

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA

YEAR ENDED DECEMBER 31, 2014

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, 2014



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

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		5
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	1	15
Statement of Activities	2	16
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	17
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position--Governmental Activities	4	19
Statement of Revenues, Expenditures, and Changes in Fund Balance	5	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	6	22
Fiduciary Funds		
Statement of Fiduciary Net Position	7	23
Statement of Changes in Fiduciary Net Position	8	24
Notes to the Financial Statements		25
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	A-1	68
Special Revenue Funds		
Road and Bridge Fund	A-2	72
Human Services Fund	A-3	73
Ditch Fund	A-4	74
Schedule of Funding Progress - Other Postemployment Benefits	A-5	75
Notes to the Required Supplementary Information		76

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Financial Section (Continued)		
Supplementary Information		
Governmental Funds		
Budgetary Comparison Schedule - Debt Service Fund	B-1	79
Agency Funds		80
Combining Statement of Changes in Assets and Liabilities	C-1	81
Other Schedules		
Schedule of Intergovernmental Revenue	D-1	83
Schedule of Expenditures of Federal Awards	D-2	84
Notes to the Schedule of Expenditures of Federal Awards		86
Management and Compliance Section		
Schedule of Findings and Questioned Costs		88
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		96
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance		99

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

ORGANIZATION
2014

Office	Name	Term Expires
Commissioners		
1st District	Greg Renneke ²	January 2019
2nd District	John Berends	January 2019
3rd District	Gary Lee Johnson	January 2017
4th District	Ronald Antony	January 2017
5th District	Louis Sherlin ¹	January 2017
Officers		
Elected		
Attorney	Keith Helgeson	January 2019
District Judge	Dwayne Knutsen	January 2019
Sheriff	Bill Flaten	January 2019
Appointed		
Administrator	Peggy Heglund	Indefinite
Finance Manager	Michelle May	Indefinite
Assessor	Connie Erickson	Indefinite
Coroner	A. Quinn Strobl, MD ⁴	Indefinite
Highway Engineer	Andrew Sander	Indefinite
Planning & Zoning	Chris Balfany ³	Indefinite
Property & Public Services	Janel Timm	Indefinite
Veterans Service Officer	Michelle Gatz	Indefinite

¹Chair 2014

²Chair 2015

³Chris Balfany was appointed Planning & Zoning/Ditch Administrator effective March 31, 2014

⁴A. Quinn Strobl was appointed Coroner effective July 22, 2014

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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
Granite Falls, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Yellow Medicine County, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Yellow Medicine County as of December 31, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2015, 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* in considering Yellow Medicine County's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 15, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014
(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, 2014. 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 position is \$81,250,866, of which \$67,767,813 is net investment in capital assets, and \$4,062,242 is restricted to specific purposes. The \$9,420,811 remaining may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's net position increased by \$1,626,397 for the year ended December 31, 2014.
- The net cost of governmental activities for the current fiscal year was \$8,199,494. The net cost was funded by general revenues and other items totaling \$9,825,891.
- The fund balances of the governmental funds decreased by \$36,183.
- For the year ended December 31, 2014, the unrestricted fund balance of the General Fund was \$3,447,769, or 49.9 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 financial statements, and (3) notes to the financial statements. This report also contains other required supplementary information.

Government-wide financial statements

The 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 Position presents information on all assets and liabilities of the County using the accrual basis of accounting, with the difference being reported as net position. Over time, increases or decreases in net position 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 are Exhibits 1 and 2 of this report.

Fund financial statements

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

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

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

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

The basic governmental fund financial statements are 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 Position and Changes in Fiduciary Net Position on Exhibits 7 and 8.

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25 through 67 of this report.

Other Information

Other information is provided as supplementary information regarding Yellow Medicine County's intergovernmental revenue and federal awards programs.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$81,250,866 at the close of 2014. The largest portion of the net position (83.4 percent) reflects the County's 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 Position	
	(in Thousands)	
	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Assets		
Current and other assets	\$ 18,650	\$ 18,218
Capital assets	<u>67,804</u>	<u>66,107</u>
Total Assets	<u>\$ 86,454</u>	<u>\$ 84,325</u>
Liabilities		
Long-term liabilities	\$ 3,919	\$ 3,421
Other liabilities	<u>1,194</u>	<u>1,280</u>
Total Liabilities	<u>\$ 5,113</u>	<u>\$ 4,701</u>

	Governmental Activities	
	2014	2013
Deferred Inflows of Resources		
Advance from other governments	\$ 90	\$ -
Net Position		
Net investment in capital assets	\$ 67,768	\$ 64,123
Restricted	4,062	2,620
Unrestricted	9,421	12,881
Total Net Position	\$ 81,251	\$ 79,624

Unrestricted net position--the part of net position 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 11.6 percent of the net position.

Governmental Activities

The County's governmental activities increased net position by 2.0 percent (\$1,626,397 for 2014 compared to \$2,553,860 for 2013). Key elements in this increase in net position are as follows:

Changes in Net Position (in Thousands)

	Governmental Activities	
	2014	2013
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 4,348	\$ 2,113
Operating grants and contributions	6,632	5,675
Capital grants and contributions	79	1,848
General revenues		
Property taxes	8,828	8,524
Other	998	888
Total Revenues	\$ 20,885	\$ 19,048
Expenses		
General government	\$ 2,868	\$ 2,761
Public safety	2,936	2,812
Highways and streets	5,588	4,583
Sanitation	112	134
Human services	4,104	4,007
Health	235	212
Culture and recreation	268	237
Conservation of natural resources	3,053	1,576
Economic development	23	52
Interest	71	121
Total Expenses	\$ 19,258	\$ 16,495

	Governmental Activities	
	2014	2013
Excess of Revenues Over (Under) Expenses	\$ 1,627	\$ 2,553
Net Position - January 1	79,624	77,071
Net Position - December 31	\$ 81,251	\$ 79,624

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, unrestricted 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 \$12,802,333, a decrease of \$36,183, in comparison with the prior year. Of the combined ending fund balances, \$11,067,964 represents committed, assigned, and unassigned fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is classified as either nonspendable or restricted to indicate that it is not available for new spending because it has already been restricted for various reasons either by state law, grant agreements, bond covenants, or is nonspendable.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unrestricted fund balance of \$3,447,769. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total expenditures. The General Fund's unrestricted fund balance represents 49.9 percent of total General Fund expenditures. During 2014, the ending fund balance decreased by \$1,037,584. The primary reason for this decrease was a transfer to the Debt Service Fund for the repayment of the Series 2005 General Obligation Refunding Bonds.

The Road and Bridge Special Revenue Fund had an unrestricted fund balance of \$3,970,448 at fiscal year-end, representing 53.6 percent of its annual expenditures. The ending fund balance decreased \$143,026 during 2014, primarily due to an increase in construction project expenditures.

The Human Services Special Revenue Fund had an unrestricted fund balance of \$3,649,747 at fiscal year-end, representing 89.4 percent of its annual expenditures. The ending fund balance increased \$217,289 during 2014, primarily due to an increase in charges for services and intergovernmental revenues.

The Ditch Special Revenue Fund had no unrestricted fund balance at fiscal year-end, as the entire fund balance is restricted. The ending fund balance increased \$1,385,576 during 2014, primarily due to the issuance of general obligation bonds to finance drainage improvement projects.

The Debt Service Fund had no unrestricted fund balance at fiscal year-end, as the entire fund balance is restricted for ongoing debt service costs. There was no ending fund balance at year-end due to the redemption of the Series 2005 General Obligation Refunding Bonds.

Governmental Activities

The County's total revenues were \$20,884,883. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2014.

Table 1
Total County Revenues - 2014

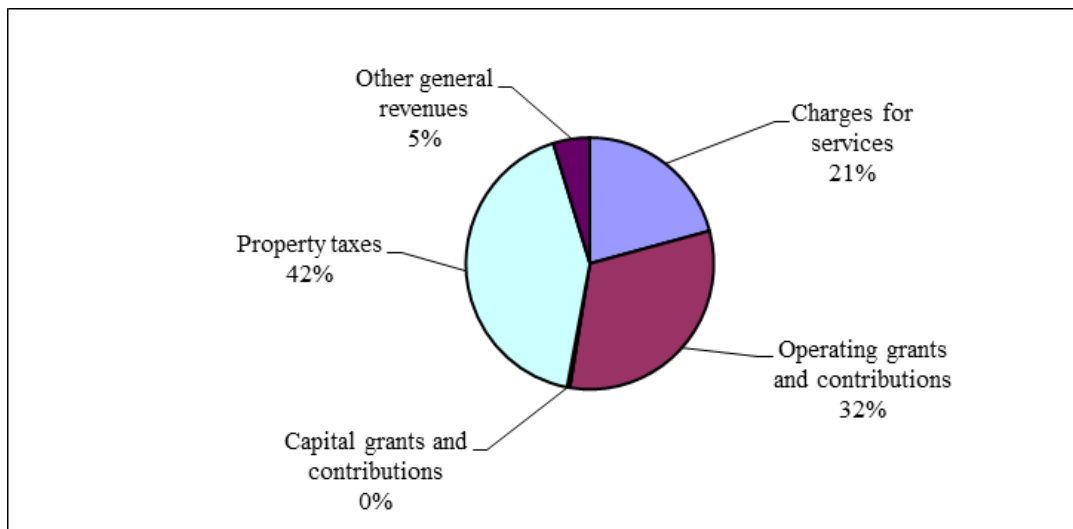
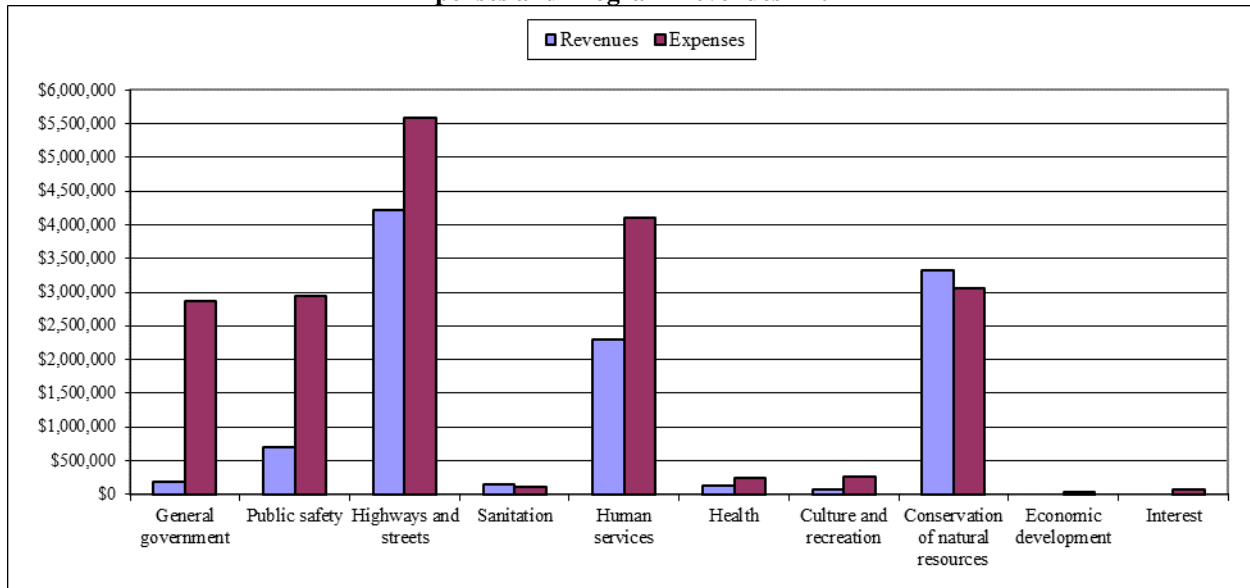


Table 2 presents the cost and revenue of each program of the County.

Total program and general revenues for the County were \$20,884,883, while total expenses were \$19,258,486. This reflects a \$1,626,397 increase in net position for the year ended December 31, 2014.

**Table 2
Expenses and Program Revenues - 2014**



The costs of all governmental activities this year were \$19,258,486. However, as shown on the Statement of Activities on Exhibit 2, the amount that taxpayers ultimately financed for these activities through County taxes was only \$8,199,494 because some of the costs were paid by those who directly benefited from the programs (\$4,348,114) or by other governments, organizations, and individuals that subsidized certain programs with grants and contributions (\$6,710,878). The County paid for the remaining “public benefit” portion of governmental activities with \$9,825,891 in general revenues, primarily taxes (some of which could be used only for certain programs) and other revenues, such as grants and contributions not restricted to specific programs and interest.

Table 3 presents the cost of each of the County’s five 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	
	2014	2013	2014	2013
Highways and streets	\$ 5,588	\$ 4,583	\$ 1,366	\$ (710)
Human services	4,104	4,007	1,816	2,102
Conservation of natural resources	3,053	1,576	(269)	52
Public safety	2,936	2,811	2,237	2,176
General government	2,868	2,761	2,683	2,447
All others	709	756	366	791
Totals	\$ 19,258	\$ 16,494	\$ 8,199	\$ 6,858

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 \$236,919 below the final budget amounts. The most significant positive variance (\$157,857) occurred in general government where County Buildings - Improvements/Repairs was \$69,715 less than anticipated, Technology Services expenses were \$37,219 less than anticipated, as well as various other costs were less than anticipated. This \$157,857 variance resulted in a 5.3 percent reduction in expected expenditures. Reasons for other significant variances of actual expenditures to final budget include less than anticipated expenditures of equipment in County Parks (\$53,788), lower than anticipated salary and benefit costs in the Agricultural Inspector Department (\$32,684), and several other departments also spent less than anticipated.

On the other hand, resources available for appropriation were \$594,505 above the final budgeted amount. The most significant positive variance occurred in charges for services (\$155,428) due to receiving additional boarding fees in the jail; there was also a greater than anticipated MCIT dividend, which is included in the miscellaneous revenues variance (\$107,241).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2014, totaled \$67,804,297 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets, net of depreciation, increased \$1,697,642, or 2.6 percent, from the previous year. The major capital asset events were:

- \$4,022,434 construction of highways and streets and
- \$1,113,754 renovation of building.

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

	2014	2013
Land	\$ 1,087	\$ 1,058
Infrastructure	58,719	56,365
Buildings	4,547	3,627
Improvements other than buildings	245	256
Machinery and equipment	2,941	2,883
Works of art and historical treasures	223	126
Construction in progress	42	1,792
Total	\$ 67,804	\$ 66,107

Additional information about the County's capital assets can be found in the Note 2.A.3. to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the County had total net outstanding debt of \$2,366,484, which was backed by the full faith and credit of the government.

Table 5
Outstanding Debt
(in Thousands)

	2014	2013
General obligation bonds	\$ 2,330	\$ 1,935
Capital leases	36	49
Total	\$ 2,366	\$ 1,984

The County's debt related to general obligation bonds increased by \$395,000 (20.4 percent) during the fiscal year.

Minnesota statutes limit the amount of debt a county may levy to three percent of its total market value. At the end of 2014, the County's outstanding debt was 0.07 percent of its total estimated market value.

Additional information on the County's long-term debt can be found in Note 2.C.7. 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 2015 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Yellow Medicine County at the end of 2014 was 4.1 percent. This compares with the state and federal unemployment rates of 3.7 percent and 5.6 percent, respectively, but shows a 0.8 percent decrease from the County's 4.9 percent rate of one year ago. This rate of unemployment could impact the level of services requested by County residents.
- The County has a strong agricultural base. New construction added \$7.9 million to the base for spreading future taxes. Keeping the County's tax base vital and healthy is very important to the County's overall financial health and condition.
- The rapid rising cost of health insurance has a large impact on the budgeting process.
- General Fund expenditures for 2015 are budgeted to increase 0.54 percent (\$35,617) over the 2014 original budget. The 2015 anticipated revenues, other than tax levy, special assessments, state county program aid, and state market value credits, are budgeted to increase 5.4 percent (\$69,183) from the 2014 original budget.
- The 2015 gross property tax levy for the County increased 6.3 percent (\$577,884) from 2014; but after reducing the levy by state county program aid (\$167,773), the net tax levy (the amount spread to taxpayers) increased 6.45 percent (\$576,769) over the net tax levy for 2014.
- Considering cost-effective and efficient means for delivery of County programs and services will influence the development of future budgets.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Yellow Medicine County's finances. If you have questions concerning any of the information provided in this report or requests for additional financial information, address them to the County's Finance Manager, Michelle A. May, Yellow Medicine County Courthouse, 180 Eighth Avenue, Granite Falls, Minnesota 56241.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014**

Assets

Cash and pooled investments	\$	12,054,176
Investments		1,426,993
Receivables		4,621,177
Inventories		160,325
Prepaid items		2,400
Note receivable		385,000
Capital assets		
Non-depreciable		1,352,125
Depreciable - net of accumulated depreciation		66,452,172
		66,452,172
Total Assets	\$	86,454,368

Liabilities

Accounts payable and other current liabilities	\$	1,054,031
Accrued interest payable		27,492
Unearned revenue		112,173
Long-term liabilities		
Due within one year		186,022
Due in more than one year		3,651,902
Other postemployment benefits obligations		81,573
		81,573
Total Liabilities	\$	5,113,193

Deferred Inflows of Resources

Advance from other governments	\$	90,309
		90,309

Net Position

Net investment in capital assets	\$	67,767,813
Restricted for		
Highways and streets		908,561
Public safety		162,223
Conservation of natural resources		2,887,064
Other purposes		104,394
Unrestricted		9,420,811
		9,420,811
Total Net Position	\$	81,250,866

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Fees, Charges, Fines, and Other</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<u>Functions/Programs</u>					
Governmental activities					
General government	\$ 2,867,704	\$ 175,617	\$ 5,555	\$ 3,529	\$ (2,683,003)
Public safety	2,935,916	461,849	237,404	-	(2,236,663)
Highways and streets	5,588,342	99,685	4,047,084	75,437	(1,366,136)
Sanitation	111,872	75,077	63,803	-	27,008
Human services	4,103,927	237,483	2,050,418	-	(1,816,026)
Health	234,854	853	129,161	-	(104,840)
Culture and recreation	268,151	22,380	51,752	-	(194,019)
Conservation of natural resources	3,052,786	3,275,170	46,735	-	269,119
Economic development	23,318	-	-	-	(23,318)
Interest	71,616	-	-	-	(71,616)
Total Governmental Activities	\$ 19,258,486	\$ 4,348,114	\$ 6,631,912	\$ 78,966	\$ (8,199,494)
General Revenues					
Property taxes				\$ 8,827,869	
Mortgage registry and deed tax				5,363	
Payments in lieu of tax				80,524	
Grants and contributions not restricted to specific programs				414,739	
Miscellaneous				280,877	
Unrestricted investment earnings				216,519	
Total general revenues				\$ 9,825,891	
Change in net position				\$ 1,626,397	
Net Position - Beginning				79,624,469	
Net Position - Ending				\$ 81,250,866	

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, 2014**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled investments	\$ 3,958,554	\$ 4,305,112	\$ 3,601,616	\$ 22,625	\$ 11,887,907
Undistributed cash in agency funds	96,822	30,647	29,479	7,921	164,869
Petty cash and change funds	1,250	50	100	-	1,400
Investments	144,660	-	-	1,282,333	1,426,993
Taxes receivable					
Delinquent	56,740	23,848	21,410	-	101,998
Special assessments receivable					
Delinquent	7,171	-	-	2,489	9,660
Noncurrent	624,681	-	-	2,171,664	2,796,345
Accounts receivable	10,777	7	28,434	-	39,218
Accrued interest receivable	60,333	-	-	4,696	65,029
Due from other funds	1,363	-	-	-	1,363
Due from other governments	78,712	1,183,531	272,301	74,383	1,608,927
Inventories	-	160,325	-	-	160,325
Prepaid items	2,150	-	250	-	2,400
Note receivable	-	-	-	385,000	385,000
Total Assets	<u>\$ 5,043,213</u>	<u>\$ 5,703,520</u>	<u>\$ 3,953,590</u>	<u>\$ 3,951,111</u>	<u>\$ 18,651,434</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Total</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 144,808	\$ 69,787	\$ 158,323	\$ 26,267	\$ 399,185
Salaries payable	161,384	58,189	89,963	2,542	312,078
Contracts payable	-	103,666	-	85,434	189,100
Due to other funds	-	-	1,363	-	1,363
Due to other governments	31,937	6,738	17,336	97,657	153,668
Unearned revenue	96,975	-	15,198	-	112,173
Total Liabilities	\$ 435,104	\$ 238,380	\$ 282,183	\$ 211,900	\$ 1,167,567
Deferred Inflows of Resources					
Unavailable revenue	\$ 736,762	\$ 1,204,058	\$ 21,410	\$ 2,628,995	\$ 4,591,225
Advance from other governments	-	90,309	-	-	90,309
Total Deferred Inflows of Resources	\$ 736,762	\$ 1,294,367	\$ 21,410	\$ 2,628,995	\$ 4,681,534
Fund Balances					
Nonspendable	\$ 2,150	\$ 160,325	\$ 250	\$ -	\$ 162,725
Restricted	421,428	40,000	-	1,110,216	1,571,644
Committed	52,683	-	-	-	52,683
Assigned	46,359	3,970,448	3,649,747	-	7,666,554
Unassigned	3,348,727	-	-	-	3,348,727
Total Fund Balances	\$ 3,871,347	\$ 4,170,773	\$ 3,649,997	\$ 1,110,216	\$ 12,802,333
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 5,043,213	\$ 5,703,520	\$ 3,953,590	\$ 3,951,111	\$ 18,651,434

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014**

Fund balance - total governmental funds (Exhibit 3)		\$ 12,802,333
Amounts reported for governmental activities in the statement of net position 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.		67,804,297
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		4,591,225
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (2,330,000)	
Capital leases	(36,484)	
Loans payable	(781,459)	
Compensated absences	(631,690)	
Net OPEB liability	(81,573)	
Accrued interest payable	(27,492)	
Unamortized bond premium	(58,291)	(3,946,989)
Net Position of Governmental Activities (Exhibit 1)		\$ 81,250,866

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
Revenues						
Taxes	\$ 4,891,081	\$ 1,944,604	\$ 1,868,193	\$ -	\$ 144,815	\$ 8,848,693
Special assessments	175,209	-	-	566,835	-	742,044
Licenses and permits	44,600	-	-	-	-	44,600
Intergovernmental	859,072	5,260,025	2,202,536	39,399	68	8,361,100
Charges for services	509,458	14,523	174,344	-	-	698,325
Fines and forfeits	6,636	-	-	-	-	6,636
Gifts and contributions	810	-	-	-	-	810
Investment earnings	218,306	-	-	7,884	277	226,467
Miscellaneous	405,349	64,197	55,015	940,095	-	1,464,656
Total Revenues	\$ 7,110,521	\$ 7,283,349	\$ 4,300,088	\$ 1,554,213	\$ 145,160	\$ 20,393,331
Expenditures						
Current						
General government	\$ 2,839,408	\$ -	\$ -	\$ -	\$ 5,284	\$ 2,844,692
Public safety	2,535,739	-	-	-	-	2,535,739
Highways and streets	-	6,994,020	-	-	-	6,994,020
Sanitation	121,457	-	-	-	-	121,457
Human services	-	-	4,082,799	-	-	4,082,799
Health	129,463	-	-	-	-	129,463
Culture and recreation	295,893	-	-	-	-	295,893
Conservation of natural resources	495,086	-	-	2,435,671	-	2,930,757
Economic development	23,318	-	-	-	-	23,318
Intergovernmental	316,702	410,758	-	38,521	-	765,981
Debt service						
Principal	138,800	-	-	-	1,935,000	2,073,800
Interest	9,247	-	-	-	67,180	76,427
Bond issuance costs	-	-	-	80,671	-	80,671
Total Expenditures	\$ 6,905,113	\$ 7,404,778	\$ 4,082,799	\$ 2,554,863	\$ 2,007,464	\$ 22,955,017

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
Excess of Revenues Over (Under) Expenditures	\$ 205,408	\$ (121,429)	\$ 217,289	\$ (1,000,650)	\$ (1,862,304)	\$ (2,561,686)
Other Financing Sources (Uses)						
Transfers in	\$ 331,023	\$ -	\$ -	\$ 324,794	\$ 1,403,866	\$ 2,059,683
Transfers out	(1,728,660)	-	-	(331,023)	-	(2,059,683)
Loans issued	150,370	-	-	-	-	150,370
Bonds issued	-	-	-	2,330,000	-	2,330,000
Premium on bonds sold	-	-	-	62,455	-	62,455
Proceeds from the sale of capital assets	4,275	21,808	-	-	-	26,083
Total Other Financing Sources (Uses)	\$ (1,242,992)	\$ 21,808	\$ -	\$ 2,386,226	\$ 1,403,866	\$ 2,568,908
Net Change in Fund Balance	\$ (1,037,584)	\$ (99,621)	\$ 217,289	\$ 1,385,576	\$ (458,438)	\$ 7,222
Fund Balance - January 1	4,908,931	4,313,799	3,432,708	(275,360)	458,438	12,838,516
Increase (decrease) in inventories	-	(43,405)	-	-	-	(43,405)
Fund Balance - December 31	\$ 3,871,347	\$ 4,170,773	\$ 3,649,997	\$ 1,110,216	\$ -	\$ 12,802,333

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

Net change in fund balance - total governmental funds (Exhibit 5) **\$ 7,222**

Amounts reported for governmental activities in the statement of activities are different because:

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in unavailable revenue.

Deferred inflows of resources - December 31	\$ 4,591,225	
Deferred inflows of resources - January 1	<u>(4,131,515)</u>	459,710

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. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. The difference is the net book value of the assets disposed of.

Expenditures for general capital assets and infrastructure	\$ 4,209,598	
Current year depreciation	<u>(2,511,956)</u>	1,697,642

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of activities.

Principal repayments		
General obligation bonds and notes	\$ 1,935,000	
Loans payable	127,093	
Capital leases	<u>12,212</u>	2,074,305
New debt issued (see Note 2.C.7. for more information)		(2,542,825)

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	\$ 4,306	
Amortization of premium on bonds	4,164	
Change in compensated absences	(17,813)	
Change in net OPEB liability	(16,909)	
Change in inventories	<u>(43,405)</u>	<u>(69,657)</u>

Change in Net Position of Governmental Activities (Exhibit 2) **\$ 1,626,397**

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUNDS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2014**

	Cemetery Investment Trust	Agency
<u>Assets</u>		
Cash and pooled investments	\$ -	\$ 234,790
Investments	10,250	-
Accrued interest receivable	31	-
Total Assets	\$ 10,281	\$ 234,790
<u>Liabilities</u>		
Accounts payable	\$ 31	\$ 10,526
Due to other governments	-	224,264
Total Liabilities	\$ 31	\$ 234,790
<u>Net Position</u>		
Net position, held in trust for pool participant	\$ 10,250	

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Cemetery Investment Trust</u>
<u>Additions</u>	
Investment earnings	\$ (12)
<u>Deductions</u>	
Distributions to participant	<u>(12)</u>
Changes in Net Position	\$ -
Net Position - January 1	<u>10,250</u>
Net Position - December 31	<u><u>10,250</u></u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014

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, 2014. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Blended Component Unit

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

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in several joint ventures described in Note 4.C. The County also participates in jointly-governed organizations described in Note 4.D.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position 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 position, 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 position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds and blended component unit. 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 accounted for in another fund.
- The Road and Bridge Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as assigned property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.
- The Human Services Special Revenue Fund accounts for restricted revenue resources from the federal, state, and other oversight agencies, as well as assigned property tax revenues used for economic assistance and community social services programs.
- The Ditch Special Revenue Fund accounts for special assessment revenues levied against benefitted property to finance the cost of constructing and maintaining an agricultural drainage ditch system.
- The Debt Service Fund is used to account for the accumulation of restricted resources used for, and the payment of, principal, interest, and related costs.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fiduciary fund types:

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

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 taxes are recognized as revenues in the year for which they are levied provided they are also available. Shared revenues are generally recognized in the period the appropriation goes into effect and the revenues are available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Finance Manager for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2014, 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 2014 were \$150,094.

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. The investment in the pool is measured at the amortized cost per share provided by the pool which would approximate fair value.

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

2. Receivables and Payables

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

2. Receivables and Payables (Continued)

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

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

Special assessments receivable consist of delinquent special assessments payable in the years 2004 through 2014 and deferred special assessments payable in 2015 and after. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments.

No allowance for uncollectible taxes/special assessments has been provided because such amounts are not expected to be material.

The County had no accounts receivable scheduled to be collected beyond one year.

3. Inventories and Prepaid Items

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

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

4. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (such as roads, bridges, sidewalks, and similar items) and intangible assets, are reported in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	15 - 40
Land improvements	5 - 40
Public domain infrastructure	20 - 80
Machinery and equipment	3 - 20

5. Compensated Absences

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

5. Compensated Absences (Continued)

the government-wide financial statements. The government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion consists of an amount based on a trend analysis of current usage of vacation and vested sick leave. The noncurrent portion consists of the remaining amount of vacation and total vested sick leave.

6. 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 position. Bond premiums and discounts 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.

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 other financing sources. 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.

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the County has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

7. Deferred Outflows/Inflows of Resources (Continued)

(revenue) until that time. The County has two such items that qualify for reporting in this category. The first item, unavailable revenue, arises only under the modified accrual basis of accounting; however, the second item, advance from other governments, arises under both the modified accrual and the full accrual basis of accounting. Unavailable revenue and the advance from other governments are reported in the governmental funds balance sheet, while only the advance from other governments is reported in the statement of net position. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available.

8. Unearned/Unavailable Revenue

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

9. Classification of Net Position

Net position in the government-wide financial statements is classified in the following categories:

- Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.
- Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

10. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which Yellow Medicine County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

- Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.
- Restricted - amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.
- Assigned - amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Administrator, who has been delegated that authority by Board resolution.
- Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

10. Classification of Fund Balances (Continued)

Yellow Medicine County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

11. Minimum Fund Balance

Yellow Medicine County has adopted a minimum fund balance policy for the General Fund. The General Fund is heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined it needs to maintain a minimum unrestricted fund balance (committed, assigned, and unassigned) of no less than five months of operating expenditures. The Fund Balance Policy was adopted by the County Board on December 13, 2011. At December 31, 2014, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

12. 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.

E. Future Change in Accounting Standards

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Future Change in Accounting Standards (Continued)

relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the County's calendar year 2015. The County has not yet determined the financial statement impact of adopting this new standard.

2. 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 position		
Governmental activities		
Cash and pooled investments	\$	12,054,176
Investments		1,426,993
Statement of fiduciary net position		
Cash and pooled investments		234,790
Investments		10,250
		<hr/>
Total Cash and Investments	\$	<u>13,726,209</u>

a. Deposits

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better and revenue obligations rated “AA” or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County has adopted a policy for custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2014, the County’s deposits were not exposed to custodial credit risk.

b. Investments

The County may invest in the following types of investments authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (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.

Interest Rate Risk

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

Credit Risk

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County has adopted a policy to eliminate investment custodial credit risk by permitting brokers that obtain investments for the County to hold them only to the extent Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage are available, and that they qualify under Minn. Stat. § 118A.06 to hold investments. Securities purchased that exceed available SIPC coverage, or are purchased by a broker that does not qualify under Minn. Stat. § 118A.06 to hold investments, shall be transferred to the County's custodian. At December 31, 2014, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

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

The following table presents the County's cash and investment balances at December 31, 2014, and information relating to potential investment risks:

Investment - Issuer	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
U.S. government agency securities					
Federal Home Loan Bank Bonds	AA+	S&P		09/30/2019	\$ 85,614
Federal Home Loan Bank Bonds	AA+	S&P		04/25/2023	197,890
Federal Home Loan Bank Bonds	AA+	S&P		05/22/2023	199,972
Federal Home Loan Bank Bonds	AA+	S&P		05/23/2023	199,882
Total Federal Home Loan Bank			>5%		\$ 683,358

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment - Issuer	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
Federal Farm Credit Bank Bond	AA+	S&P	<5%	12/30/2019	\$ 200,000
Federal Home Loan Mtg. Corp. Bond	AA+	S&P	<5%	03/26/2024	\$ 200,130
Municipal Bond					
Marion & Polk County Taxable Bond	A+	S&P	<5%	02/28/2016	\$ 200,342
Negotiable certificates of deposit					
Banco Popular	N/R	N/A		08/13/2015	\$ 200,000
First Niagara of New York	N/R	N/A		08/14/2015	200,000
Onewest Bank, Pasadena CA	N/R	N/A		09/16/2015	200,000
Wheaton Bk	N/R	N/A		09/28/2015	200,000
Bank Leumi	N/R	N/A		05/31/2016	200,000
American Express Cent. Bank	N/R	N/A		07/18/2016	97,000
Pacific Enterprise Bank Irvine, CA	N/R	N/A		09/14/2016	200,000
Beverly Bk	N/R	N/A		09/27/2016	200,000
Goldman Sachs	N/R	N/A		02/28/2017	200,000
Sallie Mae Bk, Utah	N/R	N/A		08/22/2017	185,000
Discover Bk	N/R	N/A		09/26/2017	100,000
Discover Bk	N/R	N/A		09/26/2017	100,000
Isl Discount Bank of NY	N/R	N/A		02/20/2018	200,000
Bank of Baroda, NY	N/R	N/A		03/08/2018	200,000
GE Capital CD	N/R	N/A		07/20/2018	200,000
Union Bank	N/R	N/A		07/30/2018	200,000
CIT Bank CD	N/R	N/A		11/14/2018	200,000
Worlds Foremost Bank	N/R	N/A		08/13/2019	200,000
American Express Bank FSB	N/R	N/A		09/18/2019	200,000
Comenity Bank	N/R	N/A		11/05/2019	200,000
Total negotiable certificates of deposit			>5%		\$ 3,682,000
Investment pools					
MAGIC Fund	N/A	N/A	<5%	N/A	\$ 950
Total investments					\$ 4,966,780

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment - Issuer	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
Checking					\$ 474,819
Savings					6,472,960
Certificates of deposit					1,810,250
Petty cash					1,400
Total Cash and Investments					<u>\$ 13,726,209</u>

N/A - Not Applicable

N/R - Not Rated

<5% - Concentration is less than 5% of investments

>5% - Concentration is more than 5% of investments

2. Receivables

Receivables as of December 31, 2014, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities Receivables		
Taxes	\$ 101,998	\$ -
Special assessments	2,806,005	2,176,168
Accounts receivable	39,218	-
Interest	65,029	-
Due from other governments	<u>1,608,927</u>	<u>-</u>
Total receivables	\$ 4,621,177	\$ 2,176,168
Note receivable	<u>385,000</u>	<u>385,000</u>
Total Governmental Activities	<u>\$ 5,006,177</u>	<u>\$ 2,561,168</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

Note Receivable

During 2014, Yellow Medicine County issued General Obligation Drainage Bonds, Series 2014A on joint ditch #3 with Lyon County. Lyon County residents are responsible for \$385,000 that will be collected by Lyon County through special assessments and paid to Yellow Medicine County for repayment on the bond.

3. Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,057,992	\$ 29,185	\$ -	\$ 1,087,177
Construction in progress	1,791,817	210,977	1,960,946	41,848
Works of art and historical treasures	125,794	97,306	-	223,100
Total capital assets not depreciated	<u>\$ 2,975,603</u>	<u>\$ 337,468</u>	<u>\$ 1,960,946</u>	<u>\$ 1,352,125</u>
Capital assets depreciated				
Buildings	\$ 6,173,006	\$ 1,113,754	\$ -	\$ 7,286,760
Land improvements	391,410	-	-	391,410
Machinery and equipment	6,830,661	696,888	487,085	7,040,464
Infrastructure	79,422,401	4,022,434	-	83,444,835
Total capital assets depreciated	<u>\$ 92,817,478</u>	<u>\$ 5,833,076</u>	<u>\$ 487,085</u>	<u>\$ 98,163,469</u>
Less: accumulated depreciation for				
Buildings	\$ 2,545,850	\$ 193,639	\$ -	\$ 2,739,489
Land improvements	135,127	11,381	-	146,508
Machinery and equipment	3,947,984	638,190	487,085	4,099,089
Infrastructure	23,057,465	1,668,746	-	24,726,211
Total accumulated depreciation	<u>\$ 29,686,426</u>	<u>\$ 2,511,956</u>	<u>\$ 487,085</u>	<u>\$ 31,711,297</u>
Total capital assets depreciated, net	<u>\$ 63,131,052</u>	<u>\$ 3,321,120</u>	<u>\$ -</u>	<u>\$ 66,452,172</u>
Capital Assets, Net	<u>\$ 66,106,655</u>	<u>\$ 3,658,588</u>	<u>\$ 1,960,946</u>	<u>\$ 67,804,297</u>

Construction in progress consists of amounts completed on a pictometry project.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities	
General government	\$ 226,459
Public safety	215,017
Highways and streets, including depreciation of infrastructure assets	2,044,354
Sanitation	3,415
Human services	14,519
Culture and recreation	4,024
Conservation of natural resources	4,168
	4,168
Total Depreciation Expense - Governmental Activities	\$ 2,511,956

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2014, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Human Services	\$ 1,363

The amounts due to the General Fund from the Human Services Special Revenue Fund and due to the Human Services Special Revenue Fund from the General Fund resulted from the time lag between the dates the interfund goods and services were provided and reimbursable expenditures occurred, and when transactions are recorded in the accounting system and when the funds are repaid. All balances are expected to be liquidated in the subsequent year.

2. Interfund Transfers

During 2014, the General Fund loaned \$324,794 to the Ditch Fund to cover construction payments for the CD 9 Br. R improvement project. The Ditch Fund repaid these funds with interest during 2014. The General Fund also transferred \$1,403,866 to the Debt Service Fund to pay off the remaining balance on the 2005 General Obligation Refunding Bonds.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2014, were as follows:

Accounts	\$	399,185
Salaries		312,078
Contracts		189,100
Due to other governments		153,668
Total	\$	1,054,031

2. Unearned Revenues/Deferred Inflows of Resources

Unearned revenues and deferred inflows of resources consist of special assessments, taxes, state grants, interest and other receivables not collected soon enough after year-end to pay liabilities of the current period, and state grants received but not yet earned. Unearned revenues and deferred inflows of resources at December 31, 2014, are summarized below by fund:

	Special Assessments	Taxes	Grants	Interest	Other	Total
Major governmental funds						
General	\$ 631,852	\$ 56,740	\$ 106,975	\$ 38,170	\$ -	\$ 833,737
Road and Bridge	-	23,848	1,270,519	-	-	1,294,367
Human Services	-	21,410	15,198	-	-	36,608
Ditch	2,174,153	-	-	-	454,842	2,628,995
Total	\$ 2,806,005	\$ 101,998	\$ 1,392,692	\$ 38,170	\$ 454,842	\$ 4,793,707
Liability						
Unearned revenue	\$ -	\$ -	\$ 112,173	\$ -	\$ -	\$ 112,173
Deferred inflows of resources						
Advance from other governments	-	-	90,309	-	-	90,309
Unavailable revenue	2,806,005	101,998	1,190,210	38,170	454,842	4,591,225
Total	\$ 2,806,005	\$ 101,998	\$ 1,392,692	\$ 38,170	\$ 454,842	\$ 4,793,707

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

3. Capital Leases

Yellow Medicine County has lease agreements that qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. Capital leases consist of the following at December 31, 2014:

<u>Lease</u>	<u>Final Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2014</u>
2012 postage machine	2017	Quarterly	\$ 579	\$ 10,987	\$ 4,996
2013 squad cameras	2017	Annual	11,396	57,825	31,488
Total Capital Leases					<u>\$ 36,484</u>

Capital lease payments for the postage machine and squad cameras are paid from the General Fund. The future minimum lease obligations and the net present value of the minimum lease payments as of December 31, 2014, were as follows:

<u>Year Ending December 31</u>	<u>Lease Payments</u>
2015	\$ 13,133
2016	13,712
2017	12,555
Less: amount representing interest	<u>(2,916)</u>
Capital Leases Payable	<u>\$ 36,484</u>

4. Loans Payable

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Loans Payable (Continued)

Type of Indebtedness	Final Maturity	Semi-Annual Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2014
Redwood River Watershed Project Continuation	2021	\$ 2,910	2.00	\$ 52,514	\$ 20,765
Yellow Medicine River Watershed Continuation	2018	11,853	2.00	213,887	79,747
Lac qui Parle River Mainstem Water Quality Enhancement	2022	19,425	2.00	350,542	209,417
North and South Fork Yellow Bank River	-	-	-	17,355	17,355
AG BMP Septic Loans	2023	Varies	N/A	537,186	454,175
Total Loans Payable				<u>\$ 1,171,484</u>	<u>\$ 781,459</u>

N/A - Not Applicable

5. Bonds Payable

In 2014, the County made an early payment to pay off the outstanding balance on the General Obligation Refunding Bonds, Series 2005, in the amount of \$1,935,000.

On July 9, 2014, Yellow Medicine County issued General Obligation Drainage Bonds, Series 2014A, in the amount of \$2,330,000, with interest rates of 2.0 percent to 3.125 percent. Payments on general obligation drainage bonds are made by the Ditch Fund.

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2014
General obligation drainage bonds, Series 2014A	2030	\$90,000 - \$200,000	2.0 - 3.125	\$ 2,330,000	\$ 2,330,000
Plus: unamortized premium					<u>58,291</u>
Total General Obligation Bonds, Net					<u>\$ 2,388,291</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

6. Debt Service Requirements

Payments on the general obligation bonds are made by the Ditch Fund. Debt service requirements at December 31, 2014, were as follows:

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ -	\$ 62,387
2016	200,000	56,794
2017	195,000	52,844
2018	190,000	48,994
2019	190,000	45,194
2020 - 2024	915,000	162,044
2025 - 2029	550,000	51,135
2030	90,000	1,406
Total	<u>\$ 2,330,000</u>	<u>\$ 480,798</u>

Debt payments on the loans payable are made from the General Fund. Debt service requirements at December 31, 2014, were as follows:

<u>Year Ending December 31</u>	<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 107,555	\$ 5,888
2016	127,720	4,632
2017	125,252	3,350
2018	102,593	2,067
2019	89,348	1,186
2020 - 2024	201,478	1,045
2025 - 2028	10,159	-
Total	<u>\$ 764,105</u>	<u>\$ 18,168</u>

Loans of \$17,354 for North and South Fork Yellow Bank River are not included in the debt service requirements because a fixed repayment schedule is not available.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds					
Refunding Bonds of 2005	\$ 1,935,000	\$ -	\$ 1,935,000	\$ -	\$ -
Drainage Bonds of 2014A	-	2,330,000	-	2,330,000	-
Plus: unamortized premiums	-	62,455	4,164	58,291	-
Total bonds payable	\$ 1,935,000	\$ 2,392,455	\$ 1,939,164	\$ 2,388,291	\$ -
Loans payable	758,182	150,370	127,093	781,459	107,555
Lease purchases	48,696	-	12,212	36,484	11,189
Compensated absences	613,877	406,352	388,539	631,690	67,278
Net OPEB liability	64,664	60,199	43,290	81,573	-
Long-Term Liabilities	<u>\$ 3,420,419</u>	<u>\$ 3,009,376</u>	<u>\$ 2,510,298</u>	<u>\$ 3,919,497</u>	<u>\$ 186,022</u>

D. Fund Balances

Fund balances for the year ended December 31, 2014, were as follows:

	General Fund	Road and Bridge Special Revenue Fund	Human Services Special Revenue Fund	Ditch Special Revenue Fund	Total
Nonspendable					
Inventories	\$ -	\$ 160,325	\$ -	\$ -	\$ 160,325
Prepaid items	2,150	-	250	-	2,400
Total nonspendable	<u>\$ 2,150</u>	<u>\$ 160,325</u>	<u>\$ 250</u>	<u>\$ -</u>	<u>\$ 162,725</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

2. Detailed Notes on All Funds

D. Fund Balances (Continued)

	General Fund	Road and Bridge Special Revenue Fund	Human Services Special Revenue Fund	Ditch Special Revenue Fund	Total
Restricted					
Highway allotments	\$ -	\$ 40,000	\$ -	\$ -	\$ 40,000
Recorder's technology	21,270	-	-	-	21,270
Recorder's compliance	31,585	-	-	-	31,585
Enhanced 911	105,161	-	-	-	105,161
Sheriff's contingency	5,000	-	-	-	5,000
Sheriff's forfeited property	22,614	-	-	-	22,614
Inmate social welfare	625	-	-	-	625
Attorney's forfeited property	1,709	-	-	-	1,709
Gun permit fees	28,823	-	-	-	28,823
Election equipment	47,304	-	-	-	47,304
Veterans memorial	2,526	-	-	-	2,526
Septic/sewer loan repayment	154,811	-	-	-	154,811
Ditch	-	-	-	1,110,216	1,110,216
Total restricted	\$ 421,428	\$ 40,000	\$ -	\$ 1,110,216	\$ 1,571,644
Committed					
Recycling bins	\$ 52,683	\$ -	\$ -	\$ -	\$ 52,683
Assigned					
Archiving System	\$ 46,359	\$ -	\$ -	\$ -	\$ 46,359
Road and Bridge	-	3,970,448	-	-	3,970,448
Human Services	-	-	3,649,747	-	3,649,747
Total assigned	\$ 46,359	\$ 3,970,448	\$ 3,649,747	\$ -	\$ 7,666,554
Unassigned	\$ 3,348,727	\$ -	\$ -	\$ -	\$ 3,348,727
Total Fund Balances	\$ 3,871,347	\$ 4,170,773	\$ 3,649,997	\$ 1,110,216	\$ 12,802,333

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after five years of credited service.

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

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's 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 General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description (Continued)

salary for each of the first ten years and 1.7 percent for each remaining 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 for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent for each year of service.

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

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Funding Policy (Continued)

by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014. Public Employees Police and Fire Fund members were required to contribute 10.20 percent of their annual covered salary in 2014. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary.

In 2014, the County was required to contribute the following percentages of annual covered payroll:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	15.30
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
General Employees Retirement Fund	\$ 297,136	\$ 279,636	\$ 276,176
Public Employees Police and Fire Fund	95,360	78,397	74,878
Public Employees Correctional Fund	46,749	43,741	40,528

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers) and the Public Employees Police and Fire Fund (10.80 percent for members and 16.20 percent for employers).

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2014, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 5,118	\$ 5,118
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funding Policy

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

The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2014, there were approximately 103 participants in the plan, including 1 retiree. The implicit rate subsidy amount was determined by an actuarial study to be \$33,658 for 2014.

Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$	61,333
Interest on net OPEB obligation		2,263
Adjustment to ARC		<u>(3,397)</u>
Annual OPEB cost (expense)	\$	60,199
Contributions made during the year		<u>(43,290)</u>
Increase in net OPEB obligation	\$	16,909
Net OPEB Obligation - Beginning of Year		<u>64,664</u>
Net OPEB Obligation - End of Year	\$	<u>81,573</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2012, 2013, and 2014, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2012	\$ 34,525	\$ 31,847	92.24%	\$ 62,959
December 31, 2013	34,479	32,774	95.05	64,664
December 31, 2014	60,199	43,290	71.91	81,573

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial accrued liability for benefits was \$510,455, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$510,455. The covered payroll (annual payroll of active employees covered by the plan) was \$5,058,396, and the ratio of the UAAL to the covered payroll was 10.1 percent.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

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

In the January 1, 2014, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.5 percent investment rate of return (net of investment expenses), which is Yellow Medicine County's implicit rate of return on the General Fund.

The annual health care cost trend is 7.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 10 years. Both rates included a 2.5 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining equivalent single amortization period at December 31, 2014, was 24 years.

4. 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. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For group employee health benefits, the County has entered into a joint powers agreement, the Southwest/West Central Service Cooperative. 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.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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 \$480,000 per claim in 2014 and \$490,000 in 2015. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

B. Contingent Liabilities

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

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities (Continued)

Lincoln-Pipestone Rural Water System

At December 31, 2014, the Lincoln-Pipestone Rural Water System had \$33,742,008 of general obligation bonds and other loans outstanding through 2052. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

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

C. Joint Ventures

Lincoln-Pipestone Rural Water System

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

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

Bonds were issued by Lincoln, Nobles, and Yellow Medicine Counties to finance the construction of the Rural Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2014, (the latest information available) were \$33,742,008.

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

The Countryside Public Health Service was established July 1, 1979, by a joint powers agreement among Yellow Medicine, Big Stone, Chippewa, Lac qui Parle, and Swift Counties. The agreement was established to provide community health care for the residents of the five-county area. Each county's proportionate share of the total responsibility of the project is established on a per capita basis as determined by the most recent statistical estimates provided by the Minnesota Board of Health.

In the event of termination of the joint powers agreement, any property acquired as a result of the agreement and any surplus monies on hand at that time shall be divided among the counties in the same proportions as their respective proportionate financial responsibilities.

Control is vested in the Countryside Public Health Service Board of Health. The Board consists of 11 persons, 3 from Yellow Medicine County and 2 from each of the other participating counties. Each member of the Board is appointed by the County Commissioners of the county represented.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Countryside Public Health Service (Continued)

Financing is provided by state and federal grants, appropriations from member counties, and charges for services. Yellow Medicine County's contribution for 2014 was \$105,391.

Complete financial statements can be obtained from: Countryside Public Health Service, P. O. Box 313, Benson, Minnesota 56215 or from the Yellow Medicine County Finance and Administration office at the County Government Center.

Region 6W Community Corrections

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

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

Yellow Medicine County's contribution for 2014 was \$211,311. Complete financial statements for Region 6W Community Corrections can be obtained at 1215 Black Oak Avenue, P. O. Box 551, Montevideo, Minnesota 56265.

Prairie Lakes Youth Programs (Kandiyohi - Region 6W Community Corrections Agencies 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 Youth Programs (PLYP)), pursuant to Minn. Stat. § 471.59. The PLYP provides detention services to juveniles under the jurisdiction of the counties that are parties to the agreement (Chippewa, Lac qui Parle, Swift, and Yellow Medicine--which are served by Region 6W Community Corrections) and Kandiyohi County.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

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

Control of the PLYP is vested in a joint board composed of one Commissioner from each participating county. An advisory board has also been established composed of the directors of the Kandiyohi County Community Corrections Agency and Region 6W Community Corrections and the directors of the family services or human services departments of the counties participating in the agreement. The PLYP is located at the Willmar Regional Treatment Center in space rented from the State of Minnesota.

Financing for the PLYP is provided by charges for services to member and nonmember counties. Complete financial information can be obtained from the Youth Program's Office, P. O. Box 894, Willmar, Minnesota 56201.

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the Southwestern Minnesota Adult Mental Health Consortium Board was created under the authority of Minn. Stat. § 471.59. Presently, its members include Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Renville, Swift, and Yellow Medicine Counties; and Southwest Health and Human Services representing Lincoln, Lyon, Murray, Pipestone, Redwood, and Rock Counties. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host.

The Board takes actions and enters into such agreements as necessary to plan and develop within the Southwestern Minnesota Adult Mental Health Consortium Board's geographic jurisdiction, a system of care that serves the needs of adults with serious and persistent mental illness. The governing board is composed of one Board member from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

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**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Supporting Hands Nurse Family Partnership

The Supporting Hands Nurse Family Partnership Board was established pursuant to Minn. Stat. §§ 145A.17 and 471.59 and a joint powers agreement, effective May 31, 2007. The Board is comprised of one representative from each county to the agreement. The counties in the agreement are Big Stone, Chippewa, Douglas, Grant, Lac qui Parle, Lincoln, Lyon, McLeod, Meeker, Murray, Pipestone, Pope, Redwood, Renville, Stevens, Swift, Traverse, and Yellow Medicine. As a member of Countryside Public Health Service, Yellow Medicine County is required to be a member of this joint powers agreement. The purpose of this agreement is to organize, govern, plan, and administer a multi-county based Nurse Family Partnership Program specifically within the jurisdictional boundaries of the counties involved.

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2014, Yellow Medicine County did not make a contribution to the Partnership, as a contribution was made by Countryside Public Health Service.

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

Southwest Minnesota Regional Emergency Communications Joint Powers Board

As of August 23, 2013, the Southwest Minnesota Regional Radio Board changed its name to the Southwest Minnesota Regional Emergency Communications Joint Powers Board. The Southwest Minnesota Regional Emergency Communications Joint Powers Board was established April 22, 2008, between Yellow Medicine County, the Cities of Marshall and Worthington, and 12 other counties under the authority of Minn. Stat. §§ 471.59 and 403.39. The purpose of the agreement is to formulate a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwest Minnesota Regional Emergency Communications Joint Powers Board
(Continued)

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

Financing is provided by the appropriations from member parties and by state and federal grants. During 2014, Yellow Medicine County contributed \$3,175 to the Joint Powers Board.

Southern Prairie Health Purchasing Alliance

Yellow Medicine County entered into a joint powers agreement on June 26, 2012, with Swift, Chippewa, Kandiyohi, Redwood, Lyon, Lincoln, Murray, Cottonwood, Jackson, Nobles, and Rock Counties to establish the Southern Prairie Health Purchasing Alliance pursuant to the provisions of Minn. Stat. § 471.59. The purpose of the Alliance is to plan, formulate, operate, and govern a rural care delivery system to improve the health and quality of life of the citizens of member counties. The Joint Powers Board is composed of one representative from each county.

Coordinated Enforcement Effort (CEE) VI Task Force

The Coordinated Enforcement Effort (CEE) VI Task Force was established under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Chippewa, Kandiyohi, Meeker, Swift, and Yellow Medicine Counties and the Cities of Appleton, Clara City, Cosmos, Benson, Granite Falls, Litchfield, Montevideo, and Willmar.

Control of the Task Force is vested in a Board of Directors comprising thirteen members. The Board consists of the department heads or a designee from each participating full-time member agency.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Coordinated Enforcement Effort (CEE) VI Task Force (Continued)

The Task Force was established to receive and expend federal, state, and local grants and other related funds for the purpose of investigation of burglary, theft, narcotics, stolen property, and crimes of violence. Yellow Medicine County has no operational or financial control over the CEE VI Task Force. During the year, Yellow Medicine County contributed \$46,449 in funds to the Task Force. In an agent capacity, Kandiyohi County reports the cash transactions of the CEE VI Task Force as an agency fund on its financial statements.

Putting All Communities Together for Families Collaborative

Putting All Communities Together for Families Collaborative (PACT) was established in 1996 by a joint powers agreement among Kandiyohi, Meeker, Renville, and Yellow Medicine Counties. Effective January 1, 2011, an additional joint powers agreement was entered into to add McLeod County as a fifth County partner to PACT. As a result, the name was changed from PACT 4 Families Collaborative to PACT for Families Collaborative. The joint powers agreements were established to provide coordinated services to children and families. Yellow Medicine County has no operational or financial control over the Collaborative.

A county may withdraw from PACT by giving a 30-day written notice to PACT; however, the contribution will remain in the integrated fund for the implementation period. In the event of termination, any property acquired as a result of the agreement and any surplus monies on hand shall be distributed to the parties of this agreement in proportion to their contributions.

Management of PACT is vested in an Executive Board composed of nine members representing all counties. The Board includes an administrative representative of social services, public health services, community corrections, school districts, two parents (one parent of a child diagnosed with a serious emotional disturbance), and three members at large, one of whom is of a mental health background. The Board appoints a fiscal agent to handle and be responsible for safekeeping the funds of PACT.

Renville County Human Services has acted as fiscal agent for PACT since January 1, 2006.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Southwest Regional Solid Waste Commission

Yellow Medicine County has entered into a joint powers agreement with 11 other counties to create and operate the Southwest Regional Solid Waste Commission under the authority of Minn. Stat. § 471.59. The Commission was formed to exercise the County's authority and obligation pursuant to Minn. Stat. chs. 400 and 115A; to provide for the management of solid waste in the respective counties; and provide the greatest public service benefit possible for the entire contiguous 12-county area encompassed by the counties in planning, management, and implementation of methods to deal with solid waste in southwest Minnesota.

The governing board is composed of one Board member from each of the participating counties. Financing of the Commission's solid waste management program is through appropriations from the participating counties, grants and loans from the Minnesota Office of Waste Management, or from the sale of bonds or other obligations secured by revenues of the Commission. Administration and planning costs of the Commission are assessed to the counties on equal shares. The current assessment is \$1,500.

The Commission is headquartered in Ivanhoe, Minnesota, where Lincoln County acts as fiscal host. A complete financial report of the Southwest Regional Solid Waste Commission can be obtained from the Lincoln County Auditor at 319 North Rebecca Street, P. O. Box 29, Ivanhoe, Minnesota 56142.

Pioneerland Library System

Yellow Medicine County, along with 32 cities and 9 other counties, participates in the Pioneerland Library System in order to provide efficient and improved regional public library service. The Pioneerland Library System is governed by the Pioneerland Library System Board, composed of 35 members appointed by member cities and counties. During the year, the County contributed \$76,309 to the System.

Separate financial information for the Pioneerland Library System can be obtained from its administrative office at Pioneerland Regional Library, 410 - 5th Street Southwest, Willmar, Minnesota 56201.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. 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 cost-share and technical assistance for the implementation of flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, Yellow Medicine County contributed \$15,759 to the Project.

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) works to improve water quality, reduce erosion, and enhance recreational opportunities by providing education, outreach, monitoring, and technical assistance within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. RCRCA consists of Brown, Cottonwood, Lincoln, Lyon, Murray, Pipestone, Redwood, and Yellow Medicine Counties. During the year, Yellow Medicine County contributed \$825 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 Lac qui Parle-Yellow Bank Watershed District, but the County's responsibility does not extend beyond making the appointments. The County did not make any contributions to the District in 2014. Lac qui Parle County reports the activities of the Lac qui Parle-Yellow Bank Watershed District as a discrete component unit in its annual financial report.

Yellow Medicine River Watershed District

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Southwest Minnesota Public Safety Board

The Southwest Minnesota Public Safety Board was established June 29, 2012, by a joint powers agreement between Yellow Medicine County and Lyon, Murray, Nobles, Pipestone, and Redwood Counties and the Cities of Marshall and Worthington under authority of Minn. Stat. §§ 471.59. The purpose of the agreement is to formulate regional and local emergency communications recording and logging services between the parties.

Control is vested in a Joint Powers Board consisting of one County Commissioner or one City Council member for each party to the agreement and the Sheriff or Chief of Police from each party to the agreement. The members representing counties and cities shall be appointed by their respective governing bodies for the membership of that governing body. In 2014, Yellow Medicine County contributed \$4,000 to the Southwest Minnesota Public Safety Board.

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.

5. Subsequent Events

On May 12, 2015, the Board of Commissioners authorized the issuance of bonds to fund construction of a courthouse facility. On June 9, 2015, the Board finalized the sale of General Obligation Capital Improvement Bonds, Series 2015A to Piper Jaffray and Company for a total principal amount of \$5,765,000. The term of the bonds is 20 years with principal payments starting on February 1, 2017.

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REQUIRED SUPPLEMENTARY INFORMATION

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 4,740,266	\$ 4,740,266	\$ 4,891,081	\$ 150,815
Special assessments	178,539	178,539	175,209	(3,330)
Licenses and permits	26,225	26,225	44,600	18,375
Intergovernmental	740,241	779,548	859,072	79,524
Charges for services	354,030	354,030	509,458	155,428
Fines and forfeits	2,000	2,000	6,636	4,636
Gifts and contributions	2,000	2,000	810	(1,190)
Investment earnings	135,300	135,300	218,306	83,006
Miscellaneous	287,827	298,108	405,349	107,241
Total Revenues	\$ 6,466,428	\$ 6,516,016	\$ 7,110,521	\$ 594,505
Expenditures				
Current				
General government				
Commissioners	\$ 238,841	\$ 238,841	\$ 243,878	\$ (5,037)
Public defender	20,000	49,000	55,392	(6,392)
Finance and administration	390,119	390,119	372,035	18,084
Accounting and auditing	38,500	42,000	49,466	(7,466)
Data processing	63,060	63,060	67,556	(4,496)
Elections	31,150	34,650	35,572	(922)
Central services	31,636	31,636	17,803	13,833
Risk management	111,775	111,775	112,608	(833)
Information technology	141,582	143,418	106,199	37,219
County attorney	383,840	404,209	386,054	18,155
Property and public services	646,584	702,584	660,418	42,166
Buildings	383,122	537,749	468,034	69,715
Planning and zoning	109,949	109,949	119,865	(9,916)
Veterans service officer	127,119	130,119	136,960	(6,841)
Other general government	8,156	8,156	7,568	588
Total general government	\$ 2,725,433	\$ 2,997,265	\$ 2,839,408	\$ 157,857

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

***EXHIBIT A-1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 995,228	\$ 995,228	\$ 970,137	\$ 25,091
Boat and water safety	2,640	12,340	19,503	(7,163)
Snowmobile safety	950	2,550	2,698	(148)
Clarkfield deputy	97,077	97,077	66,282	30,795
Coroner	4,500	4,500	5,761	(1,261)
E-911 system	83,200	83,200	70,740	12,460
Confiscated property sales	-	-	5,781	(5,781)
Jail	1,125,134	1,137,134	1,140,778	(3,644)
Jail canteen fund	35,000	35,000	52,242	(17,242)
Restorative justice	142,049	152,049	155,234	(3,185)
Civil defense	46,730	46,730	46,583	147
Total public safety	\$ 2,532,508	\$ 2,565,808	\$ 2,535,739	\$ 30,069
Sanitation				
Recycling	\$ 120,000	\$ 133,000	\$ 115,321	\$ 17,679
Hazardous waste	5,000	5,000	6,136	(1,136)
Total sanitation	\$ 125,000	\$ 138,000	\$ 121,457	\$ 16,543
Health				
Nursing Service	\$ 1,000	\$ 1,000	\$ 625	\$ 375
Drug-free communities	125,000	125,000	128,838	(3,838)
Total health	\$ 126,000	\$ 126,000	\$ 129,463	\$ (3,463)
Culture and recreation				
Historical society	\$ 19,518	\$ 24,518	\$ 25,131	\$ (613)
Agricultural museum	25,100	30,100	30,488	(388)
Parks	124,127	124,127	70,339	53,788
County/regional library	76,309	76,309	76,309	-
Other	42,211	42,211	93,626	(51,415)
Total culture and recreation	\$ 287,265	\$ 297,265	\$ 295,893	\$ 1,372

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Conservation of natural resources				
Planning and zoning	\$ -	\$ -	\$ 1,388	\$ (1,388)
Extension	120,929	120,929	116,389	4,540
Soil and water conservation	121,671	139,137	137,914	1,223
Agricultural inspection	71,574	71,574	38,890	32,684
Water planning loan program	-	147,506	149,313	(1,807)
Water planning	28,878	28,878	28,076	802
Environmental officer	8,000	8,000	6,254	1,746
Other	16,834	16,834	16,862	(28)
Total conservation of natural resources	\$ 367,886	\$ 532,858	\$ 495,086	\$ 37,772
Economic development				
Community development	\$ 29,667	\$ 29,667	\$ 23,318	\$ 6,349
Intergovernmental				
Public safety	\$ 211,311	\$ 211,311	\$ 211,311	\$ -
Health	105,391	105,391	105,391	-
Total intergovernmental	\$ 316,702	\$ 316,702	\$ 316,702	\$ -
Debt service				
Principal	\$ 128,866	\$ 128,866	\$ 138,800	\$ (9,934)
Interest	9,601	9,601	9,247	354
Total debt service	\$ 138,467	\$ 138,467	\$ 148,047	\$ (9,580)
Total Expenditures	\$ 6,648,928	\$ 7,142,032	\$ 6,905,113	\$ 236,919

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Excess of Revenues Over (Under)				
Expenditures	<u>\$ (182,500)</u>	<u>\$ (626,016)</u>	<u>\$ 205,408</u>	<u>\$ 831,424</u>
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ 331,023	\$ 331,023	\$ -
Transfers out	-	(1,723,376)	(1,728,660)	(5,284)
Loans issued	-	147,506	150,370	2,864
Proceeds from the sale of capital assets	2,500	2,500	4,275	1,775
Total Other Financing Sources (Uses)	<u>\$ 2,500</u>	<u>\$ (1,242,347)</u>	<u>\$ (1,242,992)</u>	<u>\$ (645)</u>
Net Change in Fund Balance	<u>\$ (180,000)</u>	<u>\$ (1,868,363)</u>	<u>\$ (1,037,584)</u>	<u>\$ 830,779</u>
Fund Balance - January 1	<u>4,908,931</u>	<u>4,908,931</u>	<u>4,908,931</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 4,728,931</u>	<u>\$ 3,040,568</u>	<u>\$ 3,871,347</u>	<u>\$ 830,779</u>

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,938,421	\$ 1,938,421	\$ 1,944,604	\$ 6,183
Intergovernmental	3,708,563	5,154,650	5,260,025	105,375
Charges for services	25,000	25,000	14,523	(10,477)
Miscellaneous	55,000	55,000	64,197	9,197
Total Revenues	\$ 5,726,984	\$ 7,173,071	\$ 7,283,349	\$ 110,278
Expenditures				
Current				
Highways and streets				
Administration	\$ 271,995	\$ 271,995	\$ 260,034	\$ 11,961
Maintenance	1,698,476	1,672,013	1,571,040	100,973
Construction	2,612,567	4,064,407	4,001,627	62,780
Equipment and maintenance shops	1,147,273	1,323,073	1,161,319	161,754
Total highways and streets	\$ 5,730,311	\$ 7,331,488	\$ 6,994,020	\$ 337,468
Intergovernmental				
Highways and streets	396,673	410,763	410,758	5
Total Expenditures	\$ 6,126,984	\$ 7,742,251	\$ 7,404,778	\$ 337,473
Excess of Revenues Over (Under) Expenditures	\$ (400,000)	\$ (569,180)	\$ (121,429)	\$ 447,751
Other Financing Sources (Uses)				
Proceeds from the sale of capital assets	-	-	21,808	21,808
Net Change in Fund Balance	\$ (400,000)	\$ (569,180)	\$ (99,621)	\$ 469,559
Fund Balance - January 1	4,313,799	4,313,799	4,313,799	-
Increase (decrease) in inventories	-	-	(43,405)	(43,405)
Fund Balance - December 31	\$ 3,913,799	\$ 3,744,619	\$ 4,170,773	\$ 426,154

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,865,218	\$ 1,865,218	\$ 1,868,193	\$ 2,975
Intergovernmental	1,756,912	1,756,912	2,202,536	445,624
Charges for services	153,000	153,000	174,344	21,344
Miscellaneous	43,000	43,000	55,015	12,015
Total Revenues	\$ 3,818,130	\$ 3,818,130	\$ 4,300,088	\$ 481,958
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,022,803	\$ 1,022,803	\$ 1,119,145	\$ (96,342)
Social services	2,840,327	2,976,327	2,963,654	12,673
Total Expenditures	\$ 3,863,130	\$ 3,999,130	\$ 4,082,799	\$ (83,669)
Net Change in Fund Balance	\$ (45,000)	\$ (181,000)	\$ 217,289	\$ 398,289
Fund Balance - January 1	3,432,708	3,432,708	3,432,708	-
Fund Balance - December 31	\$ 3,387,708	\$ 3,251,708	\$ 3,649,997	\$ 398,289

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 565,730	\$ 565,730	\$ 566,835	\$ 1,105
Intergovernmental	98	98	39,399	39,301
Investment earnings	1,000	1,000	7,884	6,884
Miscellaneous	-	-	940,095	940,095
Total Revenues	\$ 566,828	\$ 566,828	\$ 1,554,213	\$ 987,385
Expenditures				
Current				
Conservation of natural resources				
Other	\$ 444,314	\$ 2,243,314	\$ 2,435,671	\$ (192,357)
Intergovernmental	-	-	38,521	(38,521)
Debt service				
Bond issuance costs	-	-	80,671	(80,671)
Total Expenditures	\$ 444,314	\$ 2,243,314	\$ 2,554,863	\$ (311,549)
Excess of Revenues Over (Under) Expenditures	\$ 122,514	\$ (1,676,486)	\$ (1,000,650)	\$ 675,836
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ 324,794	\$ 324,794	\$ -
Transfers out	-	(331,023)	(331,023)	-
Bonds issued	-	-	2,330,000	2,330,000
Premium on bonds sold	-	-	62,455	62,455
Total Other Financing Sources (Uses)	\$ -	\$ (6,229)	\$ 2,386,226	\$ 2,392,455
Net Change in Fund Balance	\$ 122,514	\$ (1,682,715)	\$ 1,385,576	\$ 3,068,291
Fund Balance - January 1	(275,360)	(275,360)	(275,360)	-
Fund Balance - December 31	\$ (152,846)	\$ (1,958,075)	\$ 1,110,216	\$ 3,068,291

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	\$ -	\$ 187,091	\$ 187,091	0.0%	\$ 4,227,170	4.4%
January 1, 2011	-	337,942	337,942	0.0	4,789,562	7.1
January 1, 2014	-	510,455	510,455	0.0	5,058,396	10.1

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2014

1. General Budget Policies

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

The budgets may be amended or modified at any time by the County Board. Expenditures may not legally exceed budgeted appropriations. Comparisons of final budgeted revenues and expenditures to actual are presented in 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	\$ 6,648,928	\$ 493,104	\$ 7,142,032
Road and Bridge Special Revenue Fund	6,126,984	1,615,267	7,742,251
Human Services Special Revenue Fund	3,863,130	136,000	3,999,130
Ditch Special Revenue Fund	444,314	1,799,000	2,243,314

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

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Excess of Expenditures Over Budget

The following individual major funds had expenditures in excess of final budget for the year ended December 31, 2014:

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Human Services Special Revenue Fund	\$ 4,082,799	\$ 3,999,130	\$ 83,669
Ditch Special Revenue Fund	2,554,863	2,243,314	311,549

5. Other Postemployment Benefits Funded Status

Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets to pay the accrued liability for postemployment benefits is zero. Three actuarial valuations are available, which provides sufficient trend analysis to meet the three valuation funding status requirement.

See Note 3.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

6. Other Postemployment Benefits - Significant Plan Provisions and Actuarial Assumption Changes

2011

Plan Provisions

- An Early Retirement Incentive was offered and accepted by two employees and is included in the 2011 Governmental Accounting Standards Board Statement No. 45 valuation.

Actuarial Assumptions

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- Claim costs were developed by age adjusting the premium information from Yellow Medicine County. The resulting claim amount was then blended with the claim amount from the previous valuation trended to the valuation date. As of January 1, 2008, actual claims and enrollment experience were weighted along with age-adjusted premiums.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

6. Other Postemployment Benefits - Significant Plan Provisions and Actuarial Assumption Changes (Continued)

2014

Plan Provisions

- There have been no plan changes since the last actuarial valuation as of January 1, 2011.

Actuarial Assumptions

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality table was updated to reflect the projection of 2000 rates to 2014 based on Scale BB.
- Police mortality, withdrawal, and retirement rates are now being applied to Correctional employees. Previously non-police rates were used.

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SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUNDS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 266,914	\$ 266,914	\$ 144,815	\$ (122,099)
Intergovernmental	5,786	5,786	68	(5,718)
Investment earnings	750	750	277	(473)
Total Revenues	\$ 273,450	\$ 273,450	\$ 145,160	\$ (128,290)
Expenditures				
Current				
General Government				
Other	\$ -	\$ -	\$ 5,284	\$ (5,284)
Debt service				
Principal	185,000	1,935,000	1,935,000	-
Interest	72,985	72,985	67,180	5,805
Total Expenditures	\$ 257,985	\$ 2,007,985	\$ 2,007,464	\$ 521
Excess of Revenues Over (Under) Expenditures	\$ 15,465	\$ (1,734,535)	\$ (1,862,304)	\$ (127,769)
Other Financing Sources (Uses)				
Transfers in	-	1,398,582	1,403,866	5,284
Net Change in Fund Balance	\$ 15,465	\$ (335,953)	\$ (458,438)	\$ (122,485)
Fund Balance - January 1	458,438	458,438	458,438	-
Fund Balance - December 31	\$ 473,903	\$ 122,485	\$ -	\$ (122,485)

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

AGENCY FUNDS

Social Welfare - to account for the collection and disbursement of funds held on behalf of individuals in the Social Welfare program.

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

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

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>SOCIAL WELFARE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 11,782	\$ 88,917	\$ 90,173	\$ 10,526
<u>Liabilities</u>				
Accounts payable	\$ 11,782	\$ 88,917	\$ 90,173	\$ 10,526
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 20,177	\$ 216,521	\$ 216,105	\$ 20,593
<u>Liabilities</u>				
Due to other governments	\$ 20,177	\$ 216,521	\$ 216,105	\$ 20,593
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 216,679	\$ 18,886,791	\$ 18,899,799	\$ 203,671
<u>Liabilities</u>				
Due to other governments	\$ 216,679	\$ 28,012,054	\$ 28,025,062	\$ 203,671

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 248,638</u>	<u>\$ 19,192,229</u>	<u>\$ 19,206,077</u>	<u>\$ 234,790</u>
<u>Liabilities</u>				
Accounts payable	\$ 11,782	\$ 88,917	\$ 90,173	\$ 10,526
Due to other governments	<u>236,856</u>	<u>28,228,575</u>	<u>28,241,167</u>	<u>224,264</u>
Total Liabilities	<u>\$ 248,638</u>	<u>\$ 28,317,492</u>	<u>\$ 28,331,340</u>	<u>\$ 234,790</u>

OTHER SCHEDULES

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2014**

Shared Revenue

State

Highway users tax	\$ 4,580,833
County program aid	175,105
PERA rate reimbursement	15,547
Disparity reduction aid	43,082
Performance aid	1,421
Police aid	68,544
Enhanced 911	81,765
Market value credit	146,953
Casino credit	32,631
Aquatic invasive species aid	19,407

Total shared revenue **\$ 5,165,288**

Reimbursement for Services

Minnesota Department of Human Services	\$ 432,949
Local	39,203

Total reimbursement for services **\$ 472,152**

Payments

Local

Payments in lieu of taxes	\$ 80,524
Local contributions	22,765

Total payments **\$ 103,289**

Grants

State

Minnesota Department/Board/Office of	
Human Services	\$ 723,748
Natural Resources	68,630
Revenue	2,402
Water and Soil Resources	3,529
Veterans Affairs	7,500
Peace Officer Standards and Training Board	3,218
Pollution Control Agency	64,844

Total state **\$ 873,871**

Federal

Department of	
Agriculture	\$ 108,339
Justice	22,597
Health and Human Services	998,201
Homeland Security	27,204
Transportation	590,159

Total federal **\$ 1,746,500**

Total state and federal grants **\$ 2,620,371**

Total Intergovernmental Revenue **\$ 8,361,100**

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ 121,971
U.S. Department of Justice		
Direct		
State Criminal Alien Assistance Program	16.606	\$ 3,007
Passed Through Minnesota Department of Public Safety Edward Byrne Memorial Justice Assistance Grant Program	16.738	19,590
Total U.S. Department of Justice		\$ 22,597
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 75,437
U.S. Election Assistance Commission		
Passed Through Minnesota Secretary of State Help America Vote Act Requirements Payments	90.401	\$ 7,800
U.S. Department of Health and Human Services		
Direct		
Drug-Free Communities Support Program Grants	93.276	\$ 129,161
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	4,986
Temporary Assistance for Needy Families	93.558	72,713
Child Support Enforcement	93.563	218,236
Refugee and Entrant Assistance - State-Administered Programs	93.566	569
Child Care and Development Block Grant	93.575	763
Stephanie Tubbs Jones Child Welfare Services Program	93.645	2,116
Foster Care - Title IV-E	93.658	46,522
Social Services Block Grant	93.667	83,683
Chafee Foster Care Independence Program	93.674	385
Children's Health Insurance Program	93.767	40
Medical Assistance Program	93.778	385,448
Block Grants for Community Mental Health Services	93.958	408
Total U.S. Department of Health and Human Services		\$ 945,030

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Direct		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 30
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	6,843
Passed Through United Way		
Emergency Food and Shelter National Board Program	97.024	2,802
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grants	97.042	<u>17,529</u>
Total U.S. Department of Homeland Security		<u>\$ 27,204</u>
Total Federal Awards		<u>\$ 1,200,039</u>

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Yellow Medicine County. The County's reporting entity is defined in Note 1 to the basic financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Yellow Medicine County under programs of the federal government for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Yellow Medicine County, it is not intended to and does not present the financial position or changes in net position of Yellow Medicine County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 1,746,500
Grants received more than 60 days after year-end, considered unavailable revenue in 2014	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA #10.561)	13,632
Unavailable revenue in 2013, recognized as revenue in 2014	
Highway Planning and Construction (CFDA #20.205)	(514,722)
Foster Care - Title IV-E (CFDA #93.658)	(11,942)
Medical Assistance Program (CFDA #93.778)	(41,229)
Help America Vote Act Requirements Payments (CFDA #90.401) grant monies unspent in previous years and expended in 2014	<u>7,800</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u><u>\$ 1,200,039</u></u>

5. Subrecipients

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2014.

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

Child Support Enforcement	CFDA #93.563
Medical Assistance Program	CFDA #93.778

The threshold for distinguishing between Types A and B programs was \$300,000.

Yellow Medicine County qualified as a low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS RESOLVED

Segregation of Duties (2004-001)

Several of the County's departments that collected fees lacked proper segregation of duties. These departments generally had one staff person responsible for billing, collecting, recording, and depositing receipts.

Resolution

The County has enhanced reviewing and monitoring procedures to mitigate segregation of duties risks by improving controls over collecting, recording, and depositing receipts as well as processing claims.

Audit Adjustments (2013-001)

During the 2013 audit, an adjustment was proposed and recorded to the Ditch Special Revenue Fund in the amount of \$384,378 that resulted in an additional liability for contracts payable. This adjustment was individually material to this opinion unit and was necessary to fairly present liabilities in Yellow Medicine County's financial statements.

Resolution

The County staff reviewed their financial statement closing procedures to ensure that all significant adjustments have been made that were considered necessary to fairly state the County's financial statements in accordance with generally accepted accounting principles. There were no similar adjustments noted in 2014.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2011-004

Eligibility Testing

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778)

Pass-Through Agency: Minnesota Department of Human Services

Criteria: OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Condition: The Minnesota Department of Human Services maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. Not all documentation was available to support participant eligibility, and some information was input into MAXIS incorrectly. The following instances were noted in our sample of 40 cases tested:

- Four applications did not have a signature page filed with the application. In one case, an application was missing from the case file and could not be tested.
- Four cases did not have verification of asset requirements. Two case files did not have verification of account balances held at nursing homes, and two case files either did not have a bank statement on file to support MAXIS, or the bank statement on file did not support the balance listed in MAXIS.

Questioned Costs: Not applicable. The County administers the program, but benefits to participants in this program are paid by the State of Minnesota.

Context: The State of Minnesota contracts with the County Human Services Department to perform the “intake function” (meeting with the social services client to determine income and categorical eligibility) while the Minnesota Department of Human Services maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to participants.

Effect: The improper input of information into MAXIS and lack of follow-up of issues increases the risk that clients will receive benefits when they are not eligible.

Cause: The County maintains case files electronically. Occasionally, the scanner does not scan the final page of the application which is the signature page. In addition, program personnel entering case information into MAXIS did not ensure all required information was input into MAXIS correctly or that all required information was obtained and/or retained.

Recommendation: We recommend that the County implement additional review procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations is obtained and properly input into MAXIS and issues are followed up on in a timely manner. In addition, consideration should be given to providing additional training to program personnel and verifying all documents have been properly scanned.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Robin Schoep, Financial Assistance Supervisor

Corrective Action Planned:

1. *The Supervisor will review the importance of counting pages during scanning with office support staff.*
2. *The Supervisor will review the importance of reviewing scanned documents before completing them within the electronic document management system with Eligibility Specialists. Missing pages must be immediately located and retained within the appropriate electronic case file before destruction.*
3. *The Supervisor will complete Supervisory Case Reviews and Targeted Case Reviews.*
 - a. *A minimum of two Supervisory Case Reviews will be completed each month for each Eligibility Specialist.*
 - b. *Targeted Case Reviews will be completed each month based on reports and error prone areas identified by the Minnesota Department of Human Services.*
 - c. *All reviews are discussed with the Eligibility Specialist completing the reviewed action and corrections are made as needed.*
 - d. *Identified error prone areas and best practices are reviewed at regular unit staff meetings.*

Anticipated Completion Date:

1. and 2. *July 10, 2015. The Corrective Action Plan will be reviewed at our next unit staff meeting.*
3. *Ongoing*

Finding 2012-001

Supervisory Review Over Eligibility - Intake Function

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778)

Pass-Through Agency: Minnesota Department of Human Services

Criteria: OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. The County has approved a policy to document the review process for case files to ensure the intake function related to eligibility requirements is met.

Condition: The Minnesota Department of Human Services maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. During our testing of controls over Medical Assistance case files on February 10, 2015, we noted documented reviews of case files were performed by a supervisor through October 2014.

Questioned Costs: Not applicable. The County administers the program, but benefits to participants in this program are paid by the State of Minnesota.

Context: The State of Minnesota contracts with the County Human Services Department to perform the "intake function" (meeting with the social services client to determine income and categorical eligibility) while the Minnesota Department of Human Services maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to participants.

Effect: The lack of timely periodic reviews by a program supervisor or other person with knowledge of the program's case files increases the risk that clients will receive benefits when they are not eligible.

Cause: Although the County's policy is to perform supervisory case reviews on a monthly basis, the Financial Assistance Supervisor prefers to perform the reviews on a quarterly basis and had not yet performed the reviews for the last quarter of 2014.

Recommendation: We recommend Yellow Medicine County perform case file reviews in a timely manner in accordance with the County's policy. A sample of case files should periodically be reviewed by a program supervisor or other person with knowledge of the program to ensure that all the required information affecting eligibility is obtained, correctly entered into MAXIS, and is retained in the case file. We further recommend that those reviews be documented and retained.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Robin Schoep, Financial Assistance Supervisor

Corrective Action Planned:

1. *The Supervisor will complete Supervisory Case Reviews and Targeted Case Reviews on a monthly basis.*
 - a. *The Supervisor will designate one full day of protected time each month to ensure that Supervisory Case Reviews are completed on a timely basis.*
 - b. *A minimum of two Supervisory Case Reviews will be completed each month for each Eligibility Specialist.*
 - c. *Targeted case reviews will be completed each month based on monthly reports and error prone areas identified by the Minnesota Department of Human Services.*
 - d. *All reviews are discussed with the Eligibility Specialist completing the reviewed actions and corrections are made as needed.*
 - e. *Identified error prone areas and best practices are reviewed at regular unit staff meetings.*

Anticipated Completion Date:

Ongoing

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding 2014-001

Publishing Claims Paid

Criteria: Minnesota Statutes § 375.12 requires that County Board minutes be published within 30 days of the meeting and include an individualized, itemized list of County Board-approved payments over \$2,000. For claims \$2,000 or less, the total number of claims and total amount shall be stated. The County can publish summaries of the minutes, meeting the requirement of Minn. Stat. § 331A.01. However, the County must still publish claims as required by Minn. Stat. § 375.12.

Condition: Yellow Medicine County does not publish an itemized list of County Board-approved payments over \$2,000 with the total number of claims and total amount for payments under \$2,000 as provided by Minn. Stat. § 375.12.

Context: The publication of County Board minutes provides only a summary by fund for the County Board-approved payments made during the respective meeting. The County is concerned that publishing an itemized list of County Board-approved payments over \$2,000 would add substantial cost.

Effect: Noncompliance with Minn. Stat. § 375.12.

Cause: The County Board and management believe publishing a summary of bills paid by fund each month is adequate to inform the public of the substance of the proceedings. The County Board does not wish to incur the additional cost of publication and continues to make the information physically available at the County Government Center.

Recommendation: We recommend the County comply with the above-noted statute and publish an itemized list of County Board-approved payments over \$2,000 with the total number of claims and total amount for payments under \$2,000.

Client's Response:

Yellow Medicine County will continue to review options to bring the publication requirement into compliance with statute.

B. OTHER ITEM FOR CONSIDERATION

GASB Statement 68, *Accounting and Financial Reporting for Pensions*

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the County's government-wide statement of financial position. The County's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in Yellow Medicine County's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year, and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.



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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*

Independent Auditor's Report

Board of County Commissioners
Yellow Medicine County
Granite Falls, Minnesota

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate fund information of Yellow Medicine County, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 15, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Yellow Medicine County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Yellow Medicine County's financial statements are free from 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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because Yellow Medicine County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Yellow Medicine County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 2014-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

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

Yellow Medicine County's Response to Finding

Yellow Medicine County's response to the legal compliance finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 15, 2015

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Yellow Medicine County
Granite Falls, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Yellow Medicine County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2014. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Yellow Medicine County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Yellow Medicine County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2011-004. Our opinion on each major federal program is not modified with respect to this matter.

Yellow Medicine County's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Yellow Medicine County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2011-004 and 2012-001, that we consider to be significant deficiencies.

Yellow Medicine County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. Yellow Medicine County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

July 15, 2015

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR