

STATE OF MINNESOTA

Office of the State Auditor



**Rebecca Otto
State Auditor**

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

The mission of the State Auditor's Office 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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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

Year Ended December 31, 2005



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

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

ORGANIZATION
2005

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1st District	Jim Johansen	January 2009
2nd District	Larry Hansen ²	January 2007
3rd District	Deane Sagmoe ¹	January 2009
4th District	Curtis Blumeyer	January 2007
5th District	Joan Jagt	January 2009
Officers		
Elected		
Attorney	Glen Petersen	January 2007
Auditor	Kathy Schreurs	January 2007
District Judges		
	George I. Harrelson	January 2009
	Lee Bush	January 2009
	David W. Peterson	January 2009
County Recorder	Loretta Lundberg	January 2007
Registrar of Titles	Loretta Lundberg	January 2007
Sheriff	Jack Vizecky	January 2007
Treasurer	Mark R. Leibfried	January 2007
Appointed		
Acting Assessor	Bruce Nielsen	Indefinite
Coroner	Richard D. Mulder, M.D.	Indefinite
Environmental Officer	Robert Olsen	Indefinite
Highway Engineer	Lee E. Amundson	May 2009
Veterans Service Officer	Gary Serie	Indefinite
Emergency Management	Norm VanOverbeke	Indefinite

¹Chair 2005

²Chair 2006

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

**ORGANIZATION SCHEDULE
LAKE BENTON LAKE IMPROVEMENT DISTRICT
BOARD OF DIRECTORS
2005**

<u>Name</u>	<u>Position</u>
Director	
Sam Hedge	Chair
Betty Popkes	Vice Chair
Roy Honermann	Treasurer
Mark McCallum	Secretary
Ed Gruhot	Publicity Chair
Randy Clauson	Member
Marlys Lueck	Member
Staff	
Glen Peterson	Attorney

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Lincoln County

We have audited the basic financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lincoln County as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lincoln County as of December 31, 2005, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the budgetary comparison schedules 1 through 4 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of Lincoln County. The statements and schedules listed as supplementary information in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of Lincoln County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2007, on our consideration of the Lincoln 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: January 8, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005
(Unaudited)

As management of Lincoln County, Minnesota, we offer the readers of the Lincoln County financial statements this narrative overview and analysis of its financial activities for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with the basic financial statements that follow this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- The assets of Lincoln County exceeded its liabilities on December 31, 2005, by \$34,250,067 (net assets). Of this amount, \$5,208,137 (unrestricted net assets) may be used to meet the County's ongoing obligations to citizens and creditors.
- Lincoln County's total net assets increased by \$1,773,787 in 2005. This shows up primarily in the County's investment in capital assets, net of accumulated depreciation.
- As of the close of 2005, Lincoln County's governmental funds reported combined ending fund balances of \$6,635,188, a decrease of \$1,948,312 in comparison with 2004, as restated. Of this balance amount, \$3,436,003 was unreserved and undesignated by Lincoln County, and thus available for spending at the County's discretion.
- At the end of 2005, unreserved, undesignated fund balance for the General Fund was \$2,534,899, or 79 percent of the total General Fund expenditures for that year.
- Lincoln County's total debt increased by \$215, or 0 percent, during 2005. The key factor in this increase was the issuance of additional funds from the Minnesota Pollution Control Agency for ISTS improvements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Lincoln County basic financial statements. Lincoln County's financial statements are composed of three components: (1) government-wide financial statements, (2) fund level financial statements, and (3) notes to the financial statements. This report also contains other supplementary information.

Government-Wide Financial Statements

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

The statement of net assets presents information on all of Lincoln County's assets and liabilities, with the difference being reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Lincoln County is improving or deteriorating.

The statement of activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

Lincoln County's government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of Lincoln County include general government, public safety, highways, sanitation, human services, health, culture and recreation, conservation of natural resources, economic development, and interest. Lincoln County has no business-type activities.

The government-wide financial statements include not only Lincoln County (known as the primary government), but also a legally separate entity known as Lake Benton Lake Improvement District, for which Lincoln County is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

Fund Level Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Lincoln County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements. All of the funds of Lincoln County can be divided into two categories: governmental funds and fiduciary funds.

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 near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. 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 government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Lincoln County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Ditch Special Revenue Fund, and Jail Facility Debt Service Fund. Supplementary budgetary comparison schedules have been provided for these funds to demonstrate compliance with the budget. The basic governmental fund financial statements can be found on Exhibits 3 through 6 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside of Lincoln County. Fiduciary funds are not reflected in the government-wide statements because the resources of those funds are not available to support Lincoln County's own programs or activities. The accounting for fiduciary funds is much like that used for business-type funds.

Notes to the Financial Statements

Notes to the financial statements provide additional information that is 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 24 through 54 of this report.

Other Information

Other information is provided in addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The budgetary comparison for the Debt Service Fund, combining statements referred to earlier in connection with fiduciary funds, component unit statements, and information regarding Lincoln County's intergovernmental revenues are presented.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. Lincoln County's assets exceeded liabilities by \$34,250,067 at the close of 2005. The largest portion of Lincoln County's net assets (81 percent) reflects the County's investment in capital assets (for example, land, buildings, equipment, and infrastructure such as roads and bridges), less any related debt used to acquire those assets (that is still outstanding). However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

Net Assets

	Governmental Activities	
	2005	2004
Assets		
Current and other assets	\$ 10,335,476	\$ 11,109,134
Capital assets	29,402,820	26,690,759
Total Assets	\$ 39,738,296	\$ 37,799,893
Liabilities		
Long-term liabilities	\$ 2,881,367	\$ 4,531,675
Other liabilities	2,606,862	791,938
Total Liabilities	\$ 5,488,229	\$ 5,323,613
Net Assets		
Invested in capital assets, net of related debt	\$ 27,571,569	\$ 24,789,924
Restricted	1,470,361	1,715,329
Unrestricted	5,208,137	5,971,027
Total Net Assets	\$ 34,250,067	\$ 32,476,280

The unrestricted net assets amount of \$5,208,137 as of December 31, 2005, may be used to meet the County's ongoing obligations to citizens and creditors.

Governmental Activities

Lincoln County's activities increased Lincoln County's net assets during 2005 by \$1,773,787, representing a 5.5 percent increase, primarily because of the County's investment in capital assets. Key elements in this increase in net assets are as follows:

Changes in Net Assets

	2005	2004
Revenues		
Program revenues		
Charges for services	\$ 974,902	\$ 458,268
Operating grants and contributions	2,007,109	1,812,001
Capital grants and contributions	1,485,908	2,221,749
General revenues		
Property taxes	2,634,704	2,900,418
Other	1,697,341	1,202,335
Total Revenues	\$ 8,799,964	\$ 8,594,771

	2005	2004
Expenses		
General government	\$ 1,337,932	\$ 1,086,789
Public safety	854,236	923,638
Highways and streets	2,928,517	1,801,564
Sanitation	125,443	89,147
Human services	732,471	925,505
Health	37,080	38,149
Culture and recreation	156,542	195,039
Conservation of natural resources	607,800	611,741
Economic development	53,783	209,147
Interest	192,373	148,950
	<u>\$ 7,026,177</u>	<u>\$ 6,029,669</u>
Total Expenses		
Increase in Net Assets	\$ 1,773,787	\$ 2,565,102
Net Assets - January 1	32,476,280	29,911,178
Net Assets - December 31	<u>\$ 34,250,067</u>	<u>\$ 32,476,280</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, Lincoln County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

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

As of the end of the current fiscal year, Lincoln County's governmental funds reported combined ending fund balances of \$6,635,188, a decrease of \$1,948,312 in comparison with the prior year, as restated. Of the ending fund balance, \$4,102,840 represents unreserved fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons.

The General Fund is the chief operating fund for Lincoln County. At the end of the current fiscal year, it had an unreserved fund balance of \$2,645,543. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. General Fund unreserved fund balance represents 83 percent of total General Fund expenditures. In 2005, fund balance in the General Fund increased by \$748,932. The primary reasons for this increase were increases in special assessments and charges for services.

The Road and Bridge Special Revenue Fund unreserved fund balance of \$1,072,704 at year-end represents 19 percent of the fund's annual expenditures. Unreserved fund balance decreased \$2,016,590 during 2005, primarily due to the reduction of road projects and costs associated with those projects and construction of the Highway Department Building.

The human services function for Lincoln County is performed through a joint powers agreement between Lincoln, Lyon, and Murray Counties, and is known as Lincoln, Lyon, & Murray Human Services. Lincoln County participates in this joint powers authority and annually levies a human service levy on Lincoln County property as required by the governing Human Services Board. Detailed financial information of the activities of Human Services can be addressed to Lincoln, Lyon, & Murray Human Services, 607 West Main Street, Marshall, Minnesota 56258.

The Ditch Special Revenue Fund had an unreserved ending balance of \$384,593. This ending balance represents a \$19,682 increase in fund balance from the prior year. The increase is attributed to less than expected expenditures for the various County ditches.

General Fund Budgetary Highlights

The original General Fund expenditure budget exceeded the final amended budget by \$34,186.

Actual General Fund revenues exceeded budgeted revenues by \$357,336, primarily due to more pass-through intergovernmental receipts and more than expected miscellaneous services receipts.

Actual expenditures exceeded budgeted expenditures by \$198,754. The more than expected expenditures reflect higher than anticipated operating costs. Water quality loan program expenses of \$241,685 were not included in the 2005 budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Lincoln County's depreciable capital assets for its governmental activities at December 31, 2005, totaled \$26,600,797 (net of accumulated depreciation). This investment in capital assets includes land improvements, buildings, equipment, and infrastructure. The County's investment in depreciable capital assets increased \$1,846,948, or 7.5 percent, from the previous year. The major capital asset event was Road and Bridge projects of \$4.4 million.

Governmental Capital Assets

	<u>2005</u>	<u>2004</u>
Capital assets depreciated		
Land improvements	\$ 243,048	\$ 194,878
Buildings	2,621,524	2,607,027
Machinery and equipment	3,232,775	3,146,503
Infrastructure	<u>29,793,285</u>	<u>27,286,346</u>
 Total capital assets depreciated	 <u>\$ 35,890,632</u>	 <u>\$ 33,234,754</u>
Less: accumulated depreciation for		
Land improvements	\$ 88,607	\$ 83,078
Buildings	726,864	684,389
Machinery and equipment	2,351,426	2,140,405
Infrastructure	<u>6,122,938</u>	<u>5,573,033</u>
 Total accumulated depreciation	 <u>\$ 9,289,835</u>	 <u>\$ 8,480,905</u>
 Total Capital Assets Depreciated, Net	 <u><u>\$ 26,600,797</u></u>	 <u><u>\$ 24,753,849</u></u>

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

Long-Term Debt

At the end of the current fiscal year, the County had a total outstanding debt of \$4,854,661 for governmental activities, which was backed by the full faith and credit of the government. Other liabilities and contingencies are described in the notes to the financial statements.

Outstanding Debt

	<u>2005</u>	<u>2004</u>
Special assessment debt	\$ 74,000	\$ 211,000
General obligation bonds	3,560,000	3,635,000
Leases payable	41,251	55,835
Loans payable	1,049,661	824,508
Compensated absences	<u>129,749</u>	<u>128,103</u>
 Total	 <u><u>\$ 4,854,661</u></u>	 <u><u>\$ 4,854,446</u></u>

The County's debt related to special assessment obligation bonds and notes decreased by \$137,000 (65 percent) during the fiscal year due to repayment of principal. General obligation bonded debt decreased by \$75,000 (2 percent) during the fiscal year due to repayment of principal.

Minnesota statutes limit the amount of debt a county may levy to two percent of its total market value of \$521,374,800. At the end of 2005, Lincoln County's debt was less than one percent of its total market value.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The unemployment rate for Lincoln County at the end of 2005 was 4.3 percent. This compares with the state unemployment rate of 4.0 percent and shows an increase from the 3.9 percent rate of one year ago.

Mortgage interest rates have been extremely low, causing many to refinance their mortgages and/or finance new construction.

By the end of 2005, Lincoln County approved its balanced 2006 revenue and expenditure budgets.

LAKE BENTON LAKE IMPROVEMENT DISTRICT

Lake Benton Lake Improvement District is a component unit of the County. The component unit is included in the County's financial report because of the significance of its operational and financial relationship with the County. It is reported in a separate column to emphasize that it is legally separate from the County.

Financial Highlights

The Lake Benton Lake Improvement District's governmental activities' total net assets are a deficit of \$64,171. The District had immaterial activity in 2004 and became a component unit of Lincoln County in 2005.

Government-Wide Financial Analysis

Over time, net assets serve as a useful indicator of the District's financial position. The District's liabilities exceeded assets by \$64,171 at the close of 2005.

Lake Benton Lake Improvement District Net Assets

	<u>Governmental Activities 2005</u>
Assets	
Current and other assets	\$ 75,829
Liabilities	
Due to primary government	<u>140,000</u>
Net Assets	
Restricted	<u>\$ (64,171)</u>

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Lincoln County's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Kathy Schreurs, Lincoln County Auditor, 319 North Rebecca Street, Ivanhoe, Minnesota 56142.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

EXHIBIT 1

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

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 6,713,252	\$ 73,740
Receivables - net	3,297,085	2,089
Due from component unit	140,000	-
Inventories	160,877	-
Deferred charges	24,262	-
Capital assets		
Nondepreciable capital assets	2,802,023	-
Depreciable capital assets - net of accumulated depreciation	26,600,797	-
Total Assets	\$ 39,738,296	\$ 75,829
<u>Liabilities</u>		
Accounts payable and other current liabilities	\$ 560,639	\$ -
Due to primary government	-	140,000
Accrued interest payable	71,165	-
Unearned revenue	31,043	-
Long-term liabilities		
Due within one year	1,944,015	-
Due in more than one year	2,881,367	-
Total Liabilities	\$ 5,488,229	\$ 140,000
<u>Net Assets</u>		
Invested in capital assets, net of related debt	\$ 27,571,569	\$ -
Restricted for		
Debt service	245,683	-
Other purposes	22,893	-
Public safety	83,263	-
Highways and streets	1,118,522	-
Unrestricted	5,208,137	(64,171)
Total Net Assets	\$ 34,250,067	\$ (64,171)

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

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

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary Government		
Governmental activities		
General government	\$ 1,337,932	\$ 257,456
Public safety	854,236	90,964
Highways and streets	2,928,517	105,311
Sanitation	125,443	65,328
Human services	732,471	-
Health	37,080	-
Culture and recreation	156,542	64,280
Conservation of natural resources	607,800	391,563
Economic development	53,783	-
Interest	192,373	-
	\$ 7,026,177	\$ 974,902
Total governmental activities	\$ 7,026,177	\$ 974,902
Component Unit		
Lake Benton Lake Improvement District	\$ 119,534	\$ -

General Revenues

Property taxes
Mortgage registry and deed tax
Wind production tax
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Investment earnings
Miscellaneous

Total general revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Discretely Presented Component Unit
\$ 121,170	\$ -	\$ (959,306)	
136,154	-	(627,118)	
1,623,117	1,485,908	285,819	
49,079	-	(11,036)	
-	-	(732,471)	
-	-	(37,080)	
4,646	-	(87,616)	
72,943	-	(143,294)	
-	-	(53,783)	
-	-	(192,373)	
\$ 2,007,109	\$ 1,485,908	\$ (2,558,258)	
\$ 30,000	\$ 6,668		\$ (82,866)
		\$ 2,634,704	\$ 22,524
		4,522	-
		316,553	-
		34,643	-
		1,040,015	-
		215,495	-
		86,113	-
		\$ 4,332,045	\$ 22,524
		\$ 1,773,787	\$ (60,342)
		32,476,280	(3,829)
		\$ 34,250,067	\$ (64,171)

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

EXHIBIT 3

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Jail Facility Debt Service</u>	<u>Total</u>
<u>Assets</u>						
Cash and pooled investments	\$ 2,748,615	\$ 1,318,943	\$ 257,646	\$ 368,063	\$ 239,081	\$ 4,932,348
Undistributed cash in agency funds	25,405	13,329	12,250	21,245	2,793	75,022
Petty cash and change funds	1,790	-	-	-	-	1,790
Cash with escrow agent	-	-	-	-	1,704,092	1,704,092
Taxes receivable						
Prior	23,050	18,197	16,800	-	3,809	61,856
Special assessments receivable						
Prior	10,016	-	-	1,063	-	11,079
Noncurrent	836,755	-	-	118,566	-	955,321
Accounts receivable	101,090	819	-	200	-	102,109
Accrued interest receivable	42,242	-	-	-	-	42,242
Due from other funds	145,683	-	-	-	-	145,683
Due from other governments	52,767	2,071,711	-	-	-	2,124,478
Due from component unit	140,000	-	-	-	-	140,000
Inventories	-	160,877	-	-	-	160,877
Total Assets	<u>\$ 4,127,413</u>	<u>\$ 3,583,876</u>	<u>\$ 286,696</u>	<u>\$ 509,137</u>	<u>\$ 1,949,775</u>	<u>\$ 10,456,897</u>

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

**EXHIBIT 3
(Continued)**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Jail Facility Debt Service</u>	<u>Total</u>
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 47,925	\$ 19,002	\$ -	\$ 610	\$ -	\$ 67,537
Salaries payable	55,960	28,830	-	-	-	84,790
Contracts payable	-	261,887	-	-	-	261,887
Due to other funds	-	1,099	144,584	-	-	145,683
Due to other governments	16,808	-	125,312	4,305	-	146,425
Deferred revenue - unavailable	948,771	1,995,335	16,800	119,629	3,809	3,084,344
Deferred revenue - unearned	31,043	-	-	-	-	31,043
Total Liabilities	\$ 1,100,507	\$ 2,306,153	\$ 286,696	\$ 124,544	\$ 3,809	\$ 3,821,709
Fund Balances						
Reserved for						
Debt service	\$ -	\$ -	\$ -	\$ -	\$ 241,874	\$ 241,874
Encumbrances	-	20,239	-	-	-	20,239
Inventories	-	160,877	-	-	-	160,877
Missing heirs	268	-	-	-	-	268
Law library	4,714	-	-	-	-	4,714
Recorder's technology fund	13,187	-	-	-	-	13,187
Recorder's compliance fund	9,438	-	-	-	-	9,438
Enhanced 911	69,677	-	-	-	-	69,677
Investments with escrow agent	-	-	-	-	1,704,092	1,704,092
Sheriff's contingency	13,586	-	-	-	-	13,586
Gun permit fees	1,863	-	-	-	-	1,863
Highway allotments	-	23,903	-	-	-	23,903
Due from component unit	140,000	-	-	-	-	140,000
Septic/sewer loans	128,630	-	-	-	-	128,630
Unreserved						
Designated for future expenditures	55,980	-	-	-	-	55,980
Designated for recycling	54,664	-	-	-	-	54,664
Designated for debt service	-	-	-	56,193	-	56,193
Designated for buildings and grounds	-	500,000	-	-	-	500,000
Undesignated	2,534,899	572,704	-	328,400	-	3,436,003
Total Fund Balances	\$ 3,026,906	\$ 1,277,723	\$ -	\$ 384,593	\$ 1,945,966	\$ 6,635,188
Total Liabilities and Fund Balances	\$ 4,127,413	\$ 3,583,876	\$ 286,696	\$ 509,137	\$ 1,949,775	\$ 10,456,897

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005**

Fund balances - total governmental funds (Exhibit 3)	\$	6,635,188
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		29,402,820
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		3,084,344
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (3,634,000)	
Capital leases	(41,251)	
Loans payable	(1,049,661)	
Compensated absences	(129,749)	
Accrued interest payable	(71,165)	
Unamortized discount on G.O. bonds	29,279	
Deferred debt issuance charges	24,262	
	(4,872,285)	(4,872,285)
Net assets of governmental activities (Exhibit 1)	\$	<u>34,250,067</u>

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

EXHIBIT 5

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Jail Facility Debt Service</u>	<u>Total</u>
Revenues						
Taxes	\$ 1,286,698	\$ 780,166	\$ 717,275	\$ -	\$ 164,057	\$ 2,948,196
Special assessments	196,714	-	-	211,670	-	408,384
Licenses and permits	19,060	7,325	-	-	-	26,385
Intergovernmental	1,195,521	2,340,456	113,641	-	25,852	3,675,470
Charges for services	278,998	38,274	-	-	-	317,272
Fines and forfeits	6,732	-	-	-	-	6,732
Investment earnings	178,202	-	-	-	37,293	215,495
Miscellaneous	238,703	24,202	-	2,832	-	265,737
Total Revenues	\$ 3,400,628	\$ 3,190,423	\$ 830,916	\$ 214,502	\$ 227,202	\$ 7,863,671
Expenditures						
Current						
General government	\$ 1,314,289	\$ -	\$ -	\$ -	\$ -	\$ 1,314,289
Public safety	846,276	-	-	-	-	846,276
Highways and streets	-	5,481,302	-	-	-	5,481,302
Sanitation	112,190	-	-	-	-	112,190
Health	414	-	-	-	-	414
Culture and recreation	155,847	-	-	-	-	155,847
Conservation of natural resources	595,232	-	-	52,630	-	647,862
Economic development	53,186	-	-	-	-	53,186
Intergovernmental	36,666	200,487	732,471	-	-	969,624
Debt service						
Principal	70,748	-	-	137,000	75,000	282,748
Interest	11,392	-	-	6,875	171,104	189,371
Administrative (fiscal) fees	-	-	-	1,669	316	1,985
Total Expenditures	\$ 3,196,240	\$ 5,681,789	\$ 732,471	\$ 198,174	\$ 246,420	\$ 10,055,094
Excess of Revenues Over (Under) Expenditures	\$ 204,388	\$ (2,491,366)	\$ 98,445	\$ 16,328	\$ (19,218)	\$ (2,191,423)
Other Financing Sources (Uses)						
Transfers in	\$ 225,162	\$ -	\$ -	\$ 3,354	\$ -	\$ 228,516
Transfers out	(3,354)	(104,309)	(98,445)	-	(22,408)	(228,516)
Proceeds from sale of assets	-	3,972	-	-	-	3,972
Loans issued	243,650	-	-	-	-	243,650
Total Other Financing Sources (Uses)	\$ 465,458	\$ (100,337)	\$ (98,445)	\$ 3,354	\$ (22,408)	\$ 247,622
Net Change in Fund Balances	\$ 669,846	\$ (2,591,703)	\$ -	\$ 19,682	\$ (41,626)	\$ (1,943,801)

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

**EXHIBIT 5
(Continued)**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Jail Facility Debt Service</u>	<u>Total</u>
Fund Balance - January 1, as previously reported	\$ 2,277,974	\$ 3,873,937	\$ -	\$ 364,911	\$ 1,987,592	\$ 8,504,414
Prior period adjustment (Note 1.E.)	79,086	-	-	-	-	79,086
Fund Balance - January 1, as restated	\$ 2,357,060	\$ 3,873,937	\$ -	\$ 364,911	\$ 1,987,592	\$ 8,583,500
Increase (decrease) in reserved for inventories	\$ -	\$ (4,511)	\$ -	\$ -	\$ -	\$ (4,511)
Fund Balance - December 31	\$ 3,026,906	\$ 1,277,723	\$ -	\$ 384,593	\$ 1,945,966	\$ 6,635,188

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (1,943,801)

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

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

Deferred revenue - December 31	\$ 3,084,344	
Deferred revenue - January 1	(1,327,651)	1,756,693

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

Expenditures for general capital assets, including infrastructure	\$ 3,618,820	
Current year depreciation	(906,759)	2,712,061

The issuance of long-term debt provides current financial resources to governmental funds.

Loans issued		(281,317)
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal repayments:		
General obligation bonds	\$ 212,000	
Loans payable	56,164	
Capital leases	14,584	282,748

Septic/ISTS loans previously reported in the General Fund are now reported solely in the government-wide statements.

Loans payable	\$ (824,508)	
Restatement of General Fund balance	79,086	(745,422)

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

Change in accrued interest payable	\$ 2,553	
Amortization of discounts and deferred issuance charges	(3,570)	
Change in compensated absences	(1,647)	
Change in inventories	(4,511)	(7,175)

Change in net assets of governmental activities (Exhibit 2) \$ 1,773,787

FIDUCIARY FUNDS

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LINCOLN COUNTY
IVANHOE, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2005

Assets

Cash and pooled investments	<u>\$ 176,975</u>
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Liabilities

Due to other governments	<u>\$ 176,975</u>
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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005

1. Summary of Significant Accounting Policies

Lincoln County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. More significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Lincoln County was established March 6, 1873, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Lincoln County (primary government) and its component unit. 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 Auditor, elected on a County-wide basis, serves as the clerk of the Board of Commissioners, but has no vote.

Discretely Presented Component Unit

While part of the reporting entity, the discretely presented component unit is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County. Disclosures relating to the discretely presented component unit are reported with those of the primary government. The County's significant accounting policies are also used by the discretely presented component unit. The following component unit of Lincoln County is discretely presented:

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Lake Benton Lake Improvement District	County is financially accountable for the District as a result of fiscal dependency; the District cannot levy taxes without County Board approval.	Separate financial statements are not prepared.

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

The County participates in several joint ventures described in Note 5.C. The County also participates in jointly-governed organizations and a related organization described in Note 5.D. and Note 5.E., respectively.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government and its component unit. 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 normally are supported by taxes and intergovernmental revenues.

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

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

- The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

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

- The Ditch Special Revenue Fund is used to account for the cost of constructing and maintaining an agricultural drainage ditch system. Financing is provided by special assessments levied against benefited property.
- The Jail Facility Debt Service Fund is used to account for the accumulation of resources for, and the payment of, bond principal, interest, and related costs of general obligation bonds.

The County reports no proprietary funds.

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

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

C. Measurement Focus and Basis of Accounting

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

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

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at fair value at December 31, 2005, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2005 were \$179,652.

Lincoln 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, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

2. Receivables and Payables

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

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

All receivables are shown net of an allowance for uncollectibles.

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

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. 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 and deferred special assessments. All special assessments receivable are shown net of allowance for uncollectibles. No provision has been made for an estimated uncollectible amount.

3. Inventories and Prepaid Items

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

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 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.

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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

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

<u>Assets</u>	<u>Years</u>
Buildings	25 - 40
Improvements to land	20 - 35
Public domain infrastructure	15 - 70
Machinery and equipment	3 - 15

5. Compensated Absences

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

6. Deferred Revenue

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

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Long-Term Obligations

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

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

8. Fund Equity

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

9. 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 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.

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Prior Period Adjustment

Fund balance for the General Fund at January 1, 2005, has been restated. Previously, the County reported ISTS loans in the General Fund. Loans receivable were offset by due to other governments. Since these payables are long-term, they are no longer reported in the fund. The restatement is for the difference between the loans receivable and due to other governments at December 31, 2004. The restatement is as follows:

Fund Balance, as previously reported	\$	2,277,974
Correction of an error in the reporting of ISTS loans		79,086
Fund Balance, as Restated	\$	2,357,060

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The Lake Benton Lake Improvement District discretely presented component unit had deficit net assets as of December 31, 2005, of \$64,171. The deficit will be eliminated through future tax levies.

B. Excess of Expenditures Over Budget

Fund	Expenditures	Final Budget	Excess
General	\$ 3,196,240	\$ 2,997,486	\$ 198,754
Special Revenue			
Road and Bridge	5,681,789	3,562,772	2,119,017
Ditch	198,174	198,000	174
Jail Facility Debt Service	246,420	190,600	55,820

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Cash and pooled investments	
Primary government	\$ 6,713,252
Lake Benton Lake Improvement District	73,740
Agency Funds	
Cash and pooled investments	176,975
Total Cash and Investments	\$ 6,963,967
Deposits	\$
Checking	116,042
Money market savings	198,680
Certificates of deposit	382,050
Invested in MAGIC Fund	1,944,318
Invested in U.S. government agency securities	952,485
Invested in negotiable certificates of deposit	1,664,510
Cash with escrow agent	1,704,092
Petty cash and change funds	1,790
Total Deposits, Cash on Hand, and Investments	\$ 6,963,967

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standard letters of credit issued

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

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

b. Investments

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

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

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County's investment policy is to invest in both short-term and long-term investments to limit exposure to interest rate risk. The investment maturities are as follows:

At December 31, 2005, the County had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 - 2 Years</u>	<u>3+ Years</u>
Cash with escrow agent				
U.S. Treasury SLGS	\$ 1,704,092	\$ 1,704,092	\$ -	\$ -

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.

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. At December 31, 2005, \$1,704,092 of investments with escrow agent held at US Bank, \$557,648 of U.S. government agency securities, and \$698,489 of negotiable certificates of deposit held by brokers were subject to custodial credit risk.

Concentration of Credit Risk

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

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

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Government National Mortgage Association	N/A	N/A		12/15/2016	\$ 12,043
Federal Home Loan Bank Note	AAA	S&P		5/12/2009	\$ 124,275
Federal Home Loan Bank Note	AAA	S&P		7/19/2007	494,230
Federal Home Loan Bank Note	AAA	S&P		11/9/2007	149,070
Federal Home Loan Bank Note	AAA	S&P		6/15/2006	172,867
Total Federal Home Loan Bank			15.0%		\$ 940,442
U.S. Treasury securities					
U.S. Treasury state and local government series	N/A	N/A		2/1/2006	\$ 1,704,092

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration	Interest	Carrying (Fair) Value
	Credit Rating	Rating Agency	Risk Over 5 Percent of Portfolio	Rate Risk Maturity Date	
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	N/A	N/A	\$ 1,944,318
Negotiable certificates of deposit					
Countrywide Bank	N/A	N/A		10/6/2006	\$ 9,990
Capital One Bank	N/A	N/A		3/6/2007	100,000
Florida Bank	N/A	N/A		2/27/2007	96,000
Cross Country Bank	N/A	N/A		1/16/2007	95,616
MBNA American Bank	N/A	N/A		2/5/2007	95,904
Bank of North Carolina	N/A	N/A		1/9/2006	98,000
GMAC Commercial Mortgage	N/A	N/A		1/17/2006	98,000
Acacia Federal Savings Bank	N/A	N/A		2/6/2006	98,000
Sterling Savings Bank	N/A	N/A		2/17/2006	98,000
LaSalle Bank	N/A	N/A		11/2/2007	99,000
LaSalle Bank Midwest	N/A	N/A		12/14/2007	98,000
N Bank Commerce, Georgia	N/A	N/A		1/18/2006	99,000
Howard Bank	N/A	N/A		9/27/2006	99,000
Centennial Bank of the West				1/11/2006	96,000
Citizens Bank of Penn				1/11/2006	96,000
First Community Bank				1/11/2006	96,000
Flagstar Bank				1/11/2006	96,000
West Pointe Bank	N/A	N/A		1/11/2006	96,000
Total negotiable certificates of deposit			N/A		\$ 1,664,510
Total investments					\$ 6,265,405
Checking					116,042
Money market savings					198,680
Certificates of deposit					382,050
Petty cash					1,790
Total Cash and Investments					\$ 6,963,967

N/A - Not Applicable
N/R - Not Rated
S&P - Standard & Poor's

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2005, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 61,856	\$ -
Special assessments	966,400	811,343
Accounts	102,109	-
Interest	42,242	-
Due from other governments	2,124,478	-
Total Governmental Activities	\$ 3,297,085	\$ 811,343

Governmental activities and the General Fund also report a \$140,000 receivable from the Lake Benton Lake Improvement District component unit. None of this receivable is expected to be received within the next year.

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 267,120	\$ 3,579	\$ -	\$ 270,699
Right-of-way	270,738	20,055	-	290,793
Construction in progress	1,399,052	2,240,531	1,399,052	2,240,531
Total capital assets not depreciated	\$ 1,936,910	\$ 2,264,165	\$ 1,399,052	\$ 2,802,023
Capital assets depreciated				
Land improvements	\$ 194,878	\$ 48,170	\$ -	\$ 243,048
Buildings	2,607,027	30,553	16,056	2,621,524
Machinery and equipment	3,146,503	168,045	81,773	3,232,775
Infrastructure	27,286,346	2,506,939	-	29,793,285
Total capital assets depreciated	\$ 33,234,754	\$ 2,753,707	\$ 97,829	\$ 35,890,632

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation				
For				
Land improvements	\$ 83,078	\$ 5,529	\$ -	\$ 88,607
Buildings	684,389	58,531	16,056	726,864
Machinery and equipment	2,140,405	292,794	81,773	2,351,426
Infrastructure	<u>5,573,033</u>	<u>549,905</u>	<u>-</u>	<u>6,122,938</u>
 Total accumulated depreciation	 <u>\$ 8,480,905</u>	 <u>\$ 906,759</u>	 <u>\$ 97,829</u>	 <u>\$ 9,289,835</u>
 Total capital assets depreciated, net	 <u>\$ 24,753,849</u>	 <u>\$ 1,846,948</u>	 <u>\$ -</u>	 <u>\$ 26,600,797</u>
 Governmental Activities Capital Assets, Net	 <u>\$ 26,690,759</u>	 <u>\$ 4,111,113</u>	 <u>\$ 1,399,052</u>	 <u>\$ 29,402,820</u>

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

Governmental Activities	
General government	\$ 35,652
Public safety	88,788
Highways and streets, including depreciation of infrastructure assets	759,265
Culture and recreation	9,801
Sanitation	<u>13,253</u>
 Total Depreciation Expense - Governmental Activities	 <u>\$ 906,759</u>

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2005, is as follows:

Receivable Fund	Payable Fund	Amount
General	Road and Bridge	\$ 1,099
General	Human Services	144,584
Total Due To/From Other Funds		\$ 145,683

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2005, consisted of the following:

Transfer to Ditch Fund from General Fund	\$ 3,354	Provide funding
Transfer to General Fund from Road and Bridge Fund	104,309	Provide funding
Transfer to General Fund from Human Services Fund	98,445	Provide funding
Transfer to General Fund from Debt Service Fund	22,408	Provide funding
Total Interfund Transfers	\$ 228,516	

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2005, were as follows:

	Governmental Activities
Accounts	\$ 67,537
Salaries	84,790
Contracts	261,887
Due to other governments	146,425
Total Payables	\$ 560,639

2. Construction Commitments

The government has active construction projects as of December 31, 2005. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Roads and bridges	\$ 3,921,154	\$ 40,444

3. Capital Leases

In 2003, Lincoln County entered into an \$81,520 capital lease arrangement with the Hutchinson Telephone Company to finance the purchase of E-911 equipment. The agreement is to pay \$8,161 (plus tax) for installation and 60 monthly payments of \$1,214 with no specified interest rate.

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Capital Leases (Continued)

This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. They consist of the following at December 31, 2005:

<u>Capital Lease</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2005</u>
E-911 equipment	2008	\$ 1,214	None stated	<u>\$ 81,520</u>	<u>\$ 41,251</u>

Payments on the capital lease are made from the General Fund. The future lease obligations and the net present value of these minimum lease payments as of December 31, 2005, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2006	\$ 14,566
2007	14,565
2008	<u>12,120</u>
Total minimum lease payments	\$ 41,251
Less: amount representing interest	<u>-</u>
Present Value of Minimum Lease Payments	<u><u>\$ 41,251</u></u>

4. Long-Term Debt

Loans Payable

In 2002, the County agreed to act as loan and project sponsor for a project loan agreement made under the Clean Water Partnership Law with the State of Minnesota through its Pollution Control Agency. The loans are to be interest-free with repayment terms from 5 to 20 years and are used for a variety of groundwater

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Long-Term Debt

Loans Payable (Continued)

improvement projects. All loans are secured by special assessments placed on the individual parcels requesting repair of a failing system. Loan payments are reported in the General Fund.

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rates (%)</u>	<u>Original Issues Amount</u>	<u>Outstanding Balance December 31, 2005</u>
General obligation bonds					
2004 G.O. Refunding Bonds	2020	\$105,000 - \$160,000	3.00 to 4.45	\$ 1,790,000	\$ 1,790,000
2000 Detention Facility Bonds	2020	\$45,000 - \$165,000	5.60 to 5.90	<u>2,100,000</u>	<u>1,770,000</u>
Total general obligation bonds				<u>\$ 3,890,000</u>	\$ 3,560,000
Less: unamortized discount					<u>(29,279)</u>
Total General Obligation Bonds, Net					<u>\$ 3,530,721</u>
Special assessment bonds with government commitment					
1997 G.O. drainage bonds	2007	\$12,000	5.75	\$ 120,000	\$ 24,000
1999 G.O. refunding drainage bonds	2015	\$50,000 - \$170,000	3.40 to 4.20	<u>515,000</u>	<u>50,000</u>
Total special assessment bonds with government commitment				<u>\$ 635,000</u>	\$ 74,000
Less: unamortized discount					<u>-</u>
Total Special Assessment Bonds with Government Commitment, Net					<u>\$ 74,000</u>

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Debt Service Requirements

Payments on the special assessment bonds are made in the Ditch Fund. Debt service requirements at December 31, 2005, were as follows:

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2006	\$ 1,770,000	\$ 118,271	\$ 62,000	\$ 2,085
2007	105,000	65,973	12,000	345
2008	110,000	62,748	-	-
2009	110,000	59,447	-	-
2010	115,000	55,958	-	-
2011 - 2015	615,000	216,184	-	-
2016 - 2020	735,000	82,177	-	-
Total	<u>\$ 3,560,000</u>	<u>\$ 660,758</u>	<u>\$ 74,000</u>	<u>\$ 2,430</u>

Year Ending December 31	Loans Payable	
	Principal	Interest
2006	\$ 87,023	\$ 14,480
2007	85,647	12,944
2008	87,449	11,378
2009	89,287	9,779
2010	86,338	8,149
2011 - 2015	345,261	15,922
Total	<u>\$ 781,005</u>	<u>\$ 72,652</u>

The loans payable to the Minnesota Pollution Control Agency of \$268,656 do not have fixed amortization schedules at December 31, 2005, and are not included in the table above.

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Special assessment debt with government commitment	\$ 211,000	\$ -	\$ 137,000	\$ 74,000	\$ 62,000
General obligation bonds	3,635,000	-	75,000	3,560,000	1,770,000
Leases payable	55,835	-	14,584	41,251	14,566
Loans payable	824,508	281,317	56,164	1,049,661	87,023
Compensated absences	128,103	1,646	-	129,749	10,426
Long-Term Liabilities	<u>\$ 4,854,446</u>	<u>\$ 282,963</u>	<u>\$ 282,748</u>	<u>\$ 4,854,661</u>	<u>\$ 1,944,015</u>

7. Advance Crossover Refunding of Debt

On August 1, 2004, Lincoln County issued General Obligation Crossover Refunding Bonds of 2004, in the amount of \$1,790,000 with interest rates of 3.00 percent to 4.45 percent to advance crossover refund the following issue:

General Obligation Detention Facility Bonds, Series 2000, maturing after February 1, 2006. The balance of the outstanding maturities to be refunded is \$1,690,000 and interest rates are 5.65 percent to 5.90 percent.

The proceeds from the bonds were placed with an escrow agent in an irrevocable trust from which U.S. Treasury securities were purchased. The County is responsible for the principal and interest on the original issue through February 1, 2006. The refunded bonds will be called and paid by the escrow agent on February 1, 2006. The escrow agent will pay the interest due on the 2004 bonds through February 1, 2006; thereafter, the County will be responsible for the payment of debt service. The principal balance of both the original issue and the refunding issue will be shown on the balance sheet until the call date of the refunded bonds, at which time the 2000 Series bonds will be paid and the liability for those bonds will be removed.

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Advanced Crossover Refunding of Debt (Continued)

The General Obligation Crossover Refunding Bonds of 2004 were issued at a discount of \$31,231 with accrued interest of \$4,315 and, after paying debt issuance costs of \$25,880, the net proceeds were \$1,737,204. The County deposited \$2,858 of excess proceeds into the debt service fund for future debt payments. The remaining \$1,734,346 of bond proceeds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the General Obligation Crossover Refunding Bonds, Series 2000, until February 1, 2006, at which time the refunded bonds will be paid off.

As a result of the advance crossover refunding, the County reduced its total debt service requirements by \$136,615, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt service) of \$100,001.

4. Employee Retirement Systems and Pension Plans

A. Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution and have direct contact with inmates are covered by the Public Employees Correctional Fund.

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all Public Employees Retirement Fund members whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans (Continued)

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.50 percent. Public Employees Police and Fire Fund members were required to contribute 6.20 percent of their annual covered salary in 2005. That rate increased to 7.00 percent in 2006. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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

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

The County's contributions for the years ending December 31, 2005, 2004, and 2003, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2005	\$ 89,725	\$ 14,836	\$ 2,632
2004	83,024	13,999	2,824
2003	81,768	16,899	2,963

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

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management

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

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

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

Premiums are paid by the General Fund, which is reimbursed from other funds for their shares.

B. Contingent Liabilities

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

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities (Continued)

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

C. Joint Ventures

Lincoln, Lyon, & Murray Human Services

Lincoln, Lyon, & Murray Human Services was formed pursuant to Minn. Stat. § 393.01, subd. 7, by Lincoln, Lyon, and Murray Counties. The Human Services Board began official operation on July 1, 1974, and performs welfare functions formerly performed by the individual counties. Local financing is provided by the three member counties on the basis of each County's welfare expenditures in 1973:

Lincoln County	20.90%
Lyon County	54.77
Murray County	24.33

Lincoln, Lyon, & Murray Human Services is governed by two County Commissioners from each of the participating counties, who are chosen by their respective County Boards, and one lay person from each participating County. At least one lay board member is to be a woman. Financing is provided by state grants and appropriations from member counties. Lincoln County's contribution in 2005 was \$732,471.

At December 31, 2005, Lincoln, Lyon, & Murray Human Services reported a total fund balance of \$5,160,132 and total net assets of \$4,920,285. The Human Services Board's long-term debt at December 31, 2005, is composed of \$416,630 of compensated absences payable. The debt will be funded by intergovernmental revenue and revenue from computer services. Complete financial statements of Lincoln, Lyon, & Murray Human Services can be obtained at 607 West Main, Marshall, Minnesota 56258.

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Lincoln, Lyon, Murray, Pipestone Public Health Services

Lincoln County has joined with surrounding counties to form a community health service agency under the authority of Minn. Stat. ch. 145A and Minn. Stat. § 471.59. This agency is known as the Lincoln, Lyon, Murray, Pipestone Public Health Services and was established August 1, 1978. The governing Board is composed of nine members: two Commissioners representing Lincoln County, one Board member from each of the other participating counties, and four lay members. Financing is provided by state grants, appropriations from member counties, and charges for services. Lincoln County's contribution in 2005 was \$36,666.

At December 31, 2005, the Health Services had retained earnings of \$905,772 and long-term liabilities of \$98,580. Complete financial statements of the Lincoln, Lyon, Murray, Pipestone Public Health Services can be obtained at 607 West Main, Marshall, Minnesota 56258.

Lincoln-Pipestone Rural Water System

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

The Lincoln-Pipestone Rural Water System's 2005 financial report shows total net assets of \$38,281,293, including unrestricted of \$17,280,678. The increase in net assets for the year ended December 31, 2005, was \$552,492. Outstanding obligations at December 31, 2005, were \$19,479,940.

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.

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

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

D. Jointly-Governed Organizations

Lincoln County, in conjunction with other local governments, has formed joint powers boards to provide a variety of services. The County appoints at least one member to the following organizations:

- Minnesota River Basin provides programs for flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County did not contribute to the project.
- The County Board is responsible for appointing two members of the Board of Managers for the Yellow Medicine River Watershed District, but the County's responsibility does not extend beyond making the appointments.
- The County Board is responsible for appointing two members 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.

E. Related Organization

Housing and Redevelopment Authority of Lincoln County

The five-member governing body of the Housing and Redevelopment Authority of Lincoln County is appointed by Lincoln County. Lincoln County is not financially responsible for the Authority. During 2005, there were no related-party transactions between Lincoln County and the Housing and Redevelopment Authority of Lincoln County.

F. Agriculture 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.

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

6. Component Unit Disclosures

A. Summary of Significant Accounting Policies

In addition to those policies identified in Note 1, the Lake Benton Lake Improvement District component unit has the following significant accounting policies.

Reporting Entity

The Lake Benton Lake Improvement District is governed by a seven-member elected board, with the first members appointed to staggered terms. The District was established to provide a means for property owners to meet and deal with specific needs relating to lake quality and lake management, including control of curly leaf pondweed.

The District is considered a component unit of Lincoln County because it cannot levy property taxes without approval of the County Board. The County acts as the fiscal agent for the District.

Basis of Presentation and Basis of Accounting

The District does not issue separate financial statements. It accounts for its funds on the modified accrual basis of accounting.

Cash and Pooled Investments

All cash of the District is on deposit with Lincoln County and included in pooled cash and investments. Disclosures included in Note 3.A.1. apply to the District as well as to the County.

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

6. Component Unit Disclosures (Continued)

B. Detailed Notes

Receivables

Receivables at December 31, 2005, for the Lake Benton Lake Improvement District are as follows:

Taxes	\$ 1,247
Special assessments	<u>842</u>
Total	<u>\$ 2,089</u>

All receivables are expected to be collected within the next year.

Liabilities

The District has a long-term loan from Lincoln County. It was received in two stages, carries an interest rate of three percent, and is to be repaid over three years, although no payment schedule has been agreed on. Payments are to be made from the General Fund.

Changes in the loan during 2005 were as follows:

Balance, January 1	\$ 10,000
Additional loan received	<u>130,000</u>
Balance, December 31	<u>\$ 140,000</u>

Subsequent Event

In 2006, Lincoln County loaned the District an additional \$60,000, for a total of \$200,000. A payment schedule has been agreed on for the total loan amount, payments are to be made, including four percent interest, from 2007 through 2014.

Risk Management

See Note 5.A. for the District's risk management.

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REQUIRED SUPPLEMENTARY INFORMATION

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

Schedule 1

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,498,399	\$ 1,498,399	\$ 1,286,698	\$ (211,701)
Special assessments	96,630	96,630	196,714	100,084
Licenses and permits	9,972	9,972	19,060	9,088
Intergovernmental	900,663	910,663	1,195,521	284,858
Charges for services	267,180	272,978	278,998	6,020
Fines and forfeits	6,300	6,300	6,732	432
Investment earnings	110,000	110,000	178,202	68,202
Miscellaneous	167,422	138,350	238,703	100,353
Total Revenues	\$ 3,056,566	\$ 3,043,292	\$ 3,400,628	\$ 357,336
Expenditures				
Current				
General government				
Commissioners	\$ 119,700	\$ 119,700	\$ 115,561	\$ 4,139
Courts	9,700	9,700	2,848	6,852
Law library	8,700	8,700	8,640	60
County administration	105,134	105,134	82,362	22,772
Auditor	181,930	181,930	173,841	8,089
Treasurer	97,308	97,308	96,498	810
Assessor	94,065	94,165	94,114	51
Elections	3,500	3,500	597	2,903
Data processing	65,000	65,000	53,673	11,327
Attorney	95,725	95,725	93,207	2,518
Recorder	170,761	170,761	168,208	2,553
Planning and zoning	26,622	26,622	25,316	1,306
Buildings and plant	170,918	170,918	160,316	10,602
Veterans service officer	16,548	16,548	16,260	288
Transportation	160,482	160,482	204,390	(43,908)
Safety officer	11,275	11,275	10,183	1,092
Other general government	46,802	46,802	8,275	38,527
Total general government	\$ 1,384,170	\$ 1,384,270	\$ 1,314,289	\$ 69,981
Public safety				
Sheriff	\$ 797,296	\$ 797,671	\$ 728,520	\$ 69,151
Boat and water safety	5,212	5,212	5,067	145
Coroner	2,500	2,500	1,428	1,072
E-911 system	38,000	38,000	10,094	27,906
Rural addressing	-	-	16,991	(16,991)
Probation and parole	32,000	32,150	25,607	6,543
Civil defense	20,668	20,668	58,569	(37,901)
Total public safety	\$ 895,676	\$ 896,201	\$ 846,276	\$ 49,925
Sanitation				
Solid waste	\$ 113,286	\$ 68,650	\$ 112,190	\$ (43,540)

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

Schedule 1
(Continued)

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Health				
Nursing service	\$ -	\$ 425	\$ 414	\$ 11
Culture and recreation				
Historical society	\$ 8,000	\$ 8,000	\$ 8,000	\$ -
Minnesota trails	18,000	18,000	4,646	13,354
Parks	88,429	88,429	114,160	(25,731)
Library	28,491	28,491	28,491	-
Other	550	550	550	-
Total culture and recreation	\$ 143,470	\$ 143,470	\$ 155,847	\$ (12,377)
Conservation of natural resources				
Extension	\$ 90,974	\$ 90,974	\$ 86,251	\$ 4,723
Soil and water conservation	84,000	84,000	84,000	-
Agricultural inspection	5,937	5,937	5,841	96
Agricultural society	20,000	20,000	20,000	-
Water quality loan program	-	-	241,685	(241,685)
ISTS projects	14,570	14,570	15,479	(909)
Geographic information	85,110	85,110	47,243	37,867
Water planning	21,966	31,966	23,281	8,685
Environmental officer	-	-	1,403	(1,403)
Feedlot administration	74,000	73,400	59,409	13,991
Other	9,052	9,052	10,640	(1,588)
Total conservation of natural resources	\$ 405,609	\$ 415,009	\$ 595,232	\$ (180,223)
Economic development				
Community development	\$ 45,000	\$ 45,000	\$ 45,000	\$ -
SWRDC	-	-	2,000	(2,000)
Tourism	7,795	7,795	6,186	1,609
Total economic development	\$ 52,795	\$ 52,795	\$ 53,186	\$ (391)
Intergovernmental				
Health	\$ 36,666	\$ 36,666	\$ 36,666	\$ -
Debt service				
Principal	\$ -	\$ -	\$ 70,748	\$ (70,748)
Interest	-	-	11,392	(11,392)
Total debt service	\$ -	\$ -	\$ 82,140	\$ (82,140)
Total Expenditures	\$ 3,031,672	\$ 2,997,486	\$ 3,196,240	\$ (198,754)

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

***Schedule 1
(Continued)***

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Excess of Revenues Over (Under) Expenditures	\$ 24,894	\$ 45,806	\$ 204,388	\$ 158,582
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 225,162	\$ 225,162
Transfers out	-	-	(3,354)	(3,354)
Loans issued	-	-	243,650	243,650
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 465,458	\$ 465,458
Net Change in Fund Balance	\$ 24,894	\$ 45,806	\$ 669,846	\$ 624,040
Fund Balance - January 1, as previously reported	\$ 2,277,974	\$ 2,277,974	\$ 2,277,974	\$ -
Prior period adjustment (Note 1.E.)	79,086	79,086	79,086	-
Fund Balance - January 1, as restated	\$ 2,357,060	\$ 2,357,060	\$ 2,357,060	\$ -
Fund Balance - December 31	\$ 2,381,954	\$ 2,402,866	\$ 3,026,906	\$ 624,040

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

Schedule 2

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 906,850	\$ 906,850	\$ 780,166	\$ (126,684)
Licenses and permits	6,000	6,000	7,325	1,325
Intergovernmental	2,578,072	2,578,072	2,340,456	(237,616)
Charges for services	34,900	34,900	38,274	3,374
Interest on investments	9,000	9,000	-	(9,000)
Miscellaneous	27,950	27,950	24,202	(3,748)
Total Revenues	\$ 3,562,772	\$ 3,562,772	\$ 3,190,423	\$ (372,349)
Expenditures				
Current				
Highways and streets				
Administration	\$ 331,941	\$ 331,941	\$ 245,532	\$ 86,409
Maintenance	874,189	874,189	537,149	337,040
Construction	1,925,244	1,925,244	2,731,145	(805,901)
Equipment and maintenance shops	431,398	431,398	1,967,476	(1,536,078)
Total highways and streets	\$ 3,562,772	\$ 3,562,772	\$ 5,481,302	\$ (1,918,530)
Intergovernmental				
Highways and streets	-	-	200,487	(200,487)
Total Expenditures	\$ 3,562,772	\$ 3,562,772	\$ 5,681,789	\$ (2,119,017)
Excess of Revenues Over (Under) Expenditures				
	\$ -	\$ -	\$ (2,491,366)	\$ (2,491,366)
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (104,309)	\$ (104,309)
Proceeds from sale of assets	-	-	3,972	3,972
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (100,337)	\$ (100,337)
Net Change in Fund Balance	\$ -	\$ -	\$ (2,591,703)	\$ (2,591,703)
Fund Balance - January 1	3,873,937	3,873,937	3,873,937	-
Increase (decrease) in reserved for inventories	-	-	(4,511)	(4,511)
Fund Balance - December 31	\$ 3,873,937	\$ 3,873,937	\$ 1,277,723	\$ (2,596,214)

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

Schedule 3

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 833,516	\$ 833,516	\$ 717,275	\$ (116,241)
Intergovernmental	-	-	113,641	113,641
Total Revenues	\$ 833,516	\$ 833,516	\$ 830,916	\$ (2,600)
Expenditures				
Intergovernmental				
Human services	833,516	833,516	732,471	101,045
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 98,445	\$ 98,445
Other Financing Sources (Uses)				
Transfers out	-	-	(98,445)	(98,445)
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	\$ -	\$ -	\$ -	\$ -

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

Schedule 4

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 188,000	\$ 188,000	\$ 211,670	\$ 23,670
Charges for services	6,000	6,000	-	(6,000)
Miscellaneous	-	-	2,832	2,832
Total Revenues	\$ 194,000	\$ 194,000	\$ 214,502	\$ 20,502
Expenditures				
Current				
Conservation of natural resources				
Other	\$ 54,125	\$ 54,125	\$ 52,630	\$ 1,495
Debt service				
Principal	137,000	137,000	137,000	-
Interest	6,875	6,875	6,875	-
Administrative (fiscal) fees	-	-	1,669	(1,669)
Total Expenditures	\$ 198,000	\$ 198,000	\$ 198,174	\$ (174)
Excess of Revenues Over (Under) Expenditures	\$ (4,000)	\$ (4,000)	\$ 16,328	\$ 20,328
Other Financing Sources (Uses)				
Transfers in	4,000	4,000	3,354	(646)
Net Change in Fund Balance	\$ -	\$ -	\$ 19,682	\$ 19,682
Fund Balance - January 1	364,911	364,911	364,911	-
Fund Balance - December 31	\$ 364,911	\$ 364,911	\$ 384,593	\$ 19,682

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

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

1. General Budget Policies

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

The budgets may be amended or modified at any time by the County Board. In 2005, the County Board amended the General Fund expenditure budget as follows:

	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 3,031,672	\$ (34,186)	\$ 2,997,486

2. Budget Basis of Accounting

Budgets for the General Fund and the special revenue funds are adopted on a basis consistent with generally accepted accounting principles.

3. Excess of Expenditures Over Budget

Fund	Expenditures	Final Budget	Excess
General	\$ 3,196,240	\$ 2,997,486	\$ 198,754
Special Revenue			
Road and Bridge	5,681,789	3,562,772	2,119,017
Ditch	198,174	198,000	174

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SUPPLEMENTARY INFORMATION

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
JAIL FACILITY DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 190,600	\$ 190,600	\$ 164,057	\$ (26,543)
Intergovernmental	-	-	25,852	25,852
Investment earnings	-	-	37,293	37,293
Total Revenues	\$ 190,600	\$ 190,600	\$ 227,202	\$ 36,602
Expenditures				
Debt service				
Principal	\$ 75,000	\$ 75,000	\$ 75,000	\$ -
Interest	115,600	115,600	171,104	(55,504)
Administrative (fiscal) fees	-	-	316	(316)
Total Expenditures	\$ 190,600	\$ 190,600	\$ 246,420	\$ (55,820)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (19,218)	\$ (19,218)
Other Financing Sources (Uses)				
Transfers out	-	-	(22,408)	(22,408)
Net Change in Fund Balance	\$ -	\$ -	\$ (41,626)	\$ (41,626)
Fund Balance - January 1	1,987,592	1,987,592	1,987,592	-
Fund Balance - December 31	1,987,592	1,987,592	1,945,966	(41,626)

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AGENCY FUNDS

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

Statement 1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>SOUTHWEST REGIONAL SOLID WASTE COMMISSION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,443	\$ 4,800	\$ 3,381	\$ 2,862
<u>Liabilities</u>				
Due to other governments	\$ 1,443	\$ 4,800	\$ 3,381	\$ 2,862
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 181,553	\$ 11,448,265	\$ 11,455,705	\$ 174,113
<u>Liabilities</u>				
Due to other governments	\$ 181,553	\$ 11,448,265	\$ 11,455,705	\$ 174,113
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 182,996	\$ 11,453,065	\$ 11,459,086	\$ 176,975
<u>Liabilities</u>				
Due to other governments	\$ 182,996	\$ 11,453,065	\$ 11,459,086	\$ 176,975

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

Statement 2

**LAKE BENTON LAKE IMPROVEMENT DISTRICT
GENERAL FUND BALANCE SHEET AND STATEMENT OF NET ASSETS
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2005**

	General Fund	Adjustments	Statement of Net Assets
Assets			
Cash and pooled investments	\$ 73,740	\$ -	\$ 73,740
Taxes receivable			
Prior	1,247	-	1,247
Special assessments receivable			
Prior	842	-	842
Total Assets	\$ 75,829	\$ -	\$ 75,829
Liabilities			
Deferred revenue - unavailable	\$ 981	\$ (981)	\$ -
Due to primary government			
Due in more than one year	-	140,000	140,000
Total Liabilities	\$ 981	\$ 139,019	\$ 140,000
Fund Balances			
Unreserved			
Undesignated	\$ 74,848	\$ (74,848)	
Total Liabilities and Fund Balances	\$ 75,829		
Net Assets			
Unrestricted		\$ (64,171)	\$ (64,171)
Fund balances - total governmental funds			\$ 74,848
Amounts reported for governmental activities in the statement of net assets are different because:			
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			981
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.			
Advance from primary government			(140,000)
Net assets of governmental activities			\$ (64,171)

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

Statement 3

**LAKE BENTON LAKE IMPROVEMENT DISTRICT
GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE AND STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General Fund	Adjustments	Statement of Activities
Revenues			
Taxes	\$ 21,948	\$ 576	\$ 22,524
Special assessments	6,263	405	6,668
Intergovernmental	30,000	-	30,000
Total Revenues	\$ 58,211	\$ 981	\$ 59,192
Expenditures/Expenses			
Current			
Conservation of natural resources	119,534	-	119,534
Excess of Revenues Over (Under) Expenditures/Expenses	\$ (61,323)	\$ 981	\$ (60,342)
Other Financing Sources (Uses)			
Loans issued	130,000	(130,000)	-
Change in Fund Balance/ Net Assets	\$ 68,677	\$ (129,019)	\$ (60,342)
Fund Balance/Net Assets - January 1	6,171	(10,000)	(3,829)
Fund Balance/Net Assets - December 31	\$ 74,848	\$ (139,019)	\$ (64,171)
Net change in fund balance - total governmental funds			\$ 68,677
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 expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues is the increase (decrease) in amounts of unavailable deferred revenues.			981
Governmental funds report advances from primary government as other financing sources. However, in the statement of activities the loans are reported as a liability.			(130,000)
Change in net assets of governmental activities			\$ (60,342)

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OTHER SCHEDULE

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

Schedule 6

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Primary Government	Component Unit
Shared Revenue		
State		
Highway users tax	\$ 2,053,866	\$ -
County program aid	622,891	-
PERA rate reimbursement	9,428	-
Disparity reduction aid	37,797	-
Police aid	13,999	-
Enhanced 911	58,159	-
Market value credit	369,899	-
	\$ 3,166,039	\$ -
Payments		
Local		
Payments in lieu of taxes	\$ 34,643	\$ -
Local grants	10,800	20,000
	\$ 45,443	\$ 20,000
Grants		
State		
Minnesota Department of Corrections	\$ 5,580	\$ -
Natural Resources	4,646	10,000
Transportation	90,384	-
Water and Soil Resources Board	72,340	-
Office of Environmental Assistance	24,539	-
Board of Peace Officer Standards and Training	1,410	-
Pollution Control Agency	25,143	-
	\$ 224,042	\$ 10,000
Federal		
Department of Transportation	\$ 193,740	\$ -
Homeland Security	46,206	-
	\$ 239,946	\$ -
Total state and federal grants	\$ 463,988	\$ 10,000
Total Intergovernmental Revenue	\$ 3,675,470	\$ 30,000

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

Schedule 7

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

98-1 Departmental Internal Accounting Controls

Due to the limited number of office personnel within the various Lincoln County departments, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Although this is not unusual in small departmental situations, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

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

Client's Response:

The Board is well aware of the lack of segregation of the accounting functions. All reasonable procedures are in place with the number of employees Lincoln County has.

04-2 Untimely Transaction Recording

Personnel in the County Auditor's Office were late in recording various transactions in the general ledger. After notifying the County in October, the state put the funds in the County's Minnesota Association of Governments Investing for Counties (MAGIC) Fund during October 2005. The County did not receipt the funds until December 2005, and on December 5, 2005, the state used an electronic debit to transfer the general tax that the County had collected for the state from the County's checking account. The County did

not record this transaction until January 20, 2006. Additionally, on December 9, 2005, the MAGIC Fund deposited interest into the County's MAGIC Fund account for interest earnings on a certificate of deposit. The County recorded the interest on January 30, 2006.

We recommend that all transactions be recorded in a timely manner.

Client's Response:

The December 9, 2005, interest was not recorded until reconciliation of the December Magic Fund statement which was done in January 2006. Since these funds are automatically deposited, it was an error on my part for not printing out a worksheet at the proper time to receipt in said funds.

ITEM ARISING THIS YEAR

05-1 Internal Controls Over Financial Reporting

The County Integrated Financial System (IFS) has been upgraded to accommodate the modified accrual basis of accounting in a separate general ledger system to allow for the preparation of the annual financial statements.

The first step in the process is for counties to change their accounting practices and account structure to be COFARS (County Financial Accounting and Reporting Standards) compliant. The second step in the process is to code receipts and disbursements with certain prescribed codes to allow for the detailed accounts to be summarized as required in the financial statements. This process is called mapping the general ledger accounts.

During our audit, we noted the following deficiencies that prevent the IFS from providing accurate fund modified accrual financial statements. These deficiencies resulted in additional audit time because significant audit adjustments were required to correct the financial statements prepared by the County.

Schedule 7
(Continued)

- Due to coding and mapping errors and incomplete listings of accruals, the IFS modified accrual basis fund financial statements were materially misstated and needed numerous audit adjustments. The most significant of these adjustments included adjustments to the receivables and payables. Changes resulting from the adjustments to the financial statements on the modified accrual basis of accounting for selected financial statement captions are as follows:

Total Assets	\$ (2,550,329)
Total Liabilities	(2,883,419)
Total Fund Balance	333,083
Total Revenues	21,742
Total Expenditures	(331,997)
Total Transfers In	(228,516)
Total Transfers Out	228,516
Total Other Financing Sources	(247,622)

- County budget information on the IFS is incomplete and inaccurate. No tax levy information was entered for major funds except the Road and Bridge Fund. This caused the IFS generated budgetary comparison schedules to be materially misstated.
- The County serves as fiscal agent for the Lake Benton Lake Improvement District, a discretely presented component unit of Lincoln County, and Southwest Regional Solid Waste Commission, but accounts for the receipts and disbursements in departments of the General Fund. These entities needed to be reclassified to component unit and agency fund presentations for reporting purposes.
- The County established a County Investment Fund during 2005. This fund had negative cash balances throughout the year, which caused the cash balance on the IFS “Treasurer’s Cash Trial Balance” to be understated by \$5,149,784.

We recommend that the County change its accounting practices and account structure to be COFARS compliant and train all persons coding receipts and disbursements to use and maintain COFARS compliant accounts with correct mapping to allow for the detailed accounts to be summarized as required in the financial statements. This process should be monitored by knowledgeable personnel to ensure that the accounts are correctly summarized for financial statement purposes. We also recommend the County balance the IFS budget with the Board-approved budget on the IFS so the budgetary comparison schedules produced by the system are accurate and can provide revenue and expenditure budget information to the County Board at least monthly to allow the County Board to monitor the financial activity of the County and gain an understanding of the IFS.

Additionally, we recommend that the Lake Benton Lake Improvement District and Southwest Regional Solid Waste Commission be accounted for in separate funds and that the County close the County Investment Fund. We are available to assist the County with the implementation of these recommendations.

Client's Response:

The County staff have made many changes over the past two years to become GASB and COFARS compliant. During this transition process, it appears we still have many changes yet to make. We have hired an outside professional agency to work with us to achieve compliance. The Solid Waste Task Force and the Lake Benton Lake Improvement Fund have been reclassified as agency funds. The County Investment Fund was established at the recommendation of the state auditors. We will work with them on reporting specifics. Budgetary comparison schedules are provided to the Board on a monthly basis.

PREVIOUSLY REPORTED ITEM RESOLVED

Cash Account Off the Books (04-1)

Lincoln County made a \$15,000 deposit to open a new checking account for the employee's Flexible Spending Account. In the County's general ledger, these funds were coded directly to fund balance. As the \$15,000 still belongs to the County, it should have been coded to a sub-cash account on the general ledger to keep records for this cash asset of the County.

Resolution

The funds have been reclassified to a sub-cash account from the fund balance.

II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM RESOLVED

Highway Planning and Construction (CFDA #20.205) (04-3)

The County did not monitor the compliance requirements for the Davis-Bacon Act.

Resolution

The County has implemented a system to monitor compliance with the Davis-Bacon Act.

III. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

02-2 Certificates of Deposit

The County purchased a \$100,000 certificate of deposit from Capital One Bank through Wachovia Securities. Federal deposit insurance provides protection to depositors up to \$100,000 for each bank. This leaves any earned interest not yet paid to the County uninsured.

Minn. Stat. § 118A.04, subd. 5, permits investment in certificates of deposit fully insured by the FDIC. To the extent the County purchases an uninsured certificate of deposit or accrues uninsured interest, it is in violation of Minn. Stat. § 118A.04.

We recommend that the County Treasurer monitor certificates of deposit to ensure that they are fully insured by the FDIC, as required by Minn. Stat. § 118A.04.

Client's Response:

This certificate of deposit will be cashed on its due date in March of 2007.

ITEMS ARISING THIS YEAR

05-2 Depository Pledge Agreement

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

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

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

Client's Response:

New depository pledge agreements are being reviewed by the State Auditor's Office.

05-3

Undistributed Collections in Taxes and Penalties Agency Fund

At December 31, 2005, undistributed collections in the Taxes and Penalties Agency Fund were \$14,195. The County Auditor could not explain the unreconciled variance as of December 13, 2006. Also, the December settlement was not paid until January 27, 2006, two days after the legal requirement, putting the County in violation of Minn. Stat. § 276.111.

Minn. Stat. § 276.111 states that amounts collected from the previous settlement date to December 31 should be settled "to each of the taxing districts on or before January 25. . . ." This statute goes on to say, "Interest accrues at an annual rate of eight percent and must be paid to the taxing district if this final settlement amount is not paid by January 25."

We recommend that the County comply with the provisions of Minn. Stat. § 276.111.

Client's Response:

The undistributed collections were distributed in 2006. Future distributions will comply with Minn. Stat. § 276.111.

PREVIOUSLY REPORTED ITEMS RESOLVED

Ditch Fund Deficit (96-1)

Three of the 52 individual ditch systems had a deficit cash balance at December 31, 2004, totaling \$71,170. Minn. Stat. § 385.04 states, in part, ". . . every warrant shall be paid only from the cash on hand in the fund from which it may be properly payable." If insufficient funds are available when a warrant is presented, Minn. Stat. § 385.31 permits warrants to be registered and paid when funds become available.

Resolution

The County monitors the ditch balances and levies ditch assessments to eliminate deficit borrowing and maintain positive balances in all ditch systems.

Assignment of Collateral (04-4)

Collateral pledged by the First Security Bank - Hendricks was not accompanied by a normal written assignment of collateral. The document only states the “collateral is to be held for the benefit of the Lincoln County Treasurer until notified by the holder to release the collateral or the maturity of the CD (Certificate of Deposit).” Lincoln County did not approve the collateral pledged.

Resolution

The County Treasurer has the necessary collateral agreement on file.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

00-3 Budgeting Procedures

Although the County adopts a formal budget, expenditure estimates and the annual budget appropriations to the various operational funds within the County are not always clear. The County adopts the budget in summary form.

The Board-approved budget does not agree with the Revenue and Expenditure Budget Report on the County’s general ledger system. The budget for property taxes was not entered on the system, which caused the required supplementary information budgetary comparison schedules in the financial report to be materially misstated.

Generally accepted accounting principles and the COFARS recommend that expenditure estimates and the annual budget be appropriated to the various operational entities within the County and that line-item budget detail by fund be available. The appropriations constitute maximum expenditure authorizations during the fiscal year and cannot legally be exceeded unless subsequently amended by the County Board. Good budget accounting requires: (1) an annual budget be adopted by every governmental unit; (2) the accounting system provide the basis for appropriate budgetary control; and (3) a common terminology and classification that can be used consistently throughout the budgets, accounts, and

financial reports of each fund. The County Board should adopt an accurate budget, and it should be followed by the County. The adopted budget should be designed so that comparisons can be made between current year and budget year. Any amendments to the budget should be Board approved and documented in the Board minutes.

We recommend that the County implement procedures to improve its budgetary accounting by including in the County Board minutes the amounts approved for each fund's revenue and expenditure budget. We also recommend that any changes to the original budget be approved by formal Board resolution and be so documented.

Client's Response:

We continue to work on improving the County's budgeting process and reporting documents.

ITEM ARISING THIS YEAR

05-4

Improper Accounting

Lincoln County serves as fiscal agent for the Solid Waste Task Force, a jointly governed organization, and the Lake Benton Lake Improvement District, a component unit of the County. The County accounts for these organizations in departments within the General Fund.

Fiduciary funds are used to account for resources held for other parties outside the County and that cannot be used to support the County's own programs. For the County to produce financial statements that conform to generally accepted accounting principles, the financial activity of these organizations must be accounted for in separate agency funds.

We recommend that the County establish and use agency fund accounting to account for these organizations.

Client's Response:

The Solid Waste Task Force and the Lake Benton Lake Improvement District will be accounted as agency funds.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

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

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

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and

Schedule 7
(Continued)

- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

If applicable for Lincoln County, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2008 and 2009, respectively.



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

Board of County Commissioners
Lincoln County

We have audited the financial statements of Lincoln County as of and for the year ended December 31, 2005, and have issued our report thereon dated January 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lincoln County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Recommendations as items 98-1, 04-2, and 05-1.

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

employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions indicated above is a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Lincoln County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as items 02-2, 05-2, and 05-3.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: January 8, 2007