

# STATE OF MINNESOTA

## Office of the State Auditor



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

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

YEAR ENDED DECEMBER 31, 2006

## **Description of the Office of the State Auditor**

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

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

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

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

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

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

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

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

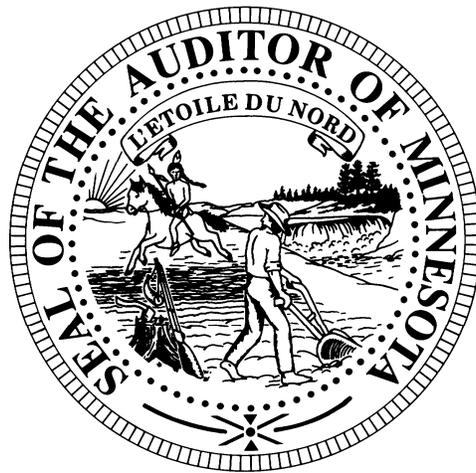
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**Year Ended December 31, 2006**



**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  
2006

Office	Name	Term Expires
<b>Commissioners</b>		
1st District	Jane Remiger	January 2007
2nd District	Lynn Anderson <sup>1</sup>	January 2007
3rd District	Gary Lee Johnson	January 2009
4th District	Ronald Antony <sup>2</sup>	January 2007
5th District	Louis Sherlin	January 2009
<b>Officers</b>		
<b>Elected</b>		
Attorney	Keith Helgeson	January 2007
Auditor/Treasurer	Carolyn Sherlin	January 2007
District Judge	Bruce Christopherson	January 2007
County Recorder	Kay Zempel	January 2007
Sheriff	Bill Flaten	January 2007
<b>Appointed</b>		
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
<b>Welfare</b>		
<b>Board</b>		
Chair	Ronald Antony	January 2007
Secretary	Catherine Thomas	July 2007
Member	Louis Sherlin	January 2009
Member	Lynn Anderson	January 2007
Member	Jane Remiger <sup>1</sup>	January 2007
Member	Gary Lee Johnson <sup>2</sup>	January 2009
Director	Peggy Heglund	Indefinite
Lay Member	Leona Smith	July 2010

<sup>1</sup>Chair 2006

<sup>2</sup>Chair 2007

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Yellow Medicine County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Yellow Medicine County as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the 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 January 18, 2008, 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

January 18, 2008

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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

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**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006  
(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, 2006. 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 \$59,903,305, of which \$49,244,214 is invested in capital assets, net of related debt, and \$3,628,475 is restricted to specific purposes. The \$7,030,616 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

The County's net assets increased by \$2,857,714 for the year ended December 31, 2006. A large part of the increase is attributable to the County's investing in capital assets, net of accumulated depreciation, without increasing long-term debt.

The net cost of governmental activities for the current fiscal year was \$4,904,460. General revenues and other items totaling \$7,762,174 funded the net cost.

The fund balances of the governmental funds decreased by \$884,883. Most of the decrease was due to the highway revenues being \$1,781,963 less than expenditures. This decrease was offset by less than anticipated costs in several departments, higher than anticipated jail fees received from other counties for boarding prisoners, insurance dividends for expenditures of prior years, and a change in accounting for unspent grant proceeds.

For the year ended December 31, 2006, the unreserved fund balance of the General Fund was \$3,885,800, or 74.6 percent, of the total General Fund expenditures for the year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Government-wide financial statements** are designed to provide readers with a broad overview of the County's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all assets and liabilities of the County using the accrual basis of accounting, with the difference being reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. It is important to consider other nonfinancial factors, such as changes in the County's property tax base and the condition of County roads and other capital assets, to assess the overall health of the County.

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

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

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

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

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$59,903,305 at the close of 2006. The largest portion of the net assets (82.2 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure, such as roads and bridges), less any related outstanding debt used to acquire those assets. However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

	Net Assets (in thousands)	
	Governmental Activities	
	2006	2005
Assets		
Current and other assets	\$ 15,009	\$ 15,597
Capital assets	52,201	48,623
Total Assets	<u>\$ 67,210</u>	<u>\$ 64,220</u>
Liabilities		
Long-term liabilities	\$ 6,360	\$ 6,344
Other liabilities	947	830
Total Liabilities	<u>\$ 7,307</u>	<u>\$ 7,174</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 49,244	\$ 45,570
Restricted	3,628	4,783
Unrestricted	7,031	6,693
Total Net Assets	<u><u>\$ 59,903</u></u>	<u><u>\$ 57,046</u></u>

Unrestricted net assets--the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--is 11.7 percent of the net assets.

## Governmental Activities

The County's governmental activities increased net assets by 5.0 percent (\$59,903,305 for 2006 compared to \$57,045,591 for 2005). Key elements in this increase in net assets are as follows:

	Governmental Activities	
	2006	2005
<b>Changes in Net Assets</b> <b>(in thousands)</b>		
Revenues		
Program revenues		
Charges for services	\$ 1,422	\$ 1,195
Operating grants and contributions	4,727	3,934
Capital grants and contributions	1,862	1,800
General revenue		
Property taxes	5,457	5,296
Other	2,305	2,169
Total Revenues	\$ 15,773	\$ 14,394
Expenses		
General government	\$ 2,276	\$ 1,866
Public safety	2,120	1,967
Highways and streets	3,778	3,430
Sanitation	113	110
Human services	3,449	3,401
Health	91	91
Culture and recreation	213	202
Conservation of natural resources	605	439
Economic development	16	8
Interest	255	246
Total Expenses	\$ 12,916	\$ 11,760
Excess of Revenues Over (Under) Expenses	\$ 2,857	\$ 2,634
Net Assets - January 1	57,046	54,412
Net Assets - December 31	\$ 59,903	\$ 57,046

## **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 \$12,888,961, a decrease of \$939,088 in comparison with the prior year. Of the combined ending fund balances, \$9,242,475 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 \$3,885,800. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund's unreserved fund balance represents 74.6 percent of total General Fund expenditures. During 2006, the ending fund balance increased by \$613,216. The primary reason for this increase was due to less than anticipated costs in several departments, revenues restricted for specific purposes not being used, 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 \$2,518,175 at fiscal year-end, representing 34.1 percent of its annual expenditures. The ending fund balance decreased \$1,780,453 during 2006, primarily due to one large road project and the finalizing of several others in the current year, while the intergovernmental revenues were reported in either the prior year or will be reported in the next year.

The Human Services Special Revenue Fund had an unreserved fund balance of \$2,300,363 at fiscal year-end, representing 67.2 percent of its annual expenditures. The ending fund balance increased \$339,947 during 2006, 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 \$538,137 at fiscal year-end. The ending fund balance decreased \$77,557 during 2006, primarily due to the 114 ditches needing more maintenance than was assessed to benefiting landowners.

The Jail Bond Debt Service Fund had a reserved fund balance of \$2,899,099 at fiscal year-end. The fund had a reserved for debt service fund balance of \$362,233, representing 98.8 percent of its annual expenditures. The remaining reserved fund balance of \$2,536,866 is reserved in escrow for the refunding of the 1999 General Obligation Jail and Courthouse Bonds. The ending fund balance increased \$19,964 during 2006, primarily due to the bond covenant's requirement to levy 105 percent of the amount needed to make the subsequent years' principal and interest payments.

**Governmental Activities**

The County's total revenues were \$15,773,719. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2006.

**Table 1  
Total County Revenues**

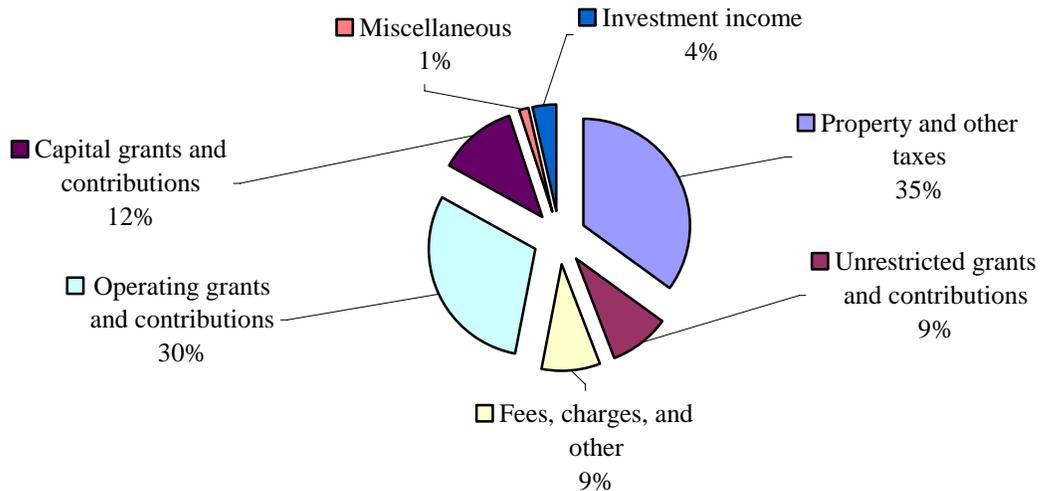
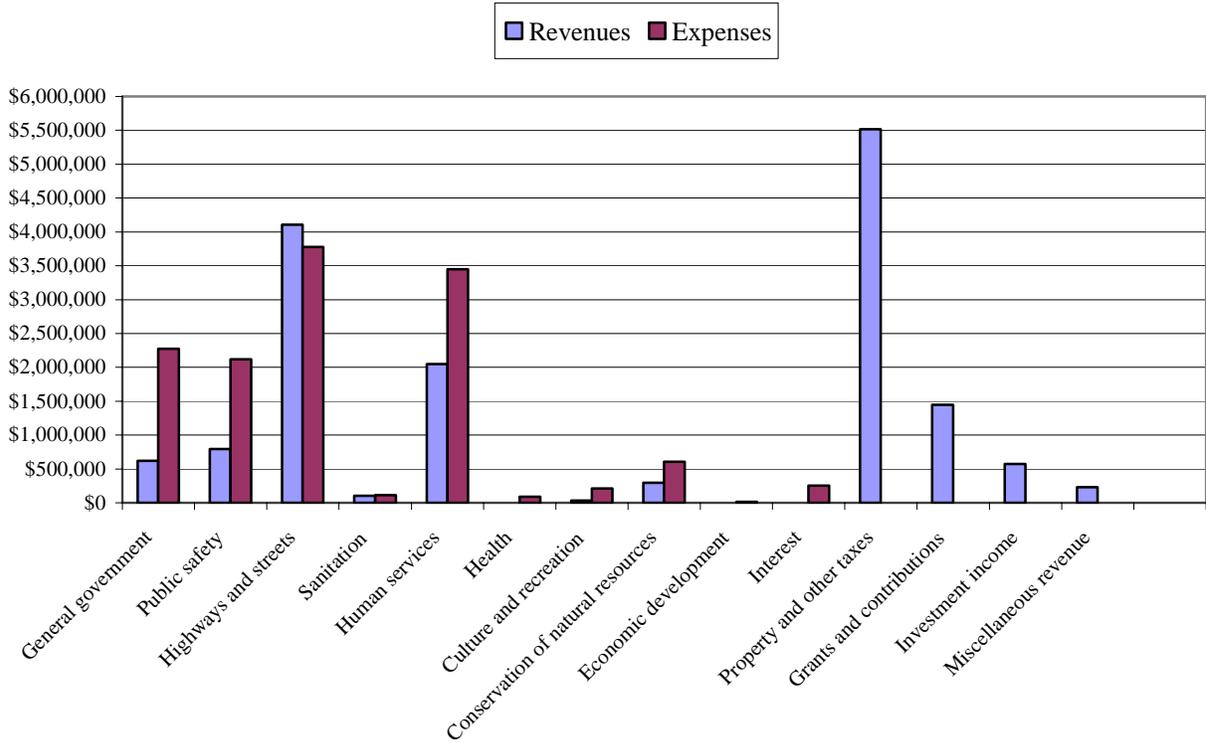


Table 2 presents the cost and revenue of each program as well as the County’s general revenues. Total revenues for the County were \$15,773,719, while total expenses were \$12,916,005. This reflects a \$2,857,714 increase in net assets for the year ended December 31, 2006.

**Table 2**  
**Expenses and Revenues 2006**



The costs of all governmental activities this year were \$12,916,005. 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 \$5,457,236 because some of the costs were paid by those who directly benefited from the programs (\$1,422,204) or by other governments and organizations, and individuals that subsidized certain programs with grants and contributions (\$6,589,341). The County paid for the remaining “public benefit” portion of governmental activities with \$7,762,174 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	
	2006	2005	2006	2005
Highways and streets	\$ 3,778	\$ 3,430	\$ (330)	\$ (427)
Human services	3,449	3,401	1,400	1,578
General government	2,276	1,866	1,654	1,648
Public safety	2,120	1,967	1,326	1,239
All others	1,293	1,096	854	793
Totals	\$ 12,916	\$ 11,760	\$ 4,904	\$ 4,831

### **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 \$245,868 below the final budget amounts. The most significant positive variance (\$47,596) occurred in the Parks Department, where we did not complete as much of the Timm Park expansion as we originally anticipated, resulting in a 1.0 percent reduction in expected expenditures. Reasons for other significant variances of actual expenditures to final budget include a lower than anticipated cost of the 2005 audit because it was not completed until 2007; the Recorder’s Department spent less than anticipated of its restricted unallocated fund and technology fund revenues, which will result in revenues being reserved in fund balance; the Attorney’s Department spent less than anticipated due to staffing changes; Building Operations spent less on utilities, repairs, and maintenance than anticipated; and several other departments spent less than anticipated. The Sheriff’s Department had more than anticipated labor costs due to more illnesses and injuries than anticipated.

On the other hand, resources available for appropriation were \$515,379 above the final budgeted amount. The most significant positive variance (\$215,322) occurred in intergovernmental revenues. The majority of this increase came from the 2006 and 2007 NR Block Grants, both being received in 2006; a larger than anticipated increase to the E911 Grant; and a Local Grant for Emergency Management. Other significant increases came from an insurance dividend, higher than anticipated contributions for the Veterans Memorial Plaza, an increase to investment earnings, and an increase to special assessment collections.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The County's capital assets for its governmental activities at December 31, 2006, totaled \$52,200,977 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$3,577,793, or 7.4 percent, from the previous year. The major capital asset events were:

\$ 4,666,774	Construction of highways and streets
244,438	Purchase of highway equipment

	<b>Capital Assets at Year-End Net of Depreciation (in thousands)</b>	
	<u>2006</u>	<u>2005</u>
Land	\$ 672	\$ 672
Infrastructure	45,286	41,789
Buildings	4,402	4,561
Improvements other than buildings	336	347
Machinery and equipment	1,206	1,155
Construction in progress	<u>299</u>	<u>99</u>
Total	<u>\$ 52,201</u>	<u>\$ 48,623</u>

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

## Long-Term Debt

At the end of the current fiscal year, the County had total net outstanding debt of \$5,550,844, which was backed by the full faith and credit of the government.

	Outstanding Debt (in thousands)	
	2006	2005
General Obligation Bonds	\$ 5,519	\$ 5,638
Capital Leases	32	63
Total	<u>\$ 5,551</u>	<u>\$ 5,701</u>

The County's debt related to general obligation bonds decreased by \$118,692 (2.11 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 2006, the County's outstanding debt was 0.5 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 2007 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Yellow Medicine County at the end of 2006 was 4.3 percent. This compares unfavorably with the state unemployment rate of 4.2 percent but shows a decrease from the County's 4.5 percent rate of one year ago. This could impact the level of services requested by County residents.
- New construction added to the County's base for spreading future taxes.
- The rapid rising cost of health insurance has a large impact on the budgeting process.
- The County's General Fund expenditures for 2007 are budgeted to increase 3.5 percent (\$168,669) over the 2006 original budget. The 2007 anticipated revenues, other than tax levy, state aid, and special assessments, are budgeted to increase 5.6 percent (\$119,277) over the 2006 original budget.

- The 2007 property tax levy for the County increased 5.1 percent (\$347,535) from 2006, but due to state aid decreases (\$13,934), the net tax levy (the amount spread to taxpayers) increased 6.0 percent (\$361,469) over the net tax levy for 2006.
- The County is dependent on the State of Minnesota for a significant portion of its revenue. Recent experience demonstrates that the State Legislature may decrease revenues again.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of Yellow Medicine County's finances. If you have questions concerning any of the information provided in this report or requests for additional financial information, address them to the County's Auditor/Treasurer, Lois M. Bonde, Yellow Medicine County Courthouse, 415 Ninth Avenue, Suite 102, Granite Falls, Minnesota 56241.

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## **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, 2006

Assets

Cash and pooled investments	\$	3,115,570
Investments		9,689,222
Receivables - net		1,927,557
Inventories		121,289
Prepaid items		121,175
Deferred charges		34,351
Capital assets		
Non-depreciable capital assets		970,905
Depreciable capital assets - net of accumulated depreciation		51,230,072
<b>Total Assets</b>	<b>\$</b>	<b>67,210,141</b>

Liabilities

Accounts payable and other current liabilities	\$	626,144
Accrued interest payable		101,444
Unearned revenue		219,568
Long-term liabilities		
Due within one year		219,484
Due in more than one year		6,140,196
<b>Total Liabilities</b>	<b>\$</b>	<b>7,306,836</b>

Net Assets

Invested in capital assets - net of related debt	\$	49,244,214
Restricted for		
Highways and streets		437,979
Public safety		173,602
Human services		17,748
Debt service		2,797,655
Conservation of natural resources		63,374
Other purposes		138,117
Unrestricted		7,030,616
<b>Total Net Assets</b>	<b>\$</b>	<b>59,903,305</b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**EXHIBIT 2**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Expenses	Fees, Charges, Fines, and Other	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
<b>Functions/Programs</b>					
<b>Governmental activities</b>					
General government	\$ 2,276,126	\$ 207,588	\$ 355,203	\$ 58,815	\$ (1,654,520)
Public safety	2,120,323	574,121	220,424	-	(1,325,778)
Highways and streets	3,778,073	55,745	2,249,417	1,803,646	330,735
Sanitation	112,950	56,060	49,079	-	(7,811)
Human services	3,448,559	294,572	1,754,380	-	(1,399,607)
Health	91,297	1,000	-	-	(90,297)
Culture and recreation	212,817	1,312	32,922	-	(178,583)
Conservation of natural resources	605,168	231,806	65,455	-	(307,907)
Economic development	15,875	-	-	-	(15,875)
Interest	254,817	-	-	-	(254,817)
<b>Total Governmental Activities</b>	<b><u>\$ 12,916,005</u></b>	<b><u>\$ 1,422,204</u></b>	<b><u>\$ 4,726,880</u></b>	<b><u>\$ 1,862,461</u></b>	<b><u>\$ (4,904,460)</u></b>
<b>General revenues</b>					
Property taxes					\$ 5,457,236
Mortgage registry and deed tax					5,054
Payments in lieu of tax					52,609
Grants and contributions not restricted to specific programs					1,444,915
Unrestricted investment earnings					571,811
Miscellaneous					230,549
<b>Total general revenues</b>					<b><u>\$ 7,762,174</u></b>
<b>Change in net assets</b>					<b><u>\$ 2,857,714</u></b>
<b>Net Assets - Beginning</b>					<b><u>57,045,591</u></b>
<b>Net Assets - Ending</b>					<b><u>\$ 59,903,305</u></b>

**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, 2006**

	<b>General</b>	<b>Road and Bridge</b>	<b>Human Services</b>	<b>Ditch</b>	<b>Jail Bond Debt Service</b>	<b>Total</b>
<b><u>Assets</u></b>						
Cash and pooled investments	\$ 275,064	\$ 92,406	\$ 71,401	\$ 15,290	\$ 864	\$ 455,025
Undistributed cash in agency funds	49,769	20,365	24,173	708	4,192	99,207
Petty cash and change funds	1,700	50	-	-	-	1,750
Departmental cash	22,722	-	-	-	-	22,722
Cash with escrow agent	-	-	-	-	2,536,866	2,536,866
Investments	4,106,391	2,577,823	2,159,845	528,083	317,080	9,689,222
Taxes receivable						
Prior	82,062	43,034	49,671	-	8,643	183,410
Special assessments receivable						
Prior	9,325	-	-	72	-	9,397
Noncurrent	333,050	-	-	65,861	-	398,911
Accounts receivable	8,366	2,178	8,814	-	-	19,358
Accrued interest receivable	26,544	22,572	12,717	8,079	40,312	110,224
Due from other funds	1,708	169	-	-	-	1,877
Due from other governments	78,814	912,508	212,999	1,936	-	1,206,257
Inventories	-	121,289	-	-	-	121,289
Prepaid items	59,200	20,350	41,625	-	-	121,175
<b>Total Assets</b>	<b>\$ 5,054,715</b>	<b>\$ 3,812,744</b>	<b>\$ 2,581,245</b>	<b>\$ 620,029</b>	<b>\$ 2,907,957</b>	<b>\$ 14,976,690</b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

	<b>General</b>	<b>Road and Bridge</b>	<b>Human Services</b>	<b>Ditch</b>	<b>Jail Bond Debt Service</b>	<b>Total</b>
<b><u>Liabilities and Fund Balances</u></b>						
<b>Liabilities</b>						
Accounts payable	\$ 85,925	\$ 20,393	\$ 92,044	\$ 1,095	\$ 215	\$ 199,672
Salaries payable	111,040	41,590	59,165	2,188	-	213,983
Contracts payable	8,825	129,213	-	-	-	138,038
Due to other funds	169	-	1,708	-	-	1,877
Due to other governments	36,276	15,342	16,391	6,442	-	74,451
Deferred revenue - unavailable	449,241	657,888	52,201	72,167	8,643	1,240,140
Deferred revenue - unearned	-	219,568	-	-	-	219,568
<b>Total Liabilities</b>	<b>\$ 691,476</b>	<b>\$ 1,083,994</b>	<b>\$ 221,509</b>	<b>\$ 81,892</b>	<b>\$ 8,858</b>	<b>\$ 2,087,729</b>
<b>Fund Balances</b>						
Reserved for						
Debt service	\$ -	\$ -	\$ -	\$ -	\$ 362,233	\$ 362,233
Encumbrances	-	66,903	-	-	-	66,903
Inventories	-	121,289	-	-	-	121,289
Prepaid items	59,200	20,350	41,625	-	-	121,175
Recorder's technology fund	21,562	-	-	-	-	21,562
Recorder's compliance fund	31,953	-	-	-	-	31,953
Enhanced 911	165,676	-	-	-	-	165,676
Sheriff's contingency	5,000	-	-	-	-	5,000
Gun permit fees	2,926	-	-	-	-	2,926
Septic/sewer loans	43,146	-	-	-	-	43,146
Election equipment grant	84,602	-	-	-	-	84,602
Unspent grant monies	63,374	-	17,748	-	-	81,122
Highway allotments	-	2,033	-	-	-	2,033
Investments with escrow agent	-	-	-	-	2,536,866	2,536,866
Unreserved						
Designated for future expenditures	133,903	705,000	-	-	-	838,903
Designated for cash flows	2,500,000	1,698,828	1,900,000	-	-	6,098,828
Designated for compensated absences	165,348	114,347	138,956	-	-	418,651
Designated for unspent contributions	33,732	-	-	-	-	33,732
Undesignated	1,052,817	-	261,407	538,137	-	1,852,361
<b>Total Fund Balances</b>	<b>\$ 4,363,239</b>	<b>\$ 2,728,750</b>	<b>\$ 2,359,736</b>	<b>\$ 538,137</b>	<b>\$ 2,899,099</b>	<b>\$ 12,888,961</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,054,715</b>	<b>\$ 3,812,744</b>	<b>\$ 2,581,245</b>	<b>\$ 620,029</b>	<b>\$ 2,907,957</b>	<b>\$ 14,976,690</b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2006**

<b>Fund Balances - Total Governmental Funds (Exhibit 3)</b>	<b>\$</b>	<b>12,888,961</b>
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		52,200,977
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,240,140
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (5,540,000)	
Capital leases	(31,763)	
Loans payable	(380,775)	
Compensated absences	(428,061)	
Unamortized discount on general obligation refunding bonds	20,919	
Deferred debt issuance charges	34,351	
Accrued interest payable	(101,444)	
	(6,426,773)	(6,426,773)
<b>Net Assets of Governmental Activities (Exhibit 1)</b>	<b>\$</b>	<b><u>59,903,305</u></b>

**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, 2006**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Jail Bond Debt Service</u>	<u>Total</u>
<b>Revenues</b>						
Taxes	\$ 2,481,674	\$ 1,245,400	\$ 1,472,171	\$ -	\$ 254,398	\$ 5,453,643
Special assessments	106,508	-	-	65,512	-	172,020
Licenses and permits	30,174	-	-	-	-	30,174
Intergovernmental	1,867,113	4,007,927	1,923,238	196	28,725	7,827,199
Charges for services	621,896	32,898	190,428	-	-	845,222
Fines and forfeits	15,460	-	-	-	-	15,460
Gifts and contributions	66,585	240	2,725	-	-	69,550
Investment earnings	145,507	193,214	70,260	17,322	103,497	529,800
Miscellaneous	343,422	134,114	104,144	7,917	-	589,597
<b>Total Revenues</b>	<b>\$ 5,678,339</b>	<b>\$ 5,613,793</b>	<b>\$ 3,762,966</b>	<b>\$ 90,947</b>	<b>\$ 386,620</b>	<b>\$ 15,532,665</b>
<b>Expenditures</b>						
<b>Current</b>						
General government	\$ 2,187,556	\$ -	\$ -	\$ -	\$ -	\$ 2,187,556
Public safety	1,999,236	-	-	-	-	1,999,236
Highways and streets	-	7,110,546	-	-	-	7,110,546
Sanitation	112,299	-	-	-	-	112,299
Human services	-	-	3,423,019	-	-	3,423,019
Health	1,000	-	-	-	-	1,000
Culture and recreation	229,353	-	-	-	-	229,353
Conservation of natural resources	430,812	-	-	168,504	-	599,316
Economic development	15,875	-	-	-	-	15,875
<b>Intergovernmental</b>	<b>173,708</b>	<b>285,210</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>458,918</b>
<b>Debt service</b>						
Principal	52,182	-	-	-	120,000	172,182
Interest	7,005	-	-	-	246,225	253,230
Administrative (fiscal) fees	-	-	-	-	431	431
<b>Total Expenditures</b>	<b>\$ 5,209,026</b>	<b>\$ 7,395,756</b>	<b>\$ 3,423,019</b>	<b>\$ 168,504</b>	<b>\$ 366,656</b>	<b>\$ 16,562,961</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 469,313</b>	<b>\$ (1,781,963)</b>	<b>\$ 339,947</b>	<b>\$ (77,557)</b>	<b>\$ 19,964</b>	<b>\$ (1,030,296)</b>
<b>Other Financing Sources (Uses)</b>						
Loans issued	\$ 138,329	\$ -	\$ -	\$ -	\$ -	\$ 138,329
Proceeds from sale of assets	5,574	1,510	-	-	-	7,084
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 143,903</b>	<b>\$ 1,510</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 145,413</b>

**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, 2006**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Jail Bond Debt Service</u>	<u>Total</u>
Net Change in Fund Balances	\$ 613,216	\$ (1,780,453)	\$ 339,947	\$ (77,557)	\$ 19,964	\$ (884,883)
Fund Balances - January 1	3,750,023	4,563,408	2,019,789	615,694	2,879,135	13,828,049
Increase (decrease) in reserved for inventories	-	(54,205)	-	-	-	(54,205)
Fund Balances - December 31	<u>\$ 4,363,239</u>	<u>\$ 2,728,750</u>	<u>\$ 2,359,736</u>	<u>\$ 538,137</u>	<u>\$ 2,899,099</u>	<u>\$ 12,888,961</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, 2006**

**Net Change in Fund Balances - Total Governmental Funds (Exhibit 5) \$ (884,883)**

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	\$ 1,240,140	
Deferred revenue - January 1	(1,006,170)	233,970

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	\$ 5,258,676	
Current year depreciation	(1,680,883)	3,577,793

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

Debt issued		
Loans issued		(138,329)

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	\$ 120,000	
Loans payable	21,123	
Capital leases	31,059	172,182

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

Change in accrued interest payable	\$ 2,299	
Amortization of discounts and deferred issuance charges	(3,455)	
Change in compensated absences	(47,658)	
Change in inventories	(54,205)	(103,019)

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ 2,857,714**

## **FIDUCIARY FUNDS**

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**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*EXHIBIT 7*

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2006**

	<u>Cemetery Investment Trust</u>	<u>Agency</u>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ -	\$ 147,866
Investments	10,250	-
Accrued interest receivable	29	-
	<hr/>	<hr/>
<b>Total Assets</b>	<b>\$ 10,279</b>	<b>\$ 147,866</b>
	<hr/>	<hr/>
<b><u>Liabilities</u></b>		
Accounts payable	\$ 29	\$ -
Due to other governments	-	147,866
	<hr/>	<hr/>
<b>Total Liabilities</b>	<b>\$ 29</b>	<b>\$ 147,866</b>
	<hr/>	<hr/>
<b><u>Net Assets</u></b>		
Net assets, held in trust for pool participant	<b>\$ 10,250</b>	
	<hr/>	

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**EXHIBIT 8**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Cemetery Investment Trust</u>
<b><u>Additions</u></b>	
Investment earnings	\$ 352
<b><u>Deductions</u></b>	
Distributions to participant	<u>352</u>
<b>Change in net assets</b>	<b>\$ -</b>
<b>Net Assets - January 1</b>	<u><b>10,250</b></u>
<b>Net Assets - December 31</b>	<u><u><b>\$ 10,250</b></u></u>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006

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, 2006. 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**

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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**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

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

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

Additionally, the County reports the following fiduciary fund types:

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

C. Measurement Focus and Basis of Accounting

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

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

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2006, 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 2006 were \$42,068.

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

Included in total cash and 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."

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

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

All receivables are shown net of an allowance for uncollectibles.

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

3. Inventories and Prepaid Items

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

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

4. Restricted Assets

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

5. Capital Assets

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

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

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

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

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

6. Compensated Absences

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

7. Deferred Revenue

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

8. Long-Term Obligations

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

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

9. Fund Equity

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

10. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

Fund	Expenditures	Budget	Excess
Road and Bridge Special Revenue	\$ 7,395,756	\$ 5,653,488	\$ 1,742,268

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	\$	3,115,570
Investments		9,689,222
Statement of fiduciary net assets		
Cash and pooled investments		147,866
Investments		10,250
Total Cash and Investments	\$	12,962,908

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all County deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit 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 standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution 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 has adopted a policy for custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2006, the County's deposits were not exposed to custodial credit risk.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes 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	\$ 2,536,493	\$ 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.

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, 2006, \$2,536,493 of investments with escrow agent held at US Bank, \$2,866,041 of U.S. agency securities and \$600,001 of negotiable certificates of deposit held by brokers were subject to custodial credit risk.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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

The following table presents the County's cash and investment balances at December 31, 2006, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
U.S. agency securities					
Federal National Mortgage Association				11/23/2007	\$ 297,282
Federal National Mortgage Association	Aaa	Moody's		01/05/2007	162,746
Federal National Mortgage Association	Aaa	Moody's		11/09/2009	149,062
Federal National Mortgage Association	Aaa	Moody's		10/28/2011	88,650
Federal National Mortgage Association	Aaa	Moody's		04/22/2014	98,719
Federal National Mortgage Association	Aaa	Moody's		04/20/2016	198,688
Federal National Mortgage Association	Aaa	Moody's		10/11/2016	250,077
Federal National Mortgage Association	Aaa	Moody's		09/27/2021	246,798
Total Federal National Mortgage Association			14.8%		\$ 1,492,022
Federal Home Loan Mortgage Corporation					
Federal Home Loan Mortgage Corporation	Aaa	Moody's		12/15/2008	\$ 148,952
Federal Home Loan Mortgage Corporation	NR			11/15/2008	99,650
Federal Home Loan Mortgage Corporation	Aaa	Moody's		11/19/2018	98,083
Federal Home Loan Mortgage Corporation	Aaa	Moody's		09/28/2018	197,608
Total Federal Home Loan Mortgage Corporation			13.4%		\$ 544,293
Federal Home Loan Bank					
Federal Home Loan Bank	Aaa	Moody's		12/15/2008	\$ 99,187
Federal Home Loan Bank	NR			02/23/2009	199,750
Federal Home Loan Bank	Aaa	Moody's		06/30/2010	495,625
Federal Home Loan Bank	Aaa	Moody's		11/28/2016	198,688
Federal Home Loan Bank	Aaa	Moody's		11/22/2010	249,452
Federal Home Loan Bank	Aaa	Moody's		06/26/2018	148,032
Federal Home Loan Bank	AAA	S&P		08/15/2008	149,720
Total Federal Home Loan Bank			16.2%		\$ 1,540,454

**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	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. Treasury securities					
U.S. Treasury state and local government series	N/A	N/A		08/01/2007	\$ 1,120
U.S. Treasury state and local government series	N/A	N/A		02/01/2009	2,535,373
Total U.S. Treasury securities			N/A		\$ 2,536,493
Negotiable certificates of deposit					
First National Bank - Sioux Falls, South Dakota	N/A	N/A		09/28/2007	\$ 98,000
Commerce Bank - Geneva, Minnesota	N/A	N/A		02/06/2007	100,000
Community Bank Minnesota Valley - Jordan, Minnesota	N/A	N/A		08/02/2007	99,000
State Bank - Long Lake, Minnesota	N/A	N/A		05/11/2007	97,000
Old National Bank - Evansville	N/A	N/A		02/28/2018	96,555
Stearns Bank - St. Cloud, Minnesota	N/A	N/A		03/24/2008	97,000
Currie State Bank - Currie, Minnesota	N/A	N/A		07/06/2007	99,000
Total negotiable certificates of deposit			N/A		\$ 686,555
Total investments					\$ 6,799,817
Checking					527,098
Savings					3,350,898
MAGIC Fund					1,000,000
Certificates of deposit					1,260,250
Petty cash					1,750
Cash with escrow agent					373
Departmental cash					22,722
Total Cash and Investments					\$ 12,962,908

N/A - Not applicable  
 NR - Not rated  
 S&P - Standard & Poor's

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2006, 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	\$ 183,410	\$ -
Special assessments	408,308	292,402
Due from other governments	1,206,257	-
Accounts	19,358	-
Interest	110,224	-
Total Governmental Activities	\$ 1,927,557	\$ 292,402

3. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 671,902	\$ 446	\$ -	\$ 672,348
Construction in progress	99,492	199,065	-	298,557
Total capital assets not depreciated	\$ 771,394	\$ 199,511	\$ -	\$ 970,905
Capital assets depreciated				
Buildings	\$ 5,806,492	\$ -	\$ 8,431	\$ 5,798,061
Land improvements	391,410	-	-	391,410
Machinery and equipment	4,026,300	392,391	219,132	4,199,559
Infrastructure	53,806,270	4,666,774	-	58,473,044
Total capital assets depreciated	\$ 64,030,472	\$ 5,059,165	\$ 227,563	\$ 68,862,074

**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	\$ 1,245,721	\$ 158,707	\$ 8,431	\$ 1,395,997
Land improvements	44,079	11,381	-	55,460
Machinery and equipment	2,871,155	341,127	219,132	2,993,150
Infrastructure	<u>12,017,727</u>	<u>1,169,668</u>	<u>-</u>	<u>13,187,395</u>
 Total accumulated depreciation	 <u>\$ 16,178,682</u>	 <u>\$ 1,680,883</u>	 <u>\$ 227,563</u>	 <u>\$ 17,632,002</u>
 Total capital assets depreciated, net	 <u>\$ 47,851,790</u>	 <u>\$ 3,378,382</u>	 <u>\$ -</u>	 <u>\$ 51,230,072</u>
 Capital Assets, Net	 <u><u>\$ 48,623,184</u></u>	 <u><u>\$ 3,577,793</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 52,200,977</u></u>

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

Governmental Activities	
General government	\$ 196,739
Public safety	109,503
Highways and streets, including depreciation of infrastructure assets	1,352,294
Sanitation	651
Human services	14,597
Culture and recreation	2,064
Conservation of natural resources	<u>5,035</u>
 Total Depreciation Expense - Governmental Activities	 <u><u>\$ 1,680,883</u></u>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2006, is as follows:

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Human Services	\$ 1,708
Road and Bridge	General	<u>169</u>
 Total Due To/From Other Funds		 <u><u>\$ 1,877</u></u>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

Due To/From Other Funds (Continued)

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, 2006, were as follows:

Accounts	\$	199,672
Salaries		213,983
Contracts		138,038
Due to other governments		74,451
Total Payables	\$	626,144

2. Construction Commitments

The government has active construction projects as of December 31, 2006. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Roads and bridges		
Vehicle	\$ -	\$ 29,530
Granite Falls building project	137,948	33,125
Total Construction Commitments	\$ 137,948	\$ 62,655

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

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, 2006:

Lease	Final Maturity	Installment	Payment Amount	Original Issue Amount	Outstanding Balance December 31, 2006
2001 postage machine	2007	Monthly	\$ 239	\$ 12,202	\$ 1,614
1997 Johnson Controls	2007	Semi-annual	15,714	237,834	30,149
Total Capital Leases					<u>\$ 31,763</u>

Capital leases are paid from the General Fund. The leases will be paid off in 2007. The minimum payment of \$31,763 includes \$1,338 representing interest.

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, 2006
Clean water loans	2014	\$ 12,446	2.00	\$ 426,922	<u>\$ 380,775</u>

**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, 2006
General obligation bonds 2005 G.O. Refunding Bonds, Series 2005	2022	\$165,000 - \$250,000	3.9532	\$ 2,615,000	\$ 2,615,000
1999 G.O. Jail and Courthouse Bonds	2022	\$55,000 - \$260,000	5.2054	<u>3,330,000</u>	<u>2,925,000</u>
Total general obligation bonds				<u>\$ 5,945,000</u>	\$ 5,540,000
Less: unamortized discount					<u>(20,919)</u>
Total General Obligation Bonds, Net					<u>\$ 5,519,081</u>

Payments on the Jail and Courthouse Bonds and Refunding Bonds are made by the Debt Service Fund. Debt service requirements at December 31, 2006, were as follows:

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2007	\$ 125,000	\$ 240,590
2008	130,000	234,725
2009	2,670,000	228,630
2010	165,000	95,808
2011	165,000	90,734
2012 - 2016	920,000	362,603
2017 - 2021	1,115,000	168,406
2022	<u>250,000</u>	<u>5,188</u>
Total	<u>\$ 5,540,000</u>	<u>\$ 1,426,684</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, 2006, 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	3,045,000	-	120,000	2,925,000	125,000
Total bonds payable	\$ 5,660,000	\$ -	\$ 120,000	\$ 5,540,000	\$ 125,000
Loans payable	263,569	138,329	21,123	380,775	21,548
Lease purchase	62,822	-	31,059	31,763	31,763
Compensated absences	380,403	47,658	-	428,061	41,173
Long-Term Liabilities	<u>\$ 6,366,794</u>	<u>\$ 185,987</u>	<u>\$ 172,182</u>	<u>\$ 6,380,599</u>	<u>\$ 219,484</u>

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 on the new bonds. 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**

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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.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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.

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.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. 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 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. Public Employees Police and Fire Fund members were required to contribute 7.00 percent of their annual covered salary in 2006. That rate increased to 7.80 percent in 2007. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2006 and 2007:

	2006	2007
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.00	6.25
Public Employees Police and Fire Fund	10.50	11.70
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2006, 2005, and 2004, 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
2006	\$ 191,506	\$ 47,207	\$ 39,301
2005	163,535	37,278	37,657
2004	154,312	33,798	32,496

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.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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4. Pension Plans

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies 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, 2006, 2005, and 2004, were \$2,047, \$1,987, and \$1,887, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For all other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of 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 \$390,000 per claim in 2006 and \$400,000 per claim in 2007. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

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.

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

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, 2006, are \$21,957,644.

The Rural Water System's 2006 financial report shows total net assets of \$38,147,114, including unrestricted net assets of \$20,545,521. The decrease in net assets for the year ended December 31, 2006, is \$134,179. 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.

Region 6W Community Corrections

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

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

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Region 6W Community Corrections (Continued)

Yellow Medicine County's contribution of \$83,411 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 (Chippewa, Lac qui Parle, Swift, and Yellow Medicine--which are served by 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.

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.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Southwestern Minnesota Adult Mental Health Consortium Board

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

The following is a summary of the Board's annual financial report (the latest available) for the year ended December 31, 2005:

Total assets	\$ 1,148,132
Total liabilities	497,546
Total equity	650,586
Total revenues	1,960,287
Total expenditures	1,671,076
Net increase to fund balance	289,211

The Board reported no long-term obligations at December 31, 2005.

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.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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

D. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

The Area II Minnesota River Basin Project provides programs for flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County paid \$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 2006.

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 \$627 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 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.

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

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.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*Schedule 1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,471,684	\$ 2,471,684	\$ 2,481,674	\$ 9,990
Special assessments	68,370	68,370	106,508	38,138
Licenses and permits	24,250	24,250	30,174	5,924
Intergovernmental	1,363,347	1,651,791	1,867,113	215,322
Charges for services	583,140	583,140	621,896	38,756
Fines and forfeits	300	1,236	15,460	14,224
Gifts and contributions	-	30,185	66,585	36,400
Investment earnings	61,160	61,160	145,507	84,347
Miscellaneous	271,144	271,144	343,422	72,278
<b>Total Revenues</b>	<b>\$ 4,843,395</b>	<b>\$ 5,162,960</b>	<b>\$ 5,678,339</b>	<b>\$ 515,379</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 186,028	\$ 201,428	\$ 181,682	\$ 19,746
Public defender	7,000	7,000	7,453	(453)
Administration	64,000	64,000	53,209	10,791
Auditor/treasurer	297,268	305,778	295,168	10,610
Assessor	123,543	123,920	124,359	(439)
Elections	16,100	191,100	167,476	23,624
Risk management	84,850	89,211	92,275	(3,064)
Accounting and auditing	42,000	42,000	23,743	18,257
Data processing	130,800	134,000	109,198	24,802
Central services	35,100	46,545	37,426	9,119
Attorney	290,906	299,044	259,907	39,137
Recorder	268,490	279,202	241,843	37,359
Planning and zoning	89,603	93,573	87,315	6,258
Buildings and plant	324,811	418,816	383,888	34,928
Veterans service officer	69,031	94,279	121,234	(26,955)
Other general government	8,500	16,000	1,380	14,620
<b>Total general government</b>	<b>\$ 2,038,030</b>	<b>\$ 2,405,896</b>	<b>\$ 2,187,556</b>	<b>\$ 218,340</b>
<b>Public safety</b>				
Sheriff	\$ 676,940	\$ 701,190	\$ 757,549	\$ (56,359)
Boat and water safety	4,155	4,155	2,070	2,085
Snowmobile safety	850	850	869	(19)
Coroner	14,000	14,000	13,968	32
E-911 system	41,000	48,554	40,616	7,938
Jail	1,032,820	1,052,917	1,025,898	27,019
Jail canteen fund	41,000	41,000	45,780	(4,780)
Civil defense	59,586	72,491	97,634	(25,143)
Weather radio	1,650	14,852	14,852	-
<b>Total public safety</b>	<b>\$ 1,872,001</b>	<b>\$ 1,950,009</b>	<b>\$ 1,999,236</b>	<b>\$ (49,227)</b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Sanitation</b>				
Recycling	\$ 102,500	\$ 104,489	\$ 106,948	\$ (2,459)
Hazardous waste	4,000	4,000	5,351	(1,351)
<b>Total sanitation</b>	<b>\$ 106,500</b>	<b>\$ 108,489</b>	<b>\$ 112,299</b>	<b>\$ (3,810)</b>
<b>Health</b>				
Nursing service	\$ 1,500	\$ 1,500	\$ 1,000	\$ 500
<b>Culture and recreation</b>				
Historical society	\$ 20,000	\$ 20,000	\$ 19,500	\$ 500
Senior transport	3,000	3,000	3,249	(249)
Fairgrounds	19,500	19,600	19,600	-
Agricultural museum	24,500	25,579	25,579	-
Minnesota trails	-	36,442	32,797	3,645
Parks	96,223	96,223	48,627	47,596
County/regional library	63,807	63,807	63,807	-
Other	21,641	23,641	16,194	7,447
<b>Total culture and recreation</b>	<b>\$ 248,671</b>	<b>\$ 288,292</b>	<b>\$ 229,353</b>	<b>\$ 58,939</b>
<b>Conservation of natural resources</b>				
Extension	\$ 95,264	\$ 95,264	\$ 93,445	\$ 1,819
Soil and water conservation	90,953	90,953	100,953	(10,000)
Agricultural inspection	52,574	52,574	49,684	2,890
Predator control	1,000	1,000	2,338	(1,338)
Water quality loan program	-	136,928	138,329	(1,401)
Flood control	14,732	14,732	14,732	-
Water planning	22,599	27,599	23,319	4,280
Environmental officer	9,000	9,000	7,415	1,585
Other	627	627	597	30
<b>Total conservation of natural resources</b>	<b>\$ 286,749</b>	<b>\$ 428,677</b>	<b>\$ 430,812</b>	<b>\$ (2,135)</b>
<b>Economic development</b>				
Community development	\$ 60,195	\$ 60,195	\$ 15,875	\$ 44,320
<b>Intergovernmental</b>				
Public safety	\$ 83,411	\$ 83,411	\$ 83,411	\$ -
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, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Expenditures (Continued)</b>				
<b>Debt service</b>				
Principal	\$ 34,328	\$ 34,328	\$ 52,182	\$ (17,854)
Interest	\$ 3,800	\$ 3,800	\$ 7,005	\$ (3,205)
<b>Total Expenditures</b>	<b>\$ 4,825,482</b>	<b>\$ 5,454,894</b>	<b>\$ 5,209,026</b>	<b>\$ 245,868</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ 17,913</b>	<b>\$ (291,934)</b>	<b>\$ 469,313</b>	<b>\$ 761,247</b>
<b>Other Financing Sources (Uses)</b>				
Loans issued	\$ -	\$ 136,928	\$ 138,329	\$ 1,401
Proceeds from sale of assets	\$ -	\$ -	\$ 5,574	\$ 5,574
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ 136,928</b>	<b>\$ 143,903</b>	<b>\$ 6,975</b>
<b>Net Change in Fund Balance</b>	<b>\$ 17,913</b>	<b>\$ (155,006)</b>	<b>\$ 613,216</b>	<b>\$ 768,222</b>
<b>Fund Balance - January 1</b>	<b>3,750,023</b>	<b>3,750,023</b>	<b>3,750,023</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,767,936</b>	<b>\$ 3,595,017</b>	<b>\$ 4,363,239</b>	<b>\$ 768,222</b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,387,454	\$ 1,387,454	\$ 1,245,400	\$ (142,054)
Intergovernmental	1,155,000	3,697,716	4,007,927	310,211
Charges for services	12,000	12,000	32,898	20,898
Gifts and contributions	-	-	240	240
Investment earnings	50,000	50,000	193,214	143,214
Miscellaneous	22,000	134,367	134,114	(253)
<b>Total Revenues</b>	<b>\$ 2,626,454</b>	<b>\$ 5,281,537</b>	<b>\$ 5,613,793</b>	<b>\$ 332,256</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 219,934	\$ 222,194	\$ 220,383	\$ 1,811
Maintenance	1,337,070	1,271,208	1,174,897	96,311
Construction	517,890	3,061,169	4,805,445	(1,744,276)
Equipment and maintenance shops	1,035,878	1,098,917	909,821	189,096
<b>Total highways and streets</b>	<b>\$ 3,110,772</b>	<b>\$ 5,653,488</b>	<b>\$ 7,110,546</b>	<b>\$ (1,457,058)</b>
<b>Intergovernmental</b>				
Highways and streets	-	-	285,210	(285,210)
<b>Total Expenditures</b>	<b>\$ 3,110,772</b>	<b>\$ 5,653,488</b>	<b>\$ 7,395,756</b>	<b>\$ (1,742,268)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (484,318)</b>	<b>\$ (371,951)</b>	<b>\$ (1,781,963)</b>	<b>\$ (1,410,012)</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of assets	-	-	1,510	1,510
<b>Net Change in Fund Balance</b>	<b>\$ (484,318)</b>	<b>\$ (371,951)</b>	<b>\$ (1,780,453)</b>	<b>\$ (1,408,502)</b>
<b>Fund Balance - January 1</b>	<b>4,563,408</b>	<b>4,563,408</b>	<b>4,563,408</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>(54,205)</b>	<b>(54,205)</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,079,090</b>	<b>\$ 4,191,457</b>	<b>\$ 2,728,750</b>	<b>\$ (1,462,707)</b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,477,814	\$ 1,477,814	\$ 1,472,171	\$ (5,643)
Intergovernmental	1,733,701	1,853,701	1,923,238	69,537
Charges for services	30,000	30,000	190,428	160,428
Gifts and contributions	-	-	2,725	2,725
Investment earnings	40,000	40,000	70,260	30,260
Miscellaneous	51,000	101,000	104,144	3,144
<b>Total Revenues</b>	<b>\$ 3,332,515</b>	<b>\$ 3,502,515</b>	<b>\$ 3,762,966</b>	<b>\$ 260,451</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 814,542	\$ 986,322	\$ 893,814	\$ 92,508
Social services	2,564,908	2,607,728	2,529,205	78,523
<b>Total Expenditures</b>	<b>\$ 3,379,450</b>	<b>\$ 3,594,050</b>	<b>\$ 3,423,019</b>	<b>\$ 171,031</b>
<b>Net Change in Fund Balance</b>	<b>\$ (46,935)</b>	<b>\$ (91,535)</b>	<b>\$ 339,947</b>	<b>\$ 431,482</b>
<b>Fund Balance - January 1</b>	<b>2,019,789</b>	<b>2,019,789</b>	<b>2,019,789</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,972,854</b>	<b>\$ 1,928,254</b>	<b>\$ 2,359,736</b>	<b>\$ 431,482</b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*Schedule 4*

**BUDGETARY COMPARISON SCHEDULE  
DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Special assessments	\$ 80,000	\$ 80,000	\$ 65,512	\$ (14,488)
Intergovernmental	196	196	196	-
Investment earnings	15,000	15,000	17,322	2,322
Miscellaneous	-	-	7,917	7,917
<b>Total Revenues</b>	<b>\$ 95,196</b>	<b>\$ 95,196</b>	<b>\$ 90,947</b>	<b>\$ (4,249)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Other	197,444	199,544	168,504	31,040
<b>Net Change in Fund Balance</b>	<b>\$ (102,248)</b>	<b>\$ (104,348)</b>	<b>\$ (77,557)</b>	<b>\$ 26,791</b>
<b>Fund Balance - January 1</b>	<b>615,694</b>	<b>615,694</b>	<b>615,694</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 513,446</b>	<b>\$ 511,346</b>	<b>\$ 538,137</b>	<b>\$ 26,791</b>

**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2006

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	\$ 4,825,482	\$ 629,412	\$ 5,454,894
Road and Bridge Special Revenue Fund	3,110,772	2,542,716	5,653,488
Human Services Special Revenue Fund	3,379,450	214,600	3,594,050
Ditch Special Revenue Fund	197,444	2,100	199,544

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

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

Fund	Expenditures	Budget	Excess
Road and Bridge Special Revenue	\$ 7,395,756	\$ 5,653,488	\$ 1,742,268

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**SUPPLEMENTARY INFORMATION**

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**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

*Schedule 5*

**BUDGETARY COMPARISON SCHEDULE  
JAIL BOND DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 255,330	\$ 255,330	\$ 254,398	\$ (932)
Intergovernmental	28,370	28,370	28,725	355
Investment earnings	1,800	99,336	103,497	4,161
<b>Total Revenues</b>	<b>\$ 285,500</b>	<b>\$ 383,036</b>	<b>\$ 386,620</b>	<b>\$ 3,584</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 120,000	\$ 120,000	\$ 120,000	\$ -
Interest	147,943	246,225	246,225	-
Administrative (fiscal) fees	317	735	431	304
<b>Total Expenditures</b>	<b>\$ 268,260</b>	<b>\$ 366,960</b>	<b>\$ 366,656</b>	<b>\$ 304</b>
<b>Net Change in Fund Balance</b>	<b>\$ 17,240</b>	<b>\$ 16,076</b>	<b>\$ 19,964</b>	<b>\$ 3,888</b>
<b>Fund Balance - January 1</b>	<b>2,879,135</b>	<b>2,879,135</b>	<b>2,879,135</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,896,375</b>	<b>\$ 2,895,211</b>	<b>\$ 2,899,099</b>	<b>\$ 3,888</b>

**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, 2006**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>STATE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 25,968	\$ 210,121	\$ 216,492	\$ 19,597
<b><u>Liabilities</u></b>				
Due to other governments	\$ 25,968	\$ 210,121	\$ 216,492	\$ 19,597
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 201,598	\$ 11,025,673	\$ 11,099,002	\$ 128,269
<b><u>Liabilities</u></b>				
Due to other governments	\$ 201,598	\$ 11,025,673	\$ 11,099,002	\$ 128,269
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 227,566	\$ 11,235,794	\$ 11,315,494	\$ 147,866
<b><u>Liabilities</u></b>				
Due to other governments	\$ 227,566	\$ 11,235,794	\$ 11,315,494	\$ 147,866

**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, 2006**

**Shared Revenue**

**State**

Highway users tax	\$	3,803,483
County program aid		798,109
PERA rate reimbursement		15,547
Disparity reduction aid		43,341
Police aid		37,278
Enhanced 911		83,633
Market value credit		560,390
Casino credit		27,528
		27,528

**Total Shared Revenue** **\$ 5,369,309**

**Reimbursement for Services**

Minnesota Department of Human Services	\$	831,510
----------------------------------------	----	---------

**Payments**

Payments in lieu of taxes	\$	52,609
Local grants		93,807

**Total Payments** **\$ 146,416**

**Grants**

**State**

Minnesota Department of Human Services	\$	649,872
Natural Resources		34,860
Public Safety		638
Water and Soil Resources Board		136,173
Peace Officer Standards and Training Board		2,894
Pollution Control Agency		49,079
		49,079

**Total State** **\$ 873,516**

**Federal**

Department of Agriculture	\$	2,249
Transportation		70,944
Health and Human Services		244,447
Homeland Security		55,848
Election Assistance Commission		232,960
		232,960

**Total Federal** **\$ 606,448**

**Total State and Federal Grants** **\$ 1,479,964**

**Total Intergovernmental Revenue** **\$ 7,827,199**

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**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

Schedule 7

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

- A. Our report expresses unqualified opinions on the basic financial statements of Yellow Medicine County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Yellow Medicine County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." We consider some of the deficiencies to be material weaknesses.
- C. No instances of noncompliance material to the financial statements of Yellow Medicine County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of major federal award programs are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Yellow Medicine County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:
- |                                             |              |
|---------------------------------------------|--------------|
| Highway Planning and Construction           | CFDA #20.205 |
| Help America Vote Act Requirements Payments | CFDA #90.401 |
| Social Services Block Grant Title XX        | CFDA #93.667 |
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Yellow Medicine County was determined not to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-1 Segregation of Duties

Due to the limited number of office personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not always possible. This is not unusual in operations the size of Yellow Medicine County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

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

We recommend that the County's elected officials and department heads 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.*

ITEMS ARISING THIS YEAR

06-1 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. One control deficiency that typically is considered significant is restatement of previously issued financial statements to reflect the correction of a material misstatement or identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls. During our audit, we proposed the following adjustments that resulted in significant changes to the County's financial statements.

- Due from other governments was overstated in the Road and Bridge Special Revenue Fund (\$43,207).
- Deferred revenue unearned was understated by \$166,671, and deferred revenue unavailable was overstated by \$67,701 in the Road and Bridge Special Revenue Fund.
- Corrections were made to reclassify various revenues in the General Fund and the special revenue funds (\$300,991).
- Corrections were made to record revenues and expenditures offset by each other or by transfers in/out in the General Fund, Road and Bridge Special Revenue Fund, and Human Services Special Revenue Fund (\$159,849).

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

We recommend the following to modify internal controls over financial reporting in order to detect misstatements in the financial statements:

- The County should continue training all persons coding receipts and disbursements in the accounting system.

- Classification of receipts and disbursements should be monitored more closely throughout the year to ensure all accounts are correctly reported.
- A qualified individual should review the draft financial statements to identify potential misstatements.

Client's Response:

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

06-2 Computer Risk Management

Risk management begins with a risk assessment of the County's computer system to identify those risks that could negatively influence computer operations. Internal controls should be implemented to reduce the identified risks. Internal controls implemented should be documented in a well-maintained policies and procedures manual, which should be communicated to the County's staff. Staff adherence to these policies and procedures should be monitored.

Proper controls should be maintained over the computer system to allow for proper financial reporting. The County does not maintain segregation of duties over the control of the computer system, require strong passwords, or test its disaster recovery plan. The County also does not have a limit on the number of devices signed on to or a limit on security officer device access.

We recommend the County take steps to improve the control over its computer systems by reviewing and maintaining error logs, segregating the duties of the information technology staff, requiring passwords that are longer and include more randomized characters, and testing its disaster recovery plan.

We recommend the County Board develop a plan to ensure that internal controls are in place to reduce the risk associated with the County's computer systems. Because computer systems are ever changing, the County should include in its plan periodic reassessment of risk to ensure existing internal controls are still effective.

Client's Response:

*The County will implement a procedure that passwords be alpha numeric and 8 characters in length and work with our AS400 lessor to have the system require the equivalent. The County has a disaster plan in place and will review it annually to see that all things remain current. Our AS400 lessor monitors the error logs throughout the day. Due to the limited number of office personnel within the County, segregation of duties for the information technology staff is not possible. The County's internal controls of the computer system will be reviewed annually.*

06-3 Capital Assets Policies and Procedures

The County's current capital assets policy defines the County's accounting policies over capital assets, such as capitalization thresholds, useful lives, and depreciation methods; however, the policy does not address redetermination of the useful lives of the capital assets, nor when redetermination of the capital assets will take place. Also, it is not clear how the costs of replaced infrastructure assets are being deleted, if at all.

The County is carrying a significant amount of fully depreciated assets. Typically, a capital asset still in use should not be considered fully depreciated. For significant assets, the estimated useful lives assigned to capital assets should be reconsidered. At the time of redetermination, the estimated useful life of an asset includes both the years the asset has been in service and the estimated number of years of service remaining.

We recommend the County Board address these issues in the capital assets policy. The policy should establish procedures to address the point when useful lives of current capital assets should be reconsidered.

Client's Response:

*The County will review their capital asset guide and make revisions as needed.*

06-4 Controls Over the Accounting System Journal Entry Function

The County does not limit access to the accounting system journal entry function to select County employees. Twelve employees in the County have access to this function. Not all journal entries made to the accounting system are reviewed or approved.

The ability to make journal entries on the accounting system is a powerful function because it allows those employees to make changes to the system. To prevent abuse of this function, access should be limited to those employees whose job duties require them to have this access.

We recommend the County strengthen the controls over the journal entries by re-evaluating who has access to the journal entry function and determine whether there is a logical need for those employees to have access to this function. We also recommend a procedure be established to require review and approval of journal entries by someone other than the person making the journal entries. This person should obtain an understanding of the journal entry and its purpose before approval. The approval could be documented by signature on a journal entry form, or a printed copy of the journal entry could be made. Supporting documentation or sufficient explanation should be attached to or included on the journal entry form to explain why the journal entry is being made and who is making the journal entry. Journal entries should be filed in a manner that allows for their review should questions arise. A report should be generated from the accounting system that lists all journal entries made. The person charged with review and approval of journal entries should periodically review this report. Review of this report would be to ensure that no journal entries have been made which have not been submitted for review and approval.

Client's Response:

*The County will limit access to the accounting system journal entry function to only persons needing access to it and ensure that all journal entries have sufficient explanations and are reviewed and approved.*

06-5 Accounting Policies and Procedures Manual

The County does not have a current and comprehensive accounting policies and procedures manual. All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures which make up the County's internal control system.

An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing,

and improve compliance with established policies. It can also help to prevent deterioration of key elements in the County's internal control system and can help to avoid circumvention of County policies.

We recommend the County establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

Client's Response:

*The County has approved and implemented several accounting policies and procedures. The County's finance committee will continue to work on adding additional policies and procedures and arrange them all into one manual.*

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

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS RESOLVED

**Lack of Perfected Interest in Collateral Assignments (04-2)**

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.

**Resolution**

The County obtained the documentation indicating it has a perfected security interest in pledged collateral.

**Depository Pledge Agreement (05-1)**

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.

**Resolution**

The County has obtained security agreements from the banks that satisfy Minn. Stat. § 118A.03, subd. 4.

**Depository Pledge Agreement (05-2)**

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

**Resolution**

The County has obtained depository pledge agreements with these banks.

**B. 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, and the Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; 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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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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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, 2006, and have issued our report thereon dated January 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 04-1 and 06-1 through 06-5 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 06-1 and 06-2 to be material weaknesses.

### 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

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

Yellow Medicine County's written responses to the significant deficiencies and material weaknesses identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

January 18, 2008

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REBECCA OTTO  
STATE AUDITOR

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

Board of County Commissioners  
Yellow Medicine County

### Compliance

We have audited the compliance of Yellow Medicine County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. Yellow Medicine County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Yellow Medicine County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

#### Internal Control Over Compliance

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

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Yellow Medicine County's internal control.

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

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Yellow Medicine County as of and for the year ended December 31, 2006, and have issued our report thereon dated January 18, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Yellow Medicine County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by

OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

*/s/Rebecca Otto*

*/s/Greg Hierlinger*

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

January 18, 2008

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**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**Schedule 8**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**U.S. Department of Agriculture**

Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	\$	<u>2,249</u>
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**U.S. Department of Transportation**

Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$	59,224
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Passed Through Minnesota Department of Public Safety Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		<u>11,720</u>
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<b>Total U.S. Department of Transportation</b>		\$	<u><b>70,944</b></u>
------------------------------------------------	--	----	----------------------

**U.S. Election Assistance Commission**

Passed Through Minnesota Secretary of State Help America Vote Act Requirements Payments	90.401	\$	<u>152,440</u>
--------------------------------------------------------------------------------------------	--------	----	----------------

**U.S. Department of Health and Human Services**

Passed Through Minnesota Department of Human Services Temporary Assistance for Needy Families (TANF)	93.558	\$	48,593
Child Care and Development Block Grant	93.575		64,804
Child Welfare Services - State Grants	93.645		11,733
Foster Care - Title IV-E	93.658		17,579
Social Services Block Grant - Title XX	93.667		91,292
Chafee Foster Care Independence Program	93.674		4,228
Block Grants for Community Mental Health Services	93.958		<u>6,218</u>

<b>Total U.S. Department of Health and Human Services</b>		\$	<u><b>244,447</b></u>
-----------------------------------------------------------	--	----	-----------------------

**U.S. Department of Homeland Security**

Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Program	97.004	\$	26,346
Urban Areas Security Initiative	97.008		10,393
Hazard Mitigation Grant	97.039		5,587
Homeland Security Grant Program	97.067		9,523

Passed Through United Way Emergency Food and Shelter National Board Program	97.024		<u>3,999</u>
--------------------------------------------------------------------------------	--------	--	--------------

<b>Total U.S. Department of Homeland Security</b>		\$	<u><b>55,848</b></u>
---------------------------------------------------	--	----	----------------------

<b>Total Federal Awards</b>		\$	<u><u><b>525,928</b></u></u>
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**YELLOW MEDICINE COUNTY  
GRANITE FALLS, MINNESOTA**

**Schedule 8**  
**(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Yellow Medicine County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Due to timing differences in revenue recognition under the modified accrual basis of accounting, and due to unspent grant funds, expenditures on this schedule do not equal federal revenues reported in the financial statements.
3. During 2006, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.