29,130
Unrestricted		6,692,933
Total Net Assets	\$	57,045,591

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Program Revenues			Net (Expense)	
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets	
Functions/Programs					
Governmental activities					
General government	\$ 1,865,607	\$ 158,486	\$ 59,214	\$ -	\$ (1,647,907)
Public safety	1,967,074	536,682	181,584	10,000	(1,238,808)
Highways and streets	3,430,311	157,469	1,909,715	1,790,327	427,200
Sanitation	109,564	63,089	49,079	-	2,604
Human services	3,400,499	146,897	1,675,293	-	(1,578,309)
Health	91,497	1,100	-	-	(90,397)
Culture and recreation	201,857	101	27,405	-	(174,351)
Conservation of natural resources	439,345	131,004	31,649	-	(276,692)
Economic development	8,320	-	-	-	(8,320)
Interest	245,931	-	-	-	(245,931)
Total governmental activities	<u>\$ 11,760,005</u>	<u>\$ 1,194,828</u>	<u>\$ 3,933,939</u>	<u>\$ 1,800,327</u>	<u>\$ (4,830,911)</u>
General revenues					
Property taxes					\$ 5,296,418
Mortgage registry and deed tax					5,441
Payments in lieu of tax					41,170
Grants and contributions not restricted to specific programs					1,484,252
Unrestricted investment earnings					352,113
Miscellaneous					285,519
Total general revenues					<u>\$ 7,464,913</u>
Change in net assets					<u>\$ 2,634,002</u>
Net Assets - Beginning					<u>54,411,589</u>
Net Assets - Ending					<u>\$ 57,045,591</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, 2005**

	<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	\$ 101,296	\$ 69,644	\$ 38,298	\$ 16,178	\$ 768	\$ 226,184
Undistributed cash in agency funds	34,892	12,937	14,839	1,027	2,613	66,308
Petty cash and change funds	1,700	50	-	-	-	1,750
Departmental cash	21,220	-	-	-	-	21,220
Cash with escrow agent	-	-	-	-	2,537,613	2,537,613
Investments	3,596,116	4,574,034	1,906,810	603,000	297,987	10,977,947
Taxes receivable						
Prior	78,629	41,766	46,334	-	8,034	174,763
Special assessments receivable						
Prior	8,175	-	-	456	-	8,631
Noncurrent	237,818	-	-	56,296	-	294,114
Accounts receivable	4,183	114,839	2,399	-	-	121,421
Accrued interest receivable	13,068	16,083	8,347	1,218	40,312	79,028
Due from other funds	3,263	108	-	-	-	3,371
Due from other governments	118,137	430,481	205,456	4,458	-	758,532
Inventories	-	175,494	-	-	-	175,494
Prepaid items	59,200	19,425	38,850	-	-	117,475
Total Assets	<u>\$ 4,277,697</u>	<u>\$ 5,454,861</u>	<u>\$ 2,261,333</u>	<u>\$ 682,633</u>	<u>\$ 2,887,327</u>	<u>\$ 15,563,851</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	<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	\$ 84,933	\$ 64,847	\$ 98,733	\$ 299	\$ 158	\$ 248,970
Salaries payable	90,245	57,092	49,414	1,984	-	198,735
Contracts payable	-	139,112	-	-	-	139,112
Due to other funds	108	-	3,263	-	-	3,371
Due to other governments	27,271	24,622	27,756	7,904	-	87,553
Deferred revenue - unavailable	324,622	570,428	46,334	56,752	8,034	1,006,170
Deferred revenue - unearned	495	35,352	16,044	-	-	51,891
Total Liabilities	\$ 527,674	\$ 891,453	\$ 241,544	\$ 66,939	\$ 8,192	\$ 1,735,802
Fund Balances						
Reserved for						
Debt service	\$ -	\$ -	\$ -	\$ -	\$ 341,522	\$ 341,522
Encumbrances	21,300	4,238	-	-	-	25,538
Inventories	-	175,494	-	-	-	175,494
Prepaid items	59,200	19,425	38,850	-	-	117,475
Recorder's technology fund	15,094	-	-	-	-	15,094
Recorder's compliance fund	14,036	-	-	-	-	14,036
Enhanced 911	119,406	-	-	-	-	119,406
Sheriff's contingency	5,000	-	-	-	-	5,000
Septic/sewer loans	21,874	-	-	-	-	21,874
Highway allotments	-	1,582,121	-	-	-	1,582,121
Investments with escrow agent	-	-	-	-	2,537,613	2,537,613
Unreserved						
Designated for future expenditures	93,330	825,000	-	-	-	918,330
Designated for cash flows	2,400,000	1,600,000	1,700,000	-	-	5,700,000
Designated for compensated absences	154,190	102,823	112,370	8,364	-	377,747
Undesignated	846,593	254,307	168,569	607,330	-	1,876,799
Total Fund Balances	\$ 3,750,023	\$ 4,563,408	\$ 2,019,789	\$ 615,694	\$ 2,879,135	\$ 13,828,049
Total Liabilities and Fund Balances	\$ 4,277,697	\$ 5,454,861	\$ 2,261,333	\$ 682,633	\$ 2,887,327	\$ 15,563,851

**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, 2005**

Fund Balances - Total Governmental Funds (Exhibit 3)	\$	13,828,049
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.		48,623,184
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,006,170
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (5,660,000)	
Capital leases	(62,822)	
Loans payable	(263,569)	
Compensated absences	(380,403)	
Unamortized discount on general obligation refunding bonds	22,227	
Deferred debt issuance charges	36,498	
Accrued interest payable	(103,743)	
	(6,411,812)	(6,411,812)
Net Assets of Governmental Activities (Exhibit 1)	\$	<u>57,045,591</u>

**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, 2005**

	General	Road and Bridge	Human Services	Ditch	Jail Bond Debt Service	Total Governmental Funds
Revenues						
Taxes	\$ 2,365,715	\$ 1,243,636	\$ 1,433,844	\$ -	\$ 254,245	\$ 5,297,440
Special assessments	80,251	-	-	51,912	-	132,163
Licenses and permits	28,932	-	-	-	-	28,932
Intergovernmental	1,499,895	5,763,750	1,849,624	196	30,378	9,143,843
Charges for services	607,772	13,933	29,763	-	-	651,468
Fines and forfeits	228	-	-	-	-	228
Gifts and contributions	21,979	240	2,180	-	-	24,399
Investment earnings	95,367	119,491	37,210	16,975	85,468	354,511
Miscellaneous	374,796	34,185	113,979	601	-	523,561
Total Revenues	\$ 5,074,935	\$ 7,175,235	\$ 3,466,600	\$ 69,684	\$ 370,091	\$ 16,156,545
Expenditures						
Current						
General government	\$ 1,695,565	\$ -	\$ -	\$ -	\$ -	\$ 1,695,565
Public safety	1,892,098	-	-	-	-	1,892,098
Highways and streets	-	6,244,437	-	-	-	6,244,437
Sanitation	108,913	-	-	-	-	108,913
Human services	-	-	3,414,500	-	-	3,414,500
Health	1,200	-	-	-	-	1,200
Culture and recreation	200,347	-	-	-	-	200,347
Conservation of natural resources	332,235	-	-	129,817	-	462,052
Economic development	8,320	-	-	-	-	8,320
Intergovernmental	169,736	290,469	-	-	-	460,205
Debt service						
Principal	49,964	-	-	-	115,000	164,964
Interest	9,115	-	-	-	194,299	203,414
Bond issuance costs	-	-	-	-	38,645	38,645
Administrative (fiscal) fees	-	-	-	-	316	316
Total Expenditures	\$ 4,467,493	\$ 6,534,906	\$ 3,414,500	\$ 129,817	\$ 348,260	\$ 14,894,976
Excess of Revenues Over (Under) Expenditures	\$ 607,442	\$ 640,329	\$ 52,100	\$ (60,133)	\$ 21,831	\$ 1,261,569
Other Financing Sources (Uses)						
Loans issued	\$ 58,793	\$ -	\$ -	\$ -	\$ -	\$ 58,793
Proceeds from sale of refunding bonds	-	-	-	-	2,615,000	2,615,000
Discount on bonds issued	-	-	-	-	(23,535)	(23,535)
Proceeds from sale of assets	1,588	-	3,155	1,500	-	6,243
Total Other Financing Sources (Uses)	\$ 60,381	\$ -	\$ 3,155	\$ 1,500	\$ 2,591,465	\$ 2,656,501

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<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>
Net Change in Fund Balances	\$ 667,823	\$ 640,329	\$ 55,255	\$ (58,633)	\$ 2,613,296	\$ 3,918,070
Fund Balances - January 1	3,082,200	3,873,385	1,964,534	674,327	265,839	9,860,285
Increase (decrease) in reserved for inventories	-	49,694	-	-	-	49,694
Fund Balances - December 31	<u>\$ 3,750,023</u>	<u>\$ 4,563,408</u>	<u>\$ 2,019,789</u>	<u>\$ 615,694</u>	<u>\$ 2,879,135</u>	<u>\$ 13,828,049</u>

**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, 2005**

Net Change in Fund Balances - Total Governmental Funds (Exhibit 5) \$ 3,918,070

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	\$ 1,006,170	
Deferred revenue - January 1	(2,572,698)	(1,566,528)

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

Expenditures for general capital assets and infrastructure	\$ 4,480,141	
Current year depreciation	(1,525,158)	2,954,983

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.

The net proceeds of new debt are		
Refunding bonds issued	\$ (2,615,000)	
Discount on bonds issued	23,535	
Issuance costs	38,645	
Loans issued	(58,793)	(2,611,613)

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	\$ 115,000	
Loans payable	20,707	
Capital leases	29,257	164,964

Septic/ISTS loans previously reported in the funds as due to other governments are now reported solely in the government-wide statements.		(225,483)
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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	\$ (38,746)	
Amortization of discounts and deferred issuance charges	(3,455)	
Change in compensated absences	(7,884)	
Change in inventories	49,694	(391)

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 2,634,002

FIDUCIARY FUNDS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2005**

	Cemetery Investment Trust	Agency
<u>Assets</u>		
Cash and pooled investments	\$ 29	\$ 227,566
Investments	10,250	-
Total Assets	\$ 10,279	\$ 227,566
<u>Liabilities</u>		
Accounts payable	\$ 29	\$ -
Due to other governments	-	227,566
Total Liabilities	\$ 29	\$ 227,566
<u>Net Assets</u>		
Net assets, held in trust for pool participant	\$ 10,250	

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Cemetery Investment Trust</u>
<u>Additions</u>	
Investment earnings	\$ 253
<u>Deductions</u>	
Distributions to participant	<u>253</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, 2005

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. 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 described in Note 5.C. The County also participates in jointly-governed organizations described in Note 5.D.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about Yellow Medicine County. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, 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 (Doncastor) Cemetery Association, a legally separate entity that is not part of the County's financial reporting entity.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Yellow Medicine County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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, 2005, 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 2005 were \$34,642.

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

2. Receivables and Payables

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

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

All receivables are shown net of an allowance for uncollectibles.

Property taxes are levied as of January 1 on property values assessed as of the same date in the prior year. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

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

3. Inventories and Prepaid Items

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

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

4. Restricted Assets

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

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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Capital Assets (Continued)

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 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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Long-Term Obligations

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

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

9. Fund Equity

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

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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

<u>Fund</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Human Services Special Revenue	\$ 3,414,500	\$ 3,413,100	\$ 1,400
Jail Bond Debt Service	348,260	271,023	77,237

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 2,853,075
Investments	10,977,947
Statement of fiduciary net assets	
Cash and pooled investments	227,595
Investments	10,250
	<hr/>
Total Cash and Investments	\$ 14,068,867

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better, revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2005, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (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.

Interest Rate Risk

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 - 2 Years</u>	<u>3+ Years</u>
Cash with escrow agent U.S. Treasury State and Local Government Services	\$ 2,537,613	\$ 1,120	\$ 1,120	\$ 2,535,373

Credit Risk

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2005, \$2,537,613 of investments with escrow agent held at US Bank, \$2,318,906 of the U.S. Agency securities and \$1,197,628 of negotiable certificates of deposit held by brokers were subject to custodial credit risk.

Concentration of Credit Risk

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

The following table presents the County's cash and investment balances at December 31, 2005, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. Agency securities					
Federal National Mortgage Association	AAA	Fitch		6/16/2006	\$ 592,314
Federal National Mortgage Association	Aaa	Moody's		11/9/2009	148,266
Federal National Mortgage Association	AAA	S&P		11/23/2007	296,814
Total Federal National Mortgage Association			14.8%		\$ 1,037,394
Federal Home Loan Mortgage Corporation					
Federal Home Loan Mortgage Corporation	Aaa	Moody's		12/15/2008	\$ 148,698
Federal Home Loan Mortgage Corporation	AAA	Fitch		4/28/2006	795,000
Total Federal Home Loan Mortgage Corporation			13.4%		\$ 943,698

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
Federal Home Loan Bank	Aaa	Moody's		2/27/2006	\$ 98,781
Federal Home Loan Bank	Aaa	Moody's		11/22/2010	249,375
Federal Home Loan Bank	Aaa	Moody's		6/30/2010	493,440
Federal Home Loan Bank	AAA	S&P		9/15/2006	296,343
Total Federal Home Loan Bank			16.2%		\$ 1,137,939
U.S. Treasury securities					
U.S. Treasury state and local government series	N/A	N/A		2/1/2006	\$ 1,120
U.S. Treasury state and local government series	N/A	N/A		8/1/2007	1,120
U.S. Treasury state and local government series	N/A	N/A		2/1/2009	2,535,373
Total U.S. Treasury securities			N/A		\$ 2,537,613
Negotiable Certificates of Deposit					
Venture Bank - Bloomington, Minnesota	N/A	N/A		7/6/2006	\$ 99,000
Home Federal Savings Bank - Rochester, Minnesota	N/A	N/A		6/29/2006	98,000
First National Bank - Sioux Falls, South Dakota	N/A	N/A		9/28/2007	98,000
Bank of Commerce - Downers Grove, Illinois	N/A	N/A		6/22/2006	98,000
Commerce Bank - Geneva, Minnesota	N/A	N/A		2/6/2007	100,000
State Bank - Eden Valley, Minnesota	N/A	N/A		3/8/2006	99,000
Heron Lake State Bank - Heron Lake, Minnesota	N/A	N/A		3/8/2006	98,000
Community Bank Minnesota Valley - Jordan, Minnesota	N/A	N/A		8/2/2007	99,000
Investors Community Bank - Wisconsin	N/A	N/A		1/19/2006	99,000
State Bank - Long Lake, Minnesota	N/A	N/A		5/11/2007	97,000
First National Bank - Elk River, Minnesota	N/A	N/A		2/15/2006	96,000
Minnwest Bank Minnesota Valley - Redwood Falls, Minnesota	N/A	N/A		3/16/2006	96,000
Community Pride Bank - Ham Lake, Minnesota	N/A	N/A		5/24/2006	99,000
Stearns Bank - St. Cloud, Minnesota	N/A	N/A		3/24/2008	97,000
Total negotiable certificates of deposit			N/A		\$ 1,373,000
Total investments					\$ 7,029,644
Checking					297,604
Savings					3,918,649
Certificates of deposit					2,800,000
Petty cash					1,750
Departmental cash					21,220
Total Cash and Investments					\$ 14,068,867

N/A - Not Applicable

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2005, 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	\$ 174,763	\$ -
Special assessments	302,745	200,225
Due from other governments	758,532	-
Accounts	121,421	-
Interest	79,028	-
	<hr/>	<hr/>
Total Governmental Activities	\$ 1,436,489	\$ 200,225

3. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 664,557	\$ 7,445	\$ 100	\$ 671,902
Construction in progress	136,338	99,492	136,338	99,492
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets not depreciated	\$ 800,895	\$ 106,937	\$ 136,438	\$ 771,394
Capital assets depreciated				
Buildings	\$ 5,647,334	\$ 159,158	\$ -	\$ 5,806,492
Land improvements	391,410	-	-	391,410
Machinery and equipment	3,816,142	423,238	213,080	4,026,300
Infrastructure	49,879,024	3,927,246	-	53,806,270
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets depreciated	\$ 59,733,910	\$ 4,509,642	\$ 213,080	\$ 64,030,472

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings	\$ 1,090,443	\$ 155,278	\$ -	\$ 1,245,721
Land improvements	32,698	11,381	-	44,079
Machinery and equipment	2,802,287	281,948	213,080	2,871,155
Infrastructure	<u>10,941,176</u>	<u>1,076,551</u>	<u>-</u>	<u>12,017,727</u>
 Total accumulated depreciation	 <u>\$ 14,866,604</u>	 <u>\$ 1,525,158</u>	 <u>\$ 213,080</u>	 <u>\$ 16,178,682</u>
 Total capital assets depreciated, net	 <u>\$ 44,867,306</u>	 <u>\$ 2,984,484</u>	 <u>\$ -</u>	 <u>\$ 47,851,790</u>
 Capital Assets, Net	 <u><u>\$ 45,668,201</u></u>	 <u><u>\$ 3,091,421</u></u>	 <u><u>\$ 136,438</u></u>	 <u><u>\$ 48,623,184</u></u>

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

Governmental Activities	
General government	\$ 173,758
Public safety	83,587
Highways and streets, including depreciation of infrastructure assets	1,256,966
Sanitation	651
Human services	6,360
Culture and recreation	1,510
Conservation of natural resources	<u>2,326</u>
 Total Depreciation Expense - Governmental Activities	 <u><u>\$ 1,525,158</u></u>

**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, 2005, is as follows:

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Human Services	\$ 3,263
Road and Bridge	General	<u>108</u>
Total Due To/From Other Funds		<u>\$ 3,371</u>

The outstanding balances between funds result from the time lag between the dates the interfund goods and services were provided and reimbursable expenditures occurred, and when transactions are recorded in the accounting system and when the funds are repaid. All balances are expected to be liquidated in the subsequent year.

C. Liabilities

1. Payables

Payables at December 31, 2005, were as follows:

Accounts	\$ 248,970
Salaries	198,735
Contracts	139,112
Due to other governments	<u>87,553</u>
Total Payables	<u>\$ 674,370</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, 2005. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Roads and bridges	\$ 2,506,045	\$ 1,725,163
Timm Park and Oraas Park projects	-	21,300
	\$ 2,506,045	\$ 1,746,463
Total Construction Commitments	\$ 2,506,045	\$ 1,746,463

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, 2005:

<u>Lease</u>	<u>Final Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2005</u>
2001 Postage machine	2007	Monthly	\$ 239	\$ 12,202	\$ 4,152
1997 Johnson Controls	2007	Semi-annual	15,714	237,834	58,670
					\$ 62,822
Total Capital Leases					\$ 62,822

**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, 2005, were as follows:

Year Ending December 31	Governmental Activities
2006	\$ 34,296
2007	33,101
	\$ 67,397
Total minimum lease payments	\$ 67,397
Less: amount representing interest	(4,575)
	\$ 62,822

4. Loans Payable

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

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
Clean water loans	2014	\$ 15,023	2.00	\$ 288,593	\$ 263,569

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Bond Payable

Type of Indebtedness	Final Maturity	Installment Amount	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
General obligation bonds 2005 G.O. Refunding Bonds, Series 2005	2022	\$165,000 - \$250,000	3.9532	\$ 2,615,000	\$ 2,615,000
1999 G.O. Jail and Courthouse Bonds	2022	\$55,000 - \$260,000	5.2054	<u>3,330,000</u>	<u>3,045,000</u>
Total general obligation bonds				<u>\$ 5,945,000</u>	\$ 5,660,000
Less: unamortized discount					<u>(22,227)</u>
Total General Obligation Bonds, net					<u>\$ 5,637,773</u>

Payments on the Jail and Courthouse Bonds and Refunding Bonds are made by the Debt Service Fund. Debt service requirements at December 31, 2005, were as follows:

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2006	\$ 120,000	\$ 246,225
2007	125,000	240,590
2008	130,000	234,725
2009	2,670,000	228,630
2010	165,000	95,808
2011 - 2015	890,000	394,561
2016 - 2020	1,070,000	211,888
2021 - 2022	<u>490,000</u>	<u>20,482</u>
Total	<u>\$ 5,660,000</u>	<u>\$ 1,672,909</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, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds					
Refunding Bonds of 2005	\$ -	\$ 2,615,000	\$ -	\$ 2,615,000	\$ -
Jail and Courthouse Bonds	3,160,000	-	115,000	3,045,000	120,000
Total bonds payable	\$ 3,160,000	\$ 2,615,000	\$ 115,000	\$ 5,660,000	\$ 120,000
Loans payable	225,483	58,793	20,707	263,569	21,123
Lease purchase	92,079	-	29,257	62,822	31,059
Compensated absences	372,519	7,884	-	380,403	34,890
Long-Term Liabilities	\$ 3,850,081	\$ 2,681,677	\$ 164,964	\$ 6,366,794	\$ 207,072

7. Crossover Refunding Debt

On February 22, 2005, Yellow Medicine County issued General Obligation Refunding Bonds, Series 2005, in the amount of \$2,615,000 with interest rates of 3.00 percent to 4.15 percent to crossover refund the General Obligation Jail and Courthouse Bonds, dated June 1, 1999, maturing after February 1, 2009. The balance of the outstanding maturities to be refunded is \$2,535,000, and interest rates are 4.60 percent to 5.10 percent.

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Crossover Refunding Debt (Continued)

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

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

4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

A. Defined Benefit Plans

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. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans (Continued)

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 were required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.50 percent. Public Employees Police and Fire Fund members were required to contribute 6.20 percent of their annual covered salary in 2005. That rate increased to 7.00 percent in 2006. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2005 and 2006:

	2005	2006
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	5.53	6.00
Public Employees Police and Fire Fund	9.30	10.50
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2005, 2004, and 2003, 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
2005	\$ 163,535	\$ 37,278	\$ 37,657
2004	154,312	33,798	32,496
2003	152,548	31,830	30,204

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

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, 2005, 2004, and 2003, were \$1,987, \$1,887, and \$1,802, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Summary of Significant Contingency and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters 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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

5. Summary of Significant Contingency and Other Items

A. Risk Management (Continued)

carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$760,000 per claim in 2005 and \$390,000 per claim in 2006. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

B. Contingent Liabilities

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

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

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

C. Joint Ventures

Lincoln-Pipestone Rural Water System

Yellow Medicine County, along with Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Rock, and Pipestone Counties, jointly established the Lincoln-Pipestone Rural Water System, pursuant to Minn. Stat. ch. 116A. The system is responsible for storing, treating, and distributing water for domestic, commercial, and industrial use within the area it serves. The cost of providing these services is recovered through user charges. The Lincoln-Pipestone Rural Water System is governed by the District Court. The Water System's Board is solely responsible for the budgeting and financing of the Rural 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, 2005, are \$19,479,940.

The Rural Water System's 2005 financial report shows total net assets of \$38,281,293, including unrestricted net assets of \$17,280,678. The increase in net assets for the year ended December 31, 2005, is \$552,492. 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

C. Joint Ventures (Continued)

Region 6W Community Corrections

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

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

Yellow Medicine County's contribution of \$79,439 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) 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, 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

C. 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

C. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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

D. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

The Area II Minnesota River Basin Project provides programs for flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County paid \$14,732 of the County levy to the Project.

Minnesota River Board

The Minnesota River Board promotes orderly water quality improvements and management of the Minnesota River watersheds. The County made no contributions to the Board in 2005.

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

D. 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.

E. Agricultural Best Management Loan Program

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

REQUIRED SUPPLEMENTARY INFORMATION

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,348,557	\$ 2,348,557	\$ 2,365,715	\$ 17,158
Special assessments	90,850	66,850	80,251	13,401
Licenses and permits	24,225	24,225	28,932	4,707
Intergovernmental	1,404,767	1,390,231	1,499,895	109,664
Charges for services	393,900	394,400	607,772	213,372
Fines and forfeits	-	-	228	228
Gifts and contributions	18,160	31,810	21,979	(9,831)
Investment earnings	40,910	40,910	95,367	54,457
Miscellaneous	261,734	261,734	374,796	113,062
Total Revenues	\$ 4,583,103	\$ 4,558,717	\$ 5,074,935	\$ 516,218
Expenditures				
Current				
General government				
Commissioners	\$ 172,512	\$ 172,512	\$ 169,407	\$ 3,105
Public defender	6,000	6,000	6,881	(881)
Administration	61,450	61,450	61,400	50
Auditor/treasurer	282,628	284,388	275,418	8,970
Assessor	117,119	117,119	117,187	(68)
Elections	700	700	398	302
Risk management	81,000	81,000	77,615	3,385
Accounting and auditing	41,000	41,000	23,504	17,496
Data processing	109,592	117,377	73,168	44,209
Central services	56,232	57,132	37,050	20,082
Attorney	277,932	279,932	240,380	39,552
Recorder	197,911	198,061	187,890	10,171
Planning and zoning	89,660	96,860	94,412	2,448
Buildings and plant	267,976	268,006	269,416	(1,410)
Veterans service officer	61,636	61,636	60,145	1,491
Other general government	2,800	2,800	1,294	1,506
Total general government	\$ 1,826,148	\$ 1,845,973	\$ 1,695,565	\$ 150,408
Public safety				
Sheriff	\$ 661,851	\$ 705,011	\$ 742,206	\$ (37,195)
Boat and water safety	5,000	5,000	115	4,885
Snowmobile safety	850	850	3,727	(2,877)
Coroner	14,000	14,000	3,761	10,239
E-911 system	40,000	40,000	10,168	29,832
Jail	968,412	979,612	964,674	14,938
Jail canteen fund	45,000	52,613	44,660	7,953
Civil defense	74,175	78,675	122,787	(44,112)
Weather radio	1,650	1,650	-	1,650
Total public safety	\$ 1,810,938	\$ 1,877,411	\$ 1,892,098	\$ (14,687)

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Sanitation				
Recycling	\$ 102,000	\$ 102,000	\$ 106,520	\$ (4,520)
Hazardous waste	4,000	4,000	2,393	1,607
Total sanitation	\$ 106,000	\$ 106,000	\$ 108,913	\$ (2,913)
Health				
Nursing service	\$ 1,000	\$ 1,000	\$ 1,200	\$ (200)
Culture and recreation				
Historical society	\$ 20,000	\$ 20,000	\$ 19,500	\$ 500
Senior transport	1,000	2,925	1,926	999
Fairgrounds	19,500	19,650	19,650	-
Agricultural museum	24,500	36,800	36,667	133
Parks	37,180	37,180	26,623	10,557
County/regional library	54,226	54,226	54,226	-
Other	12,800	23,826	41,755	(17,929)
Total culture and recreation	\$ 169,206	\$ 194,607	\$ 200,347	\$ (5,740)
Conservation of natural resources				
Extension	\$ 108,897	\$ 109,397	\$ 97,867	\$ 11,530
Soil and water conservation	78,762	78,762	78,762	-
Agricultural inspection	50,245	50,495	48,564	1,931
Predator control	800	800	744	56
Water quality loan program	-	31,192	58,793	(27,601)
Flood control	14,732	14,732	14,732	-
Water planning	22,490	36,191	28,193	7,998
Environmental officer	10,900	10,900	5,547	5,353
Wetland challenge	10,000	10,000	-	10,000
Other	594	594	(967)	1,561
Total conservation of natural resources	\$ 297,420	\$ 343,063	\$ 332,235	\$ 10,828
Economic development				
Community development	\$ 58,320	\$ 58,320	\$ 8,320	\$ 50,000
Intergovernmental				
Public safety	\$ 79,440	\$ 79,440	\$ 79,439	\$ 1
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, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures (Continued)				
Debt service				
Principal	\$ 44,057	\$ 29,257	\$ 49,964	\$ (20,707)
Interest	\$ 8,039	\$ 9,229	\$ 9,115	\$ 114
Total Expenditures	\$ 4,490,865	\$ 4,634,597	\$ 4,467,493	\$ 167,104
Excess of Revenues Over (Under) Expenditures	\$ 92,238	\$ (75,880)	\$ 607,442	\$ 683,322
Other Financing Sources (Uses)				
Loans issued	\$ -	\$ 31,192	\$ 58,793	\$ 27,601
Proceeds from sale of assets	\$ -	\$ -	\$ 1,588	\$ 1,588
Total Other Financing Sources (Uses)	\$ -	\$ 31,192	\$ 60,381	\$ 29,189
Net Change in Fund Balance	\$ 92,238	\$ (44,688)	\$ 667,823	\$ 712,511
Fund Balance - January 1	3,082,200	3,082,200	3,082,200	-
Fund Balance - December 31	\$ 3,174,438	\$ 3,037,512	\$ 3,750,023	\$ 712,511

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,249,160	\$ 1,249,160	\$ 1,243,636	\$ (5,524)
Intergovernmental	1,492,948	5,792,872	5,763,750	(29,122)
Charges for services	10,000	10,000	13,933	3,933
Gifts and contributions	-	-	240	240
Investment earnings	50,000	50,000	119,491	69,491
Miscellaneous	21,000	21,000	34,185	13,185
Total Revenues	\$ 2,823,108	\$ 7,123,032	\$ 7,175,235	\$ 52,203
Expenditures				
Current				
Highways and streets				
Administration	\$ 115,766	\$ 221,838	\$ 216,941	\$ 4,897
Maintenance	1,198,688	1,325,793	1,287,185	38,608
Construction	633,830	3,890,862	3,906,292	(15,430)
Equipment and maintenance shops	1,036,322	982,147	834,019	148,128
Total highways and streets	\$ 2,984,606	\$ 6,420,640	\$ 6,244,437	\$ 176,203
Intergovernmental				
Highways and streets	-	290,469	290,469	-
Total Expenditures	\$ 2,984,606	\$ 6,711,109	\$ 6,534,906	\$ 176,203
Net Change in Fund Balance	\$ (161,498)	\$ 411,923	\$ 640,329	\$ 228,406
Fund Balance - January 1	3,873,385	3,873,385	3,873,385	-
Increase (decrease) in reserved for inventories	-	-	49,694	49,694
Fund Balance - December 31	\$ 3,711,887	\$ 4,285,308	\$ 4,563,408	\$ 278,100

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,442,334	\$ 1,442,334	\$ 1,433,844	\$ (8,490)
Intergovernmental	1,690,681	1,838,681	1,849,624	10,943
Charges for services	35,000	35,000	29,763	(5,237)
Gifts and contributions	-	-	2,180	2,180
Investment earnings	32,000	32,000	37,210	5,210
Miscellaneous	40,500	76,500	113,979	37,479
Total Revenues	\$ 3,240,515	\$ 3,424,515	\$ 3,466,600	\$ 42,085
Expenditures				
Current				
Human services				
Income maintenance	\$ 762,828	\$ 909,828	\$ 943,443	\$ (33,615)
Social services	2,477,272	2,503,272	2,471,057	32,215
Total Expenditures	\$ 3,240,100	\$ 3,413,100	\$ 3,414,500	\$ (1,400)
Excess of Revenues Over (Under) Expenditures	\$ 415	\$ 11,415	\$ 52,100	\$ 40,685
Other Financing Sources (Uses)				
Proceeds from sale of assets	-	-	3,155	3,155
Net Change in Fund Balance	\$ 415	\$ 11,415	\$ 55,255	\$ 43,840
Fund Balance - January 1	1,964,534	1,964,534	1,964,534	-
Fund Balance - December 31	\$ 1,964,949	\$ 1,975,949	\$ 2,019,789	\$ 43,840

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 45,500	\$ 45,500	\$ 51,912	\$ 6,412
Intergovernmental	196	196	196	-
Investment earnings	10,000	10,000	16,975	6,975
Miscellaneous	500	500	601	101
Total Revenues	\$ 56,196	\$ 56,196	\$ 69,684	\$ 13,488
Expenditures				
Current				
Conservation of natural resources				
Other	162,655	162,655	129,817	32,838
Excess of Revenues Over (Under) Expenditures	\$ (106,459)	\$ (106,459)	\$ (60,133)	\$ 46,326
Other Financing Sources (Uses)				
Proceeds from sale of assets	-	-	1,500	1,500
Net Change in Fund Balance	\$ (106,459)	\$ (106,459)	\$ (58,633)	\$ 47,826
Fund Balance - January 1	674,327	674,327	674,327	-
Fund Balance - December 31	\$ 567,868	\$ 567,868	\$ 615,694	\$ 47,826

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2005

1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Budget Amendments

Expenditure budgets were amended in the following funds:

	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 4,490,865	\$ 143,732	\$ 4,634,597
Road and Bridge Special Revenue Fund	2,984,606	3,726,503	6,711,109
Human Services Special Revenue Fund	3,240,100	173,000	3,413,100

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.

**YELLOW MEDICINE COUNTY
GRANIITE FALLS, MINNESOTA**

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

<u>Fund</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Human Services Special Revenue	\$ 3,414,500	\$ 3,413,100	\$ 1,400
Jail Bond Debt Service	348,260	271,023	77,237

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, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 255,962	\$ 255,962	\$ 254,245	\$ (1,717)
Intergovernmental	28,338	28,338	30,378	2,040
Investment earnings	1,500	1,500	85,468	83,968
Total Revenues	\$ 285,800	\$ 285,800	\$ 370,091	\$ 84,291
Expenditures				
Debt service				
Principal	\$ 115,000	\$ 115,000	\$ 115,000	\$ -
Interest	155,703	155,703	194,299	(38,596)
Bond issuance costs	-	-	38,645	(38,645)
Administrative (fiscal) fees	320	320	316	4
Total Expenditures	\$ 271,023	\$ 271,023	\$ 348,260	\$ (77,237)
Excess of Revenues Over (Under) Expenditures	\$ 14,777	\$ 14,777	\$ 21,831	\$ 7,054
Other Financing Sources (Uses)				
Proceeds from sale of refunding bonds	\$ -	\$ -	\$ 2,615,000	\$ 2,615,000
Discount on bonds issued	-	-	(23,535)	(23,535)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 2,591,465	\$ 2,591,465
Net Change in Fund Balance	\$ 14,777	\$ 14,777	\$ 2,613,296	\$ 2,598,519
Fund Balance - January 1	265,839	265,839	265,839	-
Fund Balance - December 31	\$ 280,616	\$ 280,616	\$ 2,879,135	\$ 2,598,519

**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, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 32,183	\$ 219,630	\$ 225,845	\$ 25,968
<u>Liabilities</u>				
Due to other governments	\$ 32,183	\$ 219,630	\$ 225,845	\$ 25,968
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 132,366	\$ 10,258,896	\$ 10,189,664	\$ 201,598
<u>Liabilities</u>				
Due to other governments	\$ 132,366	\$ 10,258,896	\$ 10,189,664	\$ 201,598
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 164,549	\$ 10,478,526	\$ 10,415,509	\$ 227,566
<u>Liabilities</u>				
Due to other governments	\$ 164,549	\$ 10,478,526	\$ 10,415,509	\$ 227,566

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, 2005**

Shared Revenue

State

Highway users tax	\$	5,608,338
County program aid		820,315
PERA rate reimbursement		15,547
Disparity reduction aid		43,341
Police aid		33,798
Enhanced 911		62,944
Market value credit		575,193
Casino credit		29,856
		29,856

Total Shared Revenue **\$ 7,189,332**

Reimbursement for Services

Minnesota Department of Human Services **\$ 819,475**

Payments

Payments in lieu of taxes	\$	41,170
Local grants		87,205
		87,205

Total Payments **\$ 128,375**

Grants

State

Minnesota Department of Human Services	\$	540,362
Natural Resources		30,693
Water and Soil Resources Board		57,308
Office of Environmental Assistance		24,539
Pollution Control Agency		24,540
		24,540

Total State **\$ 677,442**

Federal

Department of Agriculture	\$	1,817
Transportation		13,158
Health and Human Services		264,542
Homeland Security		49,702
		49,702

Total Federal **\$ 329,219**

Total State and Federal Grants **\$ 1,006,661**

Total Intergovernmental Revenue **\$ 9,143,843**

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

Schedule 7

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005**

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

PREVIOUSLY REPORTED ITEM NOT RESOLVED

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.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-2 Lack of 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. 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.

ITEMS ARISING THIS YEAR

05-1 Depository Pledge Agreement

The depository pledge agreement between the County and both Yellow Medicine Bank and Farmers and Merchants State Bank states that the County is required to give notice of a failure, insolvency, or breach to the bank and wait at least three business days after the notice before the County can collect the collateral from the Custodian so the bank has time to cure the default.

Minn. Stat. § 118A.03, subd. 4, states, “The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged.”

We recommend that the County review this security agreement to ensure that it is consistent with the default language of Minn. Stat. § 118A.03, subd. 4, and that the required language is included.

Client’s Response:

Banks will be contacted to include the correct language in the future.

05-2

Depository Pledge Agreement

The County does not have depository pledge agreements with the Granite Falls Bank or the Citizens State Bank who are required to pledge collateral.

We recommend that the County execute security agreements with all banks. The pledge agreement should be consistent with the language of Minn. Stat. § 118A.03.

Client’s Response:

Banks have been contacted and pledge agreements are on file.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS RESOLVED

Payroll System (00-2)

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.

Resolution

A positive payroll system has been established by the County, whereby the employee maintains a time sheet or attendance record to document hours worked and leave taken.

Disaster Recovery Plan (04-3)

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.

Resolution

The County has developed and implemented their disaster recovery plan with an agreement with Computer Professionals Unlimited, Inc.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the County Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, the County Board will have to examine its options under state law to determine whether the establishment of a trust is authorized and desirable in order to fund the OPEB; and
- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

If applicable for Yellow Medicine County, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2007 and 2008, respectively.

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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, 2005, and have issued our report thereon dated November 27, 2006. 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 items 04-2, 05-1, and 05-2.

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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: November 27, 2006