

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

LAC QUI PARLE COUNTY
MADISON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2006

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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: www.auditor.state.mn.us.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

For the Year Ended December 31, 2006



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

This page was left blank intentionally.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

TABLE OF CONTENTS

| | <u>Reference</u> | <u>Page</u> |
|---|------------------|-------------|
| Introductory Section | | |
| Organization Schedule | | 1 |
| Organization Schedule - Lac qui Parle-Yellow Bank Watershed District | | 2 |
| Organization Schedule - Lac qui Parle County Economic Development Authority | | 3 |
| Financial Section | | |
| Independent Auditor's Report | | 4 |
| Management's Discussion and Analysis | | 6 |
| Basic Financial Statements | | |
| Government-Wide Financial Statements | | |
| Statement of Net Assets | Exhibit 1 | 16 |
| Statement of Activities | Exhibit 2 | 17 |
| Fund Financial Statements | | |
| Governmental Funds | | |
| Balance Sheet | Exhibit 3 | 19 |
| Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities | Exhibit 4 | 21 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances | Exhibit 5 | 22 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities | Exhibit 6 | 23 |
| Fiduciary Funds | | |
| Statement of Fiduciary Net Assets - Agency Funds | Exhibit 7 | 24 |
| Notes to the Financial Statements | | 25 |
| Required Supplementary Information | | |
| Budgetary Comparison Schedules | | |
| General Fund | Schedule 1 | 55 |
| Road and Bridge Special Revenue Fund | Schedule 2 | 58 |
| Family Services Special Revenue Fund | Schedule 3 | 59 |
| Ditch Special Revenue Fund | Schedule 4 | 60 |
| Notes to the Required Supplementary Information | | 61 |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

TABLE OF CONTENTS

| | Reference | Page |
|---|-------------|------|
| Financial Section (Continued) | | |
| Supplementary Information | | |
| Agency Funds | | |
| Combining Statement of Changes in Assets and Liabilities | Statement 1 | 62 |
| Other Schedules | | |
| Schedule of Intergovernmental Revenue | Schedule 5 | 63 |
| Lac qui Parle-Yellow Bank Watershed District | | |
| Statement of Net Assets and Governmental Funds Balance Sheet | Schedule 6 | 65 |
| Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets - Governmental Activities | Schedule 7 | 66 |
| Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances | Schedule 8 | 67 |
| Lac qui Parle County Economic Development Authority | | |
| Statement of Net Assets and Governmental Fund Balance Sheet | Schedule 9 | 69 |
| Reconciliation of Governmental Fund Balance Sheet to the Government-Wide Statement of Net Assets - Governmental Activities | Schedule 10 | 70 |
| Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance | Schedule 11 | 71 |
| Management and Compliance Section | | |
| Schedule of Findings and Questioned Costs | Schedule 12 | 72 |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | | 87 |
| Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 | | 90 |
| Schedule of Expenditures of Federal Awards | Schedule 13 | 93 |

This page was left blank intentionally.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

ORGANIZATION SCHEDULE
LAC QUI PARLE COUNTY
2006

| Office | Name | Term Expires |
|---------------------------|--------------------|--------------|
| Commissioners | | |
| 1st District | Todd Patzer** | January 2009 |
| 2nd District | Albert Hoffman* | January 2007 |
| 3rd District | Ivey Vonderharr | January 2009 |
| 4th District | Merril Johnson | January 2007 |
| 5th District | Harold Solem | January 2009 |
| Officers | | |
| Elected | | |
| Attorney | John Tollefson | January 2007 |
| Auditor | Stanton Bjorgan | January 2007 |
| Coroner | Ralph Gerbig, M.D. | January 2007 |
| Recorder | Janine Bornhurst | January 2007 |
| Sheriff | Graylen Carlson | January 2007 |
| Treasurer | Cindy Heinrich | January 2007 |
| Appointed | | |
| Assessor | Lori Schwendemann | Indefinite |
| Highway Engineer | Steve Kubista | Indefinite |
| Veterans' Service Officer | Thomas Rademacher | Indefinite |
| Welfare Board | | |
| Commissioner | Todd Patzer | January 2009 |
| Commissioner | Albert Hoffman | January 2007 |
| Commissioner | Ivey Vonderharr | January 2009 |
| Commissioner | Merril Johnson | January 2007 |
| Commissioner | Harold Solem | January 2009 |
| Member | Bonnie Jostock | July 2007 |
| Member | Eleanora Collins | July 2006 |
| Director | Joel Churness | Indefinite |

*Chair 2007
**Chair 2006

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**ORGANIZATION SCHEDULE
LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
BOARD OF SUPERVISORS
2006**

| <u>Name</u> | <u>Position</u> |
|---------------------|------------------|
| Supervisor | |
| Willis Beecher | Chair |
| Willard Pearson | Vice Chair |
| David Ludvigson | Treasurer |
| David Craigmile | Secretary |
| Daniel Christianson | Publicity Chair |
| Staff | |
| Darrel Ellefson | Administrator |
| Trudy Hastad | Office Secretary |
| Ron Fjerkenstad | Park Manager |
| Steve Torvik | Attorney |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**ORGANIZATION SCHEDULE
LAC QUI PARLE COUNTY ECONOMIC DEVELOPMENT AUTHORITY
BOARD OF COMMISSIONERS
2006**

| <u>Name</u> | <u>Position</u> |
|-------------------|--------------------|
| Commissioners | |
| John Roiger | President |
| Harold Solem | Vice President |
| Clair Anderson | Treasurer |
| Rick Gail | Secretary |
| Albert Hoffman | Member |
| Clyde Dessonville | Member |
| Brandon Ulstad | Member |
| Staff | |
| Ray Bulinzki | Executive Director |

This page was left blank intentionally.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Lac qui Parle County

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Lac qui Parle County as of December 31, 2006, 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 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 Lac qui Parle County. The statement 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 Lac qui Parle 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 December 31, 2007, on our consideration of Lac qui Parle County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 31, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006
(Unaudited)**

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of the County's financial activities for the fiscal year ended December 31, 2006. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

Governmental activities' total net assets are \$45,031,045, of which \$35,033,188 is invested in capital assets and \$537,154 is restricted to specific purposes. The \$9,460,703 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

The County's net assets increased by \$3,092,015 for the year ended December 31, 2006. A large part of the increase is attributable to the increase in highway infrastructure assets.

The net cost of governmental activities for the current fiscal year was \$1,410,565. The net cost was funded by general revenues and other items totaling \$4,502,580.

The fund balances of the governmental funds increased by \$229,509. Most of the increase was due to higher than expected earnings on investments.

For the year ended December 31, 2006, the unreserved fund balance of the General Fund was \$3,857,423, or 124 percent of the total General Fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

The County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Family Services Special Revenue Fund, and Ditch Special Revenue Fund. Budgetary comparison statements have been provided for each of these funds to demonstrate compliance with this budget.

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

Fiduciary funds are used to account for resources held for the benefit of parties outside of the County. Fiduciary funds are not reflected in the government-wide statements because the resources of these funds are not available to support the County's own programs or activities. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All fiduciary activities are reported in Statement 1, Combining Statement of Changes in Assets and Liabilities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$45,031,045 at the close of 2006. The largest portion of the net assets (77.8 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure, such as roads and bridges).

| | Net Assets | |
|----------------------------|----------------------|----------------------|
| | <u>2006</u> | <u>2005</u> |
| Assets | | |
| Current and other assets | \$ 10,735,761 | \$ 10,614,547 |
| Capital assets | <u>35,033,188</u> | <u>32,066,048</u> |
| Total Assets | <u>\$ 45,768,949</u> | <u>\$ 42,680,595</u> |
| Liabilities | | |
| Long-term liabilities | \$ 306,260 | \$ 288,622 |
| Other liabilities | <u>431,644</u> | <u>452,943</u> |
| Total Liabilities | <u>\$ 737,904</u> | <u>\$ 741,565</u> |
| Net Assets | | |
| Invested in capital assets | \$ 35,033,188 | \$ 32,066,048 |
| Restricted | 537,154 | 783,040 |
| Unrestricted | <u>9,460,703</u> | <u>9,089,942</u> |
| Total Net Assets | <u>\$ 45,031,045</u> | <u>\$ 41,939,030</u> |

Unrestricted net assets--the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--is 21 percent of the net assets.

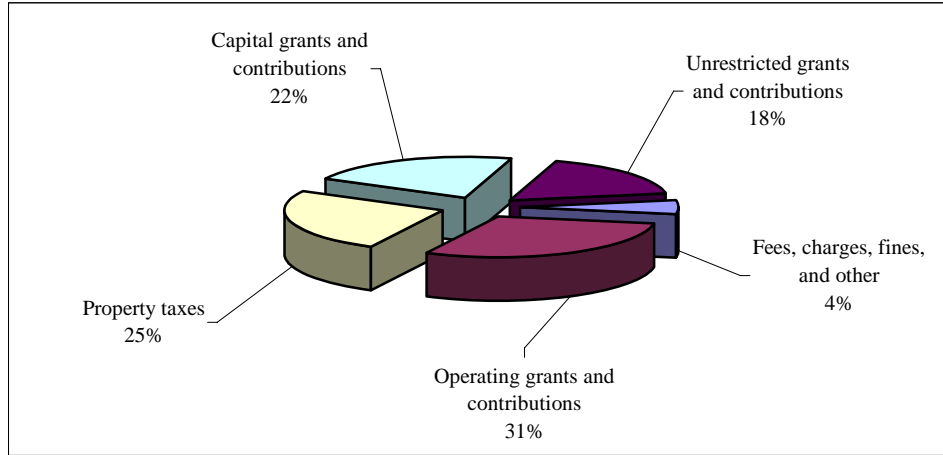
Governmental Activities

The County's activities increased net assets by 7.4 percent (\$45,031,045 for 2006 compared to \$41,939,030 for 2005). Key elements in this increase in net assets are as follows:

| | Changes in Net Assets | |
|------------------------------------|------------------------------|----------------------|
| | <u>2006</u> | <u>2005</u> |
| Revenues | | |
| Program revenues | | |
| Charges for services | \$ 576,499 | \$ 404,448 |
| Operating grants and contributions | 3,157,846 | 3,299,206 |
| Capital grants and contributions | 2,335,495 | 1,722,051 |
| General revenues | | |
| Property taxes | 2,658,006 | 2,494,343 |
| Other | 1,844,574 | 1,717,844 |
| Total Revenues | <u>\$ 10,572,420</u> | <u>\$ 9,637,892</u> |
| Expenses | | |
| General government | \$ 1,636,461 | \$ 1,164,965 |
| Public safety | 783,345 | 711,839 |
| Highways and streets | 2,423,173 | 2,712,749 |
| Sanitation | 102,913 | 389,489 |
| Human services | 1,819,829 | 1,673,752 |
| Health | 67,539 | 67,995 |
| Culture and recreation | 133,055 | 122,045 |
| Conservation of natural resources | 401,870 | 350,058 |
| Economic development | 112,220 | 10,620 |
| Total Expenses | <u>\$ 7,480,405</u> | <u>\$ 7,203,512</u> |
| Increase in Net Assets | \$ 3,092,015 | \$ 2,434,380 |
| Net Assets - January 1 | <u>41,939,030</u> | <u>39,504,650</u> |
| Net Assets - December 31 | <u>\$ 45,031,045</u> | <u>\$ 41,939,030</u> |

The County's total revenues were \$10,572,420. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2006.

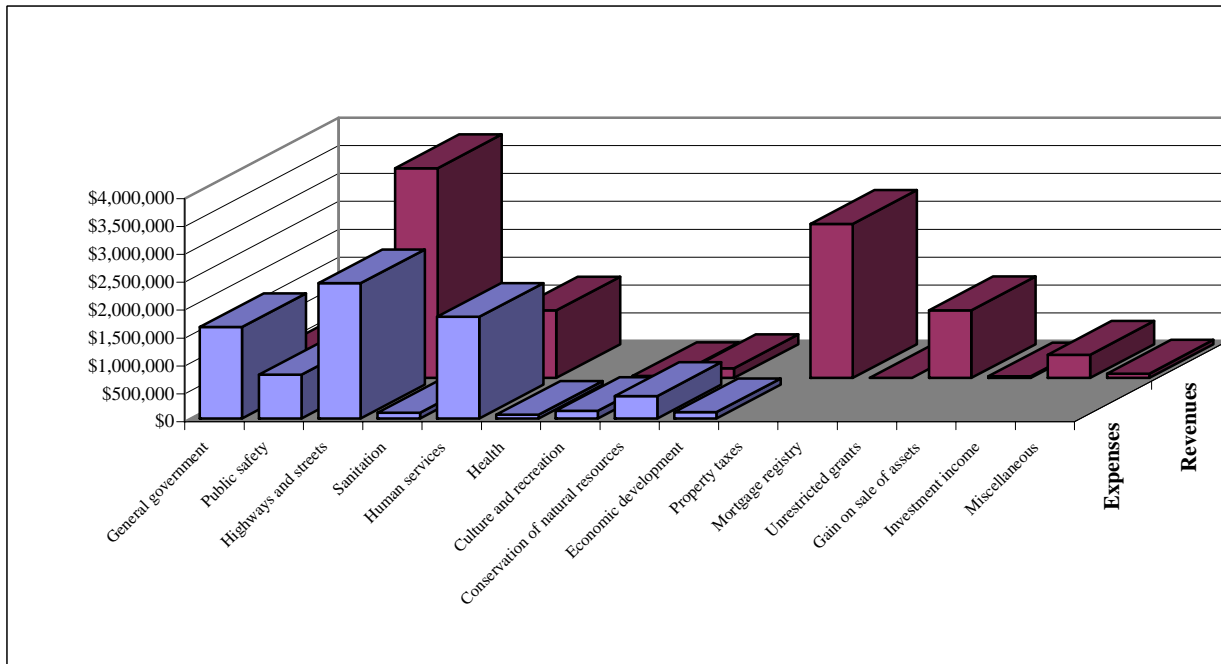
**Table 1
County Revenues**



Total expenses were \$7,480,405, while total revenues were \$10,572,420. This reflects a \$3,092,015 increase in net assets for the year ended December 31, 2006.

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

**Table 2
Revenues and Expenses**



The cost of all governmental activities this year was \$7,480,405. However, as shown on the Statement of Activities on Exhibit 2, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$2,658,006 because some of the cost was paid by those who directly benefited from the programs (\$576,499) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,493,341). The County paid for the remaining “public benefit” portion of governmental activities with \$1,844,574 in general revenues such as grants and contributions not restricted to specific programs, interest, and gains on sale of capital assets.

Table 3 presents the cost of each of the County’s four largest program functions, as well as each function’s net cost (total cost, less revenues generated by the activity). The net cost shows the financial burden that was placed on the County’s taxpayers by each of these functions.

**Table 3
Governmental Activities
(in thousands)**

| | Total Cost of Services 2006 | Net Cost of Services 2006 |
|----------------------|-----------------------------------|---------------------------------|
| Highways and streets | \$ 2,423 | \$ 1,337 |
| Human services | 1,820 | (608) |
| General government | 1,636 | (1,117) |
| Public safety | 783 | (615) |
| All others | 818 | (408) |
| Totals | \$ 7,480 | \$ (1,411) |

FINANCIAL ANALYSIS OF THE GOVERNMENT’S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$9,646,892, an increase of \$229,509 in comparison with the prior year. Of the combined ending fund balances, \$9,183,348 represents unreserved fund balance, which is available for spending at the County’s discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons either by state law, grant agreements, or bond covenants.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unreserved fund balance of \$3,857,423. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund unreserved fund balance represents 124 percent of total General Fund expenditures. During 2006, the ending fund balance increased by \$94,212. The primary reason for this increase was higher than anticipated intergovernmental revenues and fees for services.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$1,926,517 at fiscal year-end, representing 35.6 percent of its annual expenditures. The ending fund balance decreased \$127,155 during 2006, primarily due to increased fuel costs.

The Family Services Special Revenue Fund had an unreserved fund balance of \$2,863,039 at fiscal year-end, representing 158.7 percent of its annual expenditures. The ending fund balance increased \$270,730 during 2006, due to spending less than budgeted in several areas and higher than anticipated interest revenues.

The Ditch Special Revenue Fund had an unreserved fund balance of \$536,369 at fiscal year-end. The ending fund balance decreased \$8,278 during 2006, primarily due to the 107 ditches needing more maintenance than was anticipated.

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) were \$449,231 above the final budget amounts. The most significant negative variance, \$313,736, occurred in the County's Elections Department. Reasons for other significant variances of actual expenditures from final budget include a higher than anticipated cost to operate the public safety programs.

Resources available for appropriation were \$114,929 above the final budgeted amount. This was the result of greater than expected collections for interest and grants.

CAPITAL ASSETS

The County's capital assets at December 31, 2006, totaled \$35,033,188 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure.

Capital Assets at Year-End (Net of Depreciation)

| | Beginning Balance | Increase | Decrease | Ending Balance |
|--------------------------------------|----------------------|----------|----------|-------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 146,903 | \$ - | \$ - | \$ 146,903 |
| Right-of-way | 470,198 | - | - | 470,198 |
| Total capital assets not depreciated | \$ 617,101 | \$ - | \$ - | \$ 617,101 |

| | Beginning Balance | Increase | Decrease | Ending Balance |
|--|----------------------|---------------------|-------------------|----------------------|
| Capital assets depreciated | | | | |
| Buildings | \$ 1,075,536 | \$ - | \$ - | \$ 1,075,536 |
| Machinery, furniture, and equipment | 3,490,204 | 540,768 | 176,451 | 3,854,521 |
| Infrastructure | 38,250,074 | 3,568,898 | - | 41,818,972 |
| Total capital assets depreciated | <u>\$ 42,815,814</u> | <u>\$ 4,109,666</u> | <u>\$ 176,451</u> | <u>\$ 46,749,029</u> |
| Less: accumulated depreciation for | | | | |
| Buildings | \$ 657,483 | \$ 16,964 | \$ - | \$ 674,447 |
| Machinery, furniture, and equipment | 2,285,576 | 289,183 | 176,451 | 2,398,308 |
| Infrastructure | 8,423,808 | 836,379 | - | 9,260,187 |
| Total accumulated depreciation | <u>\$ 11,366,867</u> | <u>\$ 1,142,526</u> | <u>\$ 176,451</u> | <u>\$ 12,332,942</u> |
| Total capital assets depreciated, net | <u>\$ 31,448,947</u> | <u>\$ 2,967,140</u> | <u>\$ -</u> | <u>\$ 34,416,087</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 32,066,048</u> | <u>\$ 2,967,140</u> | <u>\$ -</u> | <u>\$ 35,033,188</u> |

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County's elected and appointed officials considered many factors when setting the 2006 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Lac qui Parle County at the end of 2006 was 4.2 percent. This is comparable with the state unemployment rate of 4.2 percent and shows a slight increase from the County's 4.0 percent rate of one year ago. This could impact the level of services requested by County residents.
- Mortgage interest rates are rising, causing an increase in bankruptcies and foreclosures.
- Real estate values are increasing across the County.
- Wage increases for the area are not keeping up with increased costs of living expenses, including fossil fuels, health care, and property taxes.
- The County's General Fund, Road and Bridge Special Revenue Fund, and Family Services Special Revenue Fund expenditures for 2007 are budgeted to decrease 1.7 percent (\$166,971) over the 2006 original budget. The 2007 anticipated revenues, other than tax levy, state aid, and special assessments, are budgeted to decrease 4.6 percent (\$322,168) over the 2006 original budget.
- The property tax levy for the County increased 5.1 percent (\$155,197) from 2005.

LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT

The Lac qui Parle-Yellow Bank Watershed 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

Governmental activities' total net assets are \$5,798,112, of which \$5,258,743 are invested in capital assets and \$539,369 is unrestricted.

The District's net assets increased by \$45,886 for the year ended December 31, 2006. A large part of the increase is attributable to increased intergovernmental revenues and charges for services.

Program specific revenues were less than the cost of governmental activities for the current fiscal year by \$117,340.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the District's financial position. The District's assets exceeded liabilities by \$5,798,112 at the close of 2006. The largest portion of the net assets (90.7 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure, such as water retention structures).

| | | Net Assets | |
|----------------------------|----|------------|--------------|
| | | 2006 | 2005 |
| Assets | | | |
| Current and other assets | \$ | 726,353 | \$ 641,368 |
| Capital assets | | 5,258,743 | 5,224,230 |
| Total Assets | \$ | 5,985,096 | \$ 5,865,598 |
| Liabilities | | | |
| Long-term liabilities | \$ | 156,829 | \$ 84,979 |
| Other liabilities | | 30,155 | 28,393 |
| Total Liabilities | \$ | 186,984 | \$ 113,372 |
| Net Assets | | | |
| Invested in capital assets | \$ | 5,258,743 | \$ 5,224,230 |
| Restricted | | 539,369 | 527,996 |
| Total Net Assets | \$ | 5,798,112 | \$ 5,752,226 |

LAC QUI PARLE COUNTY ECONOMIC DEVELOPMENT AUTHORITY

The Lac qui Parle County Economic Development Authority is a component unit of Lac qui Parle 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. Year ended December 31, 2006, is the first year of operations.

FINANCIAL HIGHLIGHTS

Governmental activities' total net assets are \$128,062, which are all unrestricted.

The Authority's net assets increased by \$128,062 for the year ended December 31, 2006. A large part of the increase is attributable to appropriations from other governments.

Program specific revenues were less than the cost of governmental activities for the current fiscal year by \$33,933.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the Authority's financial position. The Authority's assets exceeded liabilities by \$128,062 at the close of 2006. The largest portion of the net assets (98.6 percent) reflects its cash and pooled investments.

| | <u>2006</u> |
|--------------------------|-------------------|
| Assets | |
| Current and other assets | <u>\$ 128,062</u> |
| Net Assets | |
| Unrestricted | <u>\$ 128,062</u> |

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Lac qui Parle County's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the County's Auditor-Treasurer, Jake Sieg, Lac qui Parle County Courthouse, 600 - 6th Street, Madison, Minnesota 56256.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This page was left blank intentionally.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT 1

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

| | <u>Primary Governmental Activities</u> | <u>Discretely Presented Component Units</u> | |
|---|--|--|--|
| | | <u>Lac qui Parle- Yellow Bank Watershed District</u> | <u>Lac qui Parle County Economic Development Authority</u> |
| <u>Assets</u> | | | |
| Cash and pooled investments | \$ 6,151,722 | \$ 541,903 | \$ 126,274 |
| Investments | 3,458,925 | - | - |
| Receivables - net | 945,933 | 184,450 | 1,788 |
| Due from component unit | 30,000 | - | - |
| Inventories | 148,352 | - | - |
| Prepaid items | 829 | - | - |
| Capital assets | | | |
| Non-depreciable capital assets | 617,101 | 722,093 | - |
| Depreciable capital assets - net of accumulated depreciation | 34,416,087 | 4,536,650 | - |
| Total Assets | \$ 45,768,949 | \$ 5,985,096 | \$ 128,062 |
| <u>Liabilities</u> | | | |
| Accounts payable and other current liabilities | \$ 431,644 | \$ 24,155 | \$ - |
| Due to primary government | | | |
| Due within one year | - | 6,000 | - |
| Due in more than one year | - | 24,000 | - |
| Long-term liabilities | | | |
| Due within one year | 17,300 | - | - |
| Due in more than one year | 288,960 | 132,829 | - |
| Total Liabilities | \$ 737,904 | \$ 186,984 | \$ - |
| <u>Net Assets</u> | | | |
| Invested in capital assets | \$ 35,033,188 | \$ 5,258,743 | \$ - |
| Restricted for | | | |
| Other purposes | 66,243 | - | - |
| Public safety | 148,338 | - | - |
| Highways and streets | 313,005 | - | - |
| Human services | 9,568 | - | - |
| Unrestricted | 9,460,703 | 539,369 | 128,062 |
| Total Net Assets | \$ 45,031,045 | \$ 5,798,112 | \$ 128,062 |

EXHIBIT 2

| Program Revenues | | Net (Expense) Revenue and Changes in Net Assets | | |
|------------------------------------|----------------------------------|---|---|---|
| | | Primary Government Governmental Activities | Discretely Presented Component Units | |
| Operating Grants and Contributions | Capital Grants and Contributions | | Lac qui Parle- Yellow Bank Watershed District | Lac qui Parle County Economic Development Authority |
| \$ 337,407 | \$ - | \$ (1,117,098) | | |
| 123,469 | 1,500 | (614,726) | | |
| 1,391,744 | 2,333,995 | 1,336,602 | | |
| 149,225 | - | 95,198 | | |
| 1,076,672 | - | (607,887) | | |
| - | - | (67,539) | | |
| 36,988 | - | (96,067) | | |
| 42,341 | - | (226,828) | | |
| - | - | (112,220) | | |
| \$ 3,157,846 | \$ 2,335,495 | \$ (1,410,565) | | |
| \$ 81,110 | \$ 4,131 | | \$ (117,340) | \$ - |
| - | - | | - | (33,933) |
| \$ 81,110 | \$ 4,131 | | \$ (117,340) | \$ (33,933) |
| | | \$ 2,658,006 | \$ 129,049 | \$ - |
| | | 3,952 | - | - |
| | | 103,174 | - | - |
| | | 1,213,757 | 17,717 | 157,888 |
| | | 417,133 | 14,445 | 4,107 |
| | | 78,229 | 2,015 | - |
| | | 28,329 | - | - |
| | | \$ 4,502,580 | \$ 163,226 | \$ 161,995 |
| | | \$ 3,092,015 | \$ 45,886 | \$ 128,062 |
| | | 41,939,030 | 5,752,226 | - |
| | | \$ 45,031,045 | \$ 5,798,112 | \$ 128,062 |

This page was left blank intentionally.

FUND FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENTAL FUNDS

This page was left blank intentionally.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT 3

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

| | General | Road and Bridge | Family Services | Ditch | Total Governmental Funds |
|------------------------------------|----------------------------|----------------------------|----------------------------|--------------------------|---|
| Assets | | | | | |
| Cash and pooled investments | \$ 3,940,689 | \$ 378,914 | \$ 1,227,762 | \$ 559,348 | \$ 6,106,713 |
| Undistributed cash in agency funds | 21,521 | 10,465 | 7,259 | 1,614 | 40,859 |
| Petty cash and change funds | 4,050 | - | 100 | - | 4,150 |
| Investments | 125,000 | 1,731,425 | 1,602,500 | - | 3,458,925 |
| Taxes receivable | | | | | |
| Prior | 18,796 | 11,652 | 8,401 | - | 38,849 |
| Special assessments receivable | | | | | |
| Prior | 8,331 | - | - | 577 | 8,908 |
| Noncurrent | - | - | - | 109,669 | 109,669 |
| Accounts receivable | 8,219 | - | 9,825 | - | 18,044 |
| Accrued interest receivable | 93,152 | 17,762 | 42,675 | - | 153,589 |
| Due from other governments | 29,268 | 468,754 | 113,600 | 5,252 | 616,874 |
| Due from component unit | 30,000 | - | - | - | 30,000 |
| Inventories | - | 148,352 | - | - | 148,352 |
| Prepaid items | 169 | 660 | - | - | 829 |
| Total Assets | <u>\$ 4,279,195</u> | <u>\$ 2,767,984</u> | <u>\$ 3,012,122</u> | <u>\$ 676,460</u> | <u>\$ 10,735,761</u> |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**EXHIBIT 3
(Continued)**

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

| | <u>General</u> | <u>Road and Bridge</u> | <u>Family Services</u> | <u>Ditch</u> | <u>Total Governmental Funds</u> |
|---|---------------------|----------------------------|----------------------------|-------------------|---|
| <u>Liabilities and Fund Balances</u> | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 56,329 | \$ 41,789 | \$ 69,749 | \$ 29,845 | \$ 197,712 |
| Salaries payable | 38,779 | 42,120 | 27,335 | - | 108,234 |
| Contracts payable | - | 104,165 | - | - | 104,165 |
| Due to other governments | 2,319 | 14,130 | 5,084 | - | 21,533 |
| Deferred revenue - unavailable | 78,595 | 431,037 | 37,347 | 110,246 | 657,225 |
| Total Liabilities | \$ 176,022 | \$ 633,241 | \$ 139,515 | \$ 140,091 | \$ 1,088,869 |
| Fund Balances | | | | | |
| Reserved for | | | | | |
| Encumbrances | \$ - | \$ 21,350 | \$ - | \$ - | \$ 21,350 |
| Inventories | - | 148,352 | - | - | 148,352 |
| Prepaid items | 169 | 660 | - | - | 829 |
| Missing heirs | 4,590 | - | - | - | 4,590 |
| Recorder's compliance fund | 31,944 | - | - | - | 31,944 |
| Recorder's technology fund | 13,100 | - | - | - | 13,100 |
| Enhanced 911 | 148,338 | - | - | - | 148,338 |
| Attorney's forfeited property | 11,900 | - | - | - | 11,900 |
| Cemetery | 1,000 | - | - | - | 1,000 |
| Election equipment grant | 4,709 | - | - | - | 4,709 |
| Due from component unit | 30,000 | - | - | - | 30,000 |
| Highway allotments | - | 37,864 | - | - | 37,864 |
| Unspent grant monies | - | - | 9,568 | - | 9,568 |
| Unreserved | | | | | |
| Designated for future expenditures | - | 1,025,100 | - | - | 1,025,100 |
| Designated for capital improvements | - | - | 895,238 | - | 895,238 |
| Designated for capital equipment | 2,413,509 | - | - | - | 2,413,509 |
| Designated for out-of-home placements | - | - | 250,000 | - | 250,000 |
| Designated for administration | - | - | 150,000 | - | 150,000 |
| Designated for poor relief | - | - | 300,000 | - | 300,000 |
| Undesignated | 1,443,914 | 901,417 | 1,267,801 | 536,369 | 4,149,501 |
| Total Fund Balances | \$ 4,103,173 | \$ 2,134,743 | \$ 2,872,607 | \$ 536,369 | \$ 9,646,892 |
| Total Liabilities and Fund Balances | \$ 4,279,195 | \$ 2,767,984 | \$ 3,012,122 | \$ 676,460 | \$ 10,735,761 |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT 4

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

| | |
|--|-----------------------------|
| Fund balances - total governmental funds (Exhibit 3) | \$ 9,646,892 |
| 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. | 35,033,188 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. | 657,225 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. | |
| Compensated absences | <u>(306,260)</u> |
| Net Assets of Governmental Activities (Exhibit 1) | <u>\$ 45,031,045</u> |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

| | General | Road and Bridge | Family Services | Ditch | Total Governmental Funds |
|--|---------------------|---------------------|---------------------|--------------------|--------------------------------|
| Revenues | | | | | |
| Taxes | \$ 1,320,262 | \$ 792,446 | \$ 548,876 | \$ - | \$ 2,661,584 |
| Special assessments | 99,575 | - | - | 103,249 | 202,824 |
| Licenses and permits | 9,594 | - | - | - | 9,594 |
| Intergovernmental | 1,245,913 | 4,326,257 | 1,347,642 | - | 6,919,812 |
| Charges for services | 215,261 | 30,135 | 86,723 | - | 332,119 |
| Fines and forfeits | 20,438 | - | - | - | 20,438 |
| Investment earnings | 215,646 | 62,542 | 43,431 | - | 321,619 |
| Miscellaneous | 110,295 | 4,255 | 48,547 | - | 163,097 |
| Total Revenues | \$ 3,236,984 | \$ 5,215,635 | \$ 2,075,219 | \$ 103,249 | \$ 10,631,087 |
| Expenditures | | | | | |
| Current | | | | | |
| General government | \$ 1,634,382 | \$ - | \$ - | \$ - | \$ 1,634,382 |
| Public safety | 740,018 | - | - | - | 740,018 |
| Highways and streets | - | 5,117,102 | - | - | 5,117,102 |
| Sanitation | 99,179 | - | - | - | 99,179 |
| Human services | - | - | 1,804,489 | - | 1,804,489 |
| Health | 3,000 | - | - | - | 3,000 |
| Culture and recreation | 133,055 | - | - | - | 133,055 |
| Conservation of natural resources | 268,626 | - | - | 132,244 | 400,870 |
| Economic development | 18,220 | - | - | - | 18,220 |
| Intergovernmental | 225,575 | 289,404 | - | - | 514,979 |
| Total Expenditures | \$ 3,122,055 | \$ 5,406,506 | \$ 1,804,489 | \$ 132,244 | \$ 10,465,294 |
| Excess of Revenues Over (Under) Expenditures | \$ 114,929 | \$ (190,871) | \$ 270,730 | \$ (28,995) | \$ 165,793 |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | \$ - | \$ - | \$ - | \$ 20,717 | \$ 20,717 |
| Transfers out | (20,717) | - | - | - | (20,717) |
| Proceeds from sale of assets | - | 28,329 | - | - | 28,329 |
| Total Other Financing Sources (Uses) | \$ (20,717) | \$ 28,329 | \$ - | \$ 20,717 | \$ 28,329 |
| Net Changes in Fund Balances | \$ 94,212 | \$ (162,542) | \$ 270,730 | \$ (8,278) | \$ 194,122 |
| Fund Balances - January 1 | 4,008,961 | 2,261,898 | 2,601,877 | 544,647 | 9,417,383 |
| Increase (decrease) in reserved for inventories | - | 35,387 | - | - | 35,387 |
| Fund Balances - December 31 | \$ 4,103,173 | \$ 2,134,743 | \$ 2,872,607 | \$ 536,369 | \$ 9,646,892 |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

| | | |
|---|-----------|----------------|
| Net change in fund balances - total governmental funds (Exhibit 5) | \$ | 194,122 |
|---|-----------|----------------|

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 between the fund statements and the statement of activities is the increase (decrease) in revenues deferred as unavailable.

| | | | |
|--------------------------------|----|-----------|----------|
| Deferred revenue - December 31 | \$ | 657,225 | |
| Deferred revenue - January 1 | | (744,221) | (86,996) |

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. Also, in the statement of activities only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the disposal increase financial resources. The change in net assets differs from the change in fund balance by the net book value of the assets disposed of.

| | | | |
|--|----|-------------|-----------|
| Expenditures for general capital assets and infrastructure | \$ | 4,109,666 | |
| Current year depreciation | | (1,142,526) | 2,967,140 |

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 compensated absences | \$ | (17,638) | |
| Change in inventories | | 35,387 | 17,749 |

| | | |
|--|-----------|-------------------------|
| Change in Net Assets of Governmental Activities (Exhibit 2) | \$ | <u>3,092,015</u> |
|--|-----------|-------------------------|

This page was left blank intentionally.

FIDUCIARY FUNDS

This page was left blank intentionally.

LAC QUI PARLE COUNTY
MADISON, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2006

Assets

| | |
|-----------------------------|-------------------|
| Cash and pooled investments | <u>\$ 117,669</u> |
|-----------------------------|-------------------|

Liabilities

| | |
|--------------------------|-------------------|
| Due to other governments | <u>\$ 117,669</u> |
|--------------------------|-------------------|

This page was left blank intentionally.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2006. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Lac qui Parle County was established in 1871 and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. 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.

Discretely Presented Component Units

While part of the reporting entity, discretely presently component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. The following component units of Lac qui Parle County are discretely presented:

| <u>Component Unit</u> | <u>Component Unit of Reporting Entity Because</u> | <u>Separate Financial Statements</u> |
|---|--|---|
| Lac qui Parle-Yellow Bank Watershed District | County appoints majority of the Board and is a financial burden to the County. | Separate financial statements are not prepared. |
| Lac qui Parle County Economic Development Authority | County appoints all of the Board and is a financial burden to the County. | Separate financial statements are not prepared. |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Discretely Presented Component Units (Continued)

Significant accounting policies of the component units do not differ significantly from those of the County.

Joint Ventures

The County participates in several joint ventures described in Note 6.B.

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, (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.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. All governmental funds are reported 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 that is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Family 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.

Additionally, the County reports the following fund type:

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.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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. Lac qui Parle County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2006, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2006 were \$258,784.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are 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 uncollectables.

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.

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.

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 (roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. The

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

County and the Lac qui Parle-Yellow Bank Watershed District define capital assets 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 market value at the date of donation.

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

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

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

| <u>Assets</u> | <u>Years</u> |
|------------------------------------|--------------|
| Buildings | 20 - 50 |
| Building improvements | 20 - 30 |
| Public domain infrastructure | 25 - 75 |
| Furniture, equipment, and vehicles | 5 - 20 |

5. Compensated Absences

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Deferred Revenue

All County funds and the government-wide financial statements defer revenue for resources that have been received but not yet earned.

Governmental funds also report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

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. At December 31, 2006, Lac qui Parle County reported no bonded debt.

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.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

| Fund | Expenditures | Final Budget | Excess |
|---------|--------------|--------------|------------|
| General | \$ 3,122,055 | \$ 2,672,824 | \$ 449,231 |

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 | | |
| Governmental activities | | |
| Cash and pooled investments | \$ | 6,151,722 |
| Investments | | 3,458,925 |
| Statement of fiduciary net assets | | |
| Cash and pooled investments | | 117,669 |
| Total Cash and Investments | \$ | 9,728,316 |
| Petty cash and change funds | | |
| Checking | \$ | 4,150 |
| Money market savings | | 96,123 |
| Certificates of deposit | | 3,228,043 |
| Total Deposits and Investments | \$ | 9,728,316 |

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.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County has adopted a policy for custodial credit risk of obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2006, the County 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;

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries rated in the highest quality category by two nationally recognized rating agencies and maturing 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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At December 31, 2006, none of the County's investments 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. Lac qui Parle County mitigates the concentration of credit risk by purchasing certificates of deposit from multiple banks.

2. Receivables/Due From Component Unit

Receivables

Receivables as of December 31, 2006, for the County's governmental activities follow:

| | <u>Total Receivables</u> | <u>Amounts Not Scheduled for Collection During the Subsequent Year</u> |
|-------------------------------|------------------------------|--|
| Governmental Activities | | |
| Taxes | \$ 38,849 | \$ - |
| Special assessments | 118,577 | 109,669 |
| Due from other governments | 616,874 | - |
| Accounts receivable | 18,044 | - |
| Interest | 153,589 | - |
| | <u>\$ 945,933</u> | <u>\$ 109,669</u> |
| Total Governmental Activities | | |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables/Due From Component Unit (Continued)

Due From Component Unit

The Lac qui Parle-Yellow Bank Watershed District has a balance due to the Lac qui Parle County General Fund at December 31, 2006, of \$30,000. The balance is being repaid in annual installments of \$6,000.

3. Capital Assets

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

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---------------------------------------|----------------------|--------------|------------|-------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 146,903 | \$ - | \$ - | \$ 146,903 |
| Right-of-way | 470,198 | - | - | 470,198 |
| Total capital assets not depreciated | \$ 617,101 | \$ - | \$ - | \$ 617,101 |
| Capital assets depreciated | | | | |
| Buildings | \$ 1,075,536 | \$ - | \$ - | \$ 1,075,536 |
| Machinery, furniture, and equipment | 3,490,204 | 540,768 | 176,451 | 3,854,521 |
| Infrastructure | 38,250,074 | 3,568,898 | - | 41,818,972 |
| Total capital assets depreciated | \$ 42,815,814 | \$ 4,109,666 | \$ 176,451 | \$ 46,749,029 |
| Less: accumulated depreciation for | | | | |
| Buildings | \$ 657,483 | \$ 16,964 | \$ - | \$ 674,447 |
| Machinery, furniture, and equipment | 2,285,576 | 289,183 | 176,451 | 2,398,308 |
| Infrastructure | 8,423,808 | 836,379 | - | 9,260,187 |
| Total accumulated depreciation | \$ 11,366,867 | \$ 1,142,526 | \$ 176,451 | \$ 12,332,942 |
| Total capital assets depreciated, net | \$ 31,448,947 | \$ 2,967,140 | \$ - | \$ 34,416,087 |
| Capital Assets, Net | \$ 32,066,048 | \$ 2,967,140 | \$ - | \$ 35,033,188 |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

| | |
|--|--------------|
| Governmental Activities | |
| General government | \$ 10,033 |
| Public safety | 44,066 |
| Sanitation | 3,734 |
| Highways and streets | 1,073,849 |
| Human services | 10,844 |
| | 1,112,526 |
| Total Depreciation Expense - Governmental Activities | \$ 1,142,526 |

B. Interfund Receivables, Payables, and Transfers

Lac qui Parle County did not have any interfund balances as of December 31, 2006.

Interfund Transfers

During 2006, the General Fund transferred \$20,717 to the Ditch Special Revenue Fund for its share of interest earnings.

C. Liabilities

1. Payables

Payables at December 31, 2006, were as follows:

| | |
|--------------------------|-----------------------|
| | Governmental Funds |
| Accounts | \$ 197,712 |
| Salaries | 108,234 |
| Contracts | 104,165 |
| Due to other governments | 21,533 |
| | 431,644 |
| Total Payables | \$ 431,644 |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Other Postemployment Benefits

Employees' Health Insurance Benefits

Employees retiring from County service with at least ten years of service and meeting the established requirements to receive a pension from the Public Employees Retirement Association may have their severance pay transferred to an individual health insurance account to pay their monthly health insurance premiums until this balance is exhausted or they reach age 65. At December 31, 2006, the County had no liability. The County finances the plan on a pay-as-you-go basis and made no payments in 2006.

Retired Officials' Health Insurance Benefits

The County pays the health insurance for qualified retired elected officials. The elected official will receive one year of paid insurance for every four years of service to Lac qui Parle County after they have served for eight years and one day. A maximum of four years of paid insurance is available to elected officials or until they become eligible for Medicare. At December 31, 2006, the County had no liability. The County finances the plan on a pay-as-you-go basis and made no payments in 2006.

3. Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

| | <u>Compensated Absences</u> |
|----------------------------|---------------------------------|
| Payable - January 1 | \$ 288,622 |
| Net changes | <u>17,638</u> |
| Payable - December 31 | <u>\$ 306,260</u> |
| Amount Due Within One Year | <u>\$ 17,300</u> |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Lac qui Parle County and the Lac qui Parle-Yellow Bank Watershed District 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.

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.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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.

Funding Policy

Pension benefits are funded from member and employer contributions and income from 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. Each government makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. Public Employees Police and Fire Fund members were required to contribute 7.00 percent of their annual covered salary in 2006. That rate increased to 7.80 percent in 2007. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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

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

Each government's contributions for the years ending December 31, 2006, 2005, and 2004, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

| | Public Employees Retirement Fund | Public Employees Police and Fire Fund | Public Employees Correctional Fund |
|------|---|--|---|
| 2006 | \$ 131,859 | \$ 32,865 | \$ 5,479 |
| 2005 | 116,298 | 28,724 | 5,025 |
| 2004 | 114,371 | 29,721 | 4,409 |

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

B. Defined Contribution Plan

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

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

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

The County's contributions for the years ending December 31, 2006, 2005, and 2004, were \$1,008, \$957, and \$0, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Risk Management

The County, the Watershed District, and the Economic Development Authority 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. The County self-insures for employee health and dental coverage. 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 \$390,000 and \$400,000 per claim in 2006 and 2007, respectively. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

5. Risk Management (Continued)

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

The County, the Watershed District, and the Economic Development Authority, in conjunction with the normal conduct of their affairs, are involved in various claims, judgments, and litigation. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the Watershed District's attorney, and the Economic Development Authority's attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the Lincoln, Lyon, & Murray Human Services Board entered into a joint powers agreement with several counties creating and operating the Southwestern Minnesota Adult Mental Health Consortium Board under the authority of Minn. Stat. § 471.59. The Consortium Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

The Consortium Board shall take actions and enter into such agreements as may be necessary to plan and develop within the Consortium Board's geographic jurisdiction a system of care that will serve the needs of adults with serious and persistent mental illness. The governing board is composed of one Board member from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

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

| | |
|--------------------------|--------------|
| Total assets | \$ 1,148,132 |
| Total liabilities | 497,546 |
| Total net assets | 650,586 |
| Total revenues | 1,960,287 |
| Total expenditures | 1,671,076 |
| Net change in net assets | 289,211 |

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

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

Countryside Public Health Service

Lac qui Parle County participates with Big Stone, Chippewa, Swift, and Yellow Medicine Counties in a joint venture to provide community health services. The governing board consists of 11 members, 3 from Chippewa County and 2 from each of the other participating counties. Lac qui Parle County's contribution to the Countryside Public Health Service for the year ended December 31, 2006, was \$64,539.

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Region 6W Community Corrections

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

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

Lac qui Parle County's contribution for the year ended December 31, 2006, was \$67,036. Complete financial statements for the Region 6W Community Corrections can be obtained at 1215 Black Oak Avenue, P. O. Box 551, Montevideo, Minnesota 56265.

Minnesota River Basin

The Minnesota River Basin Joint Powers Board was established July 12, 1995, by an agreement between Chippewa, Lac qui Parle, Lincoln, Lyon, Murray, Pipestone, Redwood, Renville, Yellow Medicine, and 27 other counties. The agreement was made to promote orderly water quality improvement and management of the Minnesota River Watershed. Each county is responsible for its proportionate share of the administrative budget and for its share of benefits from any special project.

In the event of termination of the agreement, all property, real and personal, held by the Joint Powers Board shall be distributed by resolution of the policy committee to best accomplish the continuing purpose of the project.

Control is vested in an Executive Board of five officers elected from the membership of the Joint Powers Board, consisting of one representative and alternate from each County Board of Commissioners included in this agreement.

During 2006, the County contributed \$11,969 to the Joint Powers Board. Complete financial statements for the Minnesota River Basin Joint Powers Board can be obtained from its administrative office at Administration Building No. 14, 600 East 4th Street, Chaska, Minnesota 55318.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Regional Drug Task Force

The Regional Drug Task Force was established in 1988 by a joint powers agreement among Big Stone, Lac qui Parle, and Traverse Counties, and the Cities of Browns Valley, Canby, Dawson, Madison, and Ortonville. The agreement was established to provide an organization to coordinate efforts to apprehend and prosecute drug offenders.

In the event of termination of the joint powers agreement, all property of the Task Force shall be sold or distributed to the members in proportion to the contributions each member made under the joint powers agreement.

Control of the Task Force is vested in the Board of Directors and consists of eight members, one from each participating entity. Each member of the Board is appointed by the police chief or sheriff of each entity.

Financing is provided by state and federal grants and appropriations from members. The County did not contribute to the Task Force in 2006. Complete financial statements for the Regional Drug Task Force can be obtained from its administrative office at 600 Sixth Street, Madison, Minnesota 56256, or from the City Manager of the City of Madison.

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

The County entered into a joint powers agreement to create and operate the Kandiyohi - Region 6W Community Corrections Agencies Detention Center (commonly referred to as the Prairie Lakes Detention Center) pursuant to Minn. Stat. § 471.59. In 2004, the Prairie Lakes Detention Center changed its name to Prairie Lakes Youth Programs (PLYP). The PLYP provides detention services to juveniles under the jurisdiction of the counties which are parties to the agreement (Chippewa, Lac qui Parle, Swift, and Yellow Medicine--which are served by the Region 6W Community Corrections Agency) and Kandiyohi County.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

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

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

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

Regional Library

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

In addition to those policies identified in Note 1, the County's discretely presented component units have the following significant accounting policies.

Reporting Entities

The Lac qui Parle-Yellow Bank Watershed District is governed by a five-member Board of Supervisors, three appointed by the Lac qui Parle County Board, and two members appointed by the Yellow Medicine County Board.

The Lac qui Parle County Economic Development Authority is governed by a seven-member Board of Commissioners. The County appoints all of the Board members.

Because of the significance of their financial relationship, Lac qui Parle County considers these entities major component units.

Basis of Presentation

The Lac qui Parle-Yellow Bank Watershed District does not prepare separate financial statements. The District presents the following major governmental funds:

The General Fund is the District'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 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 Lac qui Parle County Economic Development Authority does not prepare separate financial statements. The Authority presents its one fund as a governmental fund.

Deposits and Investments

Deposits and investments are reported at their fair value at December 31, 2006, based on market price.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

7. Component Unit Disclosures (Continued)

B. Detailed Notes on All Funds

1. Assets

Deposits and Investments

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

| | Lac qui Parle- Yellow Bank Watershed District | Lac qui Parle County Economic Development Authority |
|--------------------------------|---|--|
| Cash and pooled investments | \$ 541,903 | \$ 126,274 |
| Checking | \$ 186,903 | \$ 2,955 |
| Money market savings | - | 78,319 |
| Certificates of deposit | 355,000 | 45,000 |
| Total Deposits and Investments | \$ 541,903 | \$ 126,274 |

Receivables

Lac qui Parle-Yellow Bank Watershed District

Receivables as of December 31, 2006, for the Lac qui Parle-Yellow Bank Watershed District governmental activities follow:

| | Total Receivables | Amounts Not Scheduled for Collection During the Subsequent Year |
|-------------------------------|----------------------|--|
| Governmental Activities | | |
| Taxes | \$ 2,792 | \$ - |
| Special assessments | 158,003 | 156,317 |
| Due from other governments | 20,624 | - |
| Accounts receivable | 37 | - |
| Interest | 2,994 | - |
| Total Governmental Activities | \$ 184,450 | \$ 156,317 |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Assets

Receivables (Continued)

Lac qui Parle County Economic Development Authority

The Authority reports interest receivable of \$1,788 at December 31, 2006.

Capital Assets

Component unit capital asset activity for the year ended December 31, 2006, was as follows:

Lac qui Parle-Yellow Bank Watershed District

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---------------------------------------|----------------------|--------------------|-------------|---------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 628,458 | \$ - | \$ - | \$ 628,458 |
| Construction in progress | - | 93,635 | - | 93,635 |
| Total capital assets not depreciated | <u>\$ 628,458</u> | <u>\$ 93,635</u> | <u>\$ -</u> | <u>\$ 722,093</u> |
| Capital assets depreciated | | | | |
| Buildings | \$ 35,200 | \$ - | \$ - | \$ 35,200 |
| Machinery, furniture, and equipment | 50,482 | 3,573 | - | 54,055 |
| Land improvements | 128,664 | - | - | 128,664 |
| Infrastructure | 5,334,207 | - | - | 5,334,207 |
| Total capital assets depreciated | <u>\$ 5,548,553</u> | <u>\$ 3,573</u> | <u>\$ -</u> | <u>\$ 5,552,126</u> |
| Less: accumulated depreciation for | | | | |
| Buildings | \$ 35,200 | \$ - | \$ - | \$ 35,200 |
| Machinery, furniture, and equipment | 35,297 | 2,920 | - | 38,217 |
| Land improvements | 57,081 | 6,433 | - | 63,514 |
| Infrastructure | 825,203 | 53,342 | - | 878,545 |
| Total accumulated depreciation | <u>\$ 952,781</u> | <u>\$ 62,695</u> | <u>\$ -</u> | <u>\$ 1,015,476</u> |
| Total capital assets depreciated, net | <u>\$ 4,595,772</u> | <u>\$ (59,122)</u> | <u>\$ -</u> | <u>\$ 4,536,650</u> |
| Capital Assets, Net | <u>\$ 5,224,230</u> | <u>\$ 34,513</u> | <u>\$ -</u> | <u>\$ 5,258,743</u> |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Assets

Capital Assets

Lac qui Parle-Yellow Bank Watershed District (Continued)

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

| | | |
|-----------------------------------|----|----------------------|
| Conservation of natural resources | \$ | 53,342 |
| Culture and recreation | | <u>9,353</u> |
| Total Depreciation Expense | | <u>\$ 62,695</u> |

Lac qui Parle County Economic Development Authority

The Authority does not own any capital assets as of December 31, 2006.

Interfund Receivables, Payables, and Transfers

The composition of interfund balances for the Lac Qui Parle-Yellow Bank Watershed to correct an error as of December 31, 2006, is as follows:

Due To/From Other Funds

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|----------------------------|---------------------|------------------|
| Ditch Special Revenue Fund | General Fund | <u>\$ 19,628</u> |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes on All Funds (Continued)

2. Liabilities

Payables

Lac qui Parle-Yellow Bank Watershed District

Payables at December 31, 2006, were as follows:

| | Governmental Funds |
|--------------------------|-----------------------|
| Accounts | \$ 17,730 |
| Salaries | 6,391 |
| Due to other governments | 34 |
| Total Payables | \$ 24,155 |

Lac qui Parle County Economic Development Authority

The Lac qui Parle County Economic Development Authority did not have any payables as of December 31, 2006.

Construction Commitments

The Lac qui Parle-Yellow Bank Watershed District had an active construction project as of December 31, 2006. The project is as follows:

| | Spent-to-Date | Remaining Commitment |
|---|---------------|-------------------------|
| Lac qui Parle-Yellow Bank Watershed District Ten Campsites at Park | \$ 36,803 | \$ 7,500 |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes on All Funds

2. Liabilities (Continued)

Long-Term Debt

Loans Payable

The Lac qui Parle-Yellow Bank Watershed District entered into a loan agreement with the Minnesota Pollution Control Agency for funding Clean Water Partnership (CWP) Projects. The loans are secured by special assessments placed on the individual parcels. Loan payments are reported in the General Fund.

Long-term debt outstanding at December 31, 2006, for the Lac qui Parle-Yellow Bank Watershed District consists of the following:

| <u>Type of Indebtedness</u> | <u>Final Maturity</u> | <u>Installment Amount</u> | <u>Interest Rate (%)</u> | <u>Original Issue Amount</u> | <u>Remaining Commitment</u> |
|--|-----------------------|---------------------------|--------------------------|------------------------------|-----------------------------|
| Lac qui Parle River Water Mainstem CWP Project | 2019 | <u>\$ 17,727</u> | 2.00% | <u>\$ 132,829</u> | <u>\$ 132,829</u> |

No final repayment schedule was available for this project at December 31, 2006.

Other Long-Term Liabilities

Due to Primary Government

The Lac qui Parle-Yellow Bank Watershed District has a balance due to the Lac qui Parle County General Fund at December 31, 2006, of \$30,000. The balance is being repaid in annual installments of \$6,000.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes on All Funds

2. Liabilities (Continued)

Changes in Long-Term Liabilities

Lac qui Parle-Yellow Bank Watershed District

Changes in long-term liabilities of the Lac qui Parle-Yellow Bank Watershed District for the year ended December 31, 2006, were:

| | <u>Balance January 1</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance December 31</u> | <u>Amount Due Within One Year</u> |
|---------------------------|------------------------------|------------------|-------------------|--------------------------------|---|
| Due to primary government | \$ 36,000 | \$ - | \$ 6,000 | \$ 30,000 | \$ 6,000 |
| Loan payable | 54,979 | 77,850 | - | 132,829 | - |

Lac qui Parle County Economic Development Authority

The Authority has no long-term liabilities at December 31, 2006.

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 1

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

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---------------------------------|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 1,522,019 | \$ 1,522,019 | \$ 1,320,262 | \$ (201,757) |
| Special assessments | 100,000 | 100,000 | 99,575 | (425) |
| Licenses and permits | 5,380 | 5,380 | 9,594 | 4,214 |
| Intergovernmental | 615,251 | 615,251 | 1,245,913 | 630,662 |
| Charges for services | 210,000 | 210,000 | 215,261 | 5,261 |
| Fines and forfeits | - | - | 20,438 | 20,438 |
| Investment earnings | 116,500 | 116,500 | 215,646 | 99,146 |
| Miscellaneous | 103,674 | 103,674 | 110,295 | 6,621 |
| Total Revenues | \$ 2,672,824 | \$ 2,672,824 | \$ 3,236,984 | \$ 564,160 |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Commissioners | \$ 161,340 | \$ 161,340 | \$ 168,169 | \$ (6,829) |
| Courts | 5,000 | 5,000 | 4,615 | 385 |
| Auditor | 182,415 | 182,415 | 182,421 | (6) |
| Treasurer | 116,270 | 116,270 | 114,820 | 1,450 |
| Assessor | 122,500 | 122,500 | 118,580 | 3,920 |
| Elections | 8,875 | 8,875 | 322,611 | (313,736) |
| Accounting and auditing | 25,000 | 25,000 | 38,009 | (13,009) |
| Data processing | 130,200 | 130,200 | 118,880 | 11,320 |
| Attorney | 139,100 | 139,100 | 150,666 | (11,566) |
| Recorder | 119,705 | 119,705 | 127,140 | (7,435) |
| Planning and zoning | 35,970 | 35,970 | 28,089 | 7,881 |
| Buildings and plant | 116,325 | 116,325 | 97,938 | 18,387 |
| Veterans' service officer | 70,463 | 70,463 | 61,048 | 9,415 |
| County car | 800 | 800 | 704 | 96 |
| Other general government | 98,087 | 98,087 | 100,692 | (2,605) |
| Total general government | \$ 1,332,050 | \$ 1,332,050 | \$ 1,634,382 | \$ (302,332) |
| Public safety | | | | |
| Sheriff | \$ 583,550 | \$ 583,550 | \$ 638,965 | \$ (55,415) |
| Boat and water safety | 2,350 | 2,350 | 1,565 | 785 |
| Snowmobile safety | 1,500 | 1,500 | 2,257 | (757) |
| Coroner | 6,500 | 6,500 | 7,068 | (568) |
| E-911 system | 38,000 | 38,000 | 31,932 | 6,068 |
| County jail | 20,800 | 20,800 | 35,929 | (15,129) |
| Civil defense | 16,050 | 16,050 | 22,302 | (6,252) |
| Other | 2,350 | 2,350 | - | 2,350 |
| Total public safety | \$ 671,100 | \$ 671,100 | \$ 740,018 | \$ (68,918) |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 1
(Continued)

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

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|--|-------------------|-------------------|-------------------|-------------------------------|
| | Original | Final | | |
| Expenditures | | | | |
| Current (Continued) | | | | |
| Sanitation | | | | |
| Solid waste | \$ 20,687 | \$ 20,687 | \$ 22,363 | \$ (1,676) |
| Recycling | 75,106 | 75,106 | 76,816 | (1,710) |
| Total sanitation | \$ 95,793 | \$ 95,793 | \$ 99,179 | \$ (3,386) |
| Health | | | | |
| Ambulance | \$ 3,000 | \$ 3,000 | \$ 3,000 | \$ - |
| Culture and recreation | | | | |
| Historical society | \$ 10,000 | \$ 10,000 | \$ 10,000 | \$ - |
| Minnesota trails | 20,000 | 20,000 | 36,988 | (16,988) |
| Parks | 1,100 | 1,100 | 307 | 793 |
| Senior citizens | 500 | 500 | 400 | 100 |
| County/regional library | 73,492 | 73,492 | 73,492 | - |
| Other | 700 | 700 | 11,868 | (11,168) |
| Total culture and recreation | \$ 105,792 | \$ 105,792 | \$ 133,055 | \$ (27,263) |
| Conservation of natural resources | | | | |
| Extension | \$ 77,979 | \$ 77,979 | \$ 75,184 | \$ 2,795 |
| Soil and water conservation | 85,600 | 85,600 | 87,575 | (1,975) |
| Agricultural society/County fair | 7,550 | 7,550 | 7,550 | - |
| Predator control | 2,500 | 2,500 | 1,491 | 1,009 |
| River basin | 12,000 | 12,000 | 11,969 | 31 |
| County farm | 2,500 | 2,500 | 2,130 | 370 |
| Water planning | 32,321 | 32,321 | 30,346 | 1,975 |
| Environmental officer | 23,507 | 23,507 | 35,376 | (11,869) |
| Feedlot administration | 30,357 | 30,357 | 16,005 | 14,352 |
| Other | 1,000 | 1,000 | 1,000 | - |
| Total conservation of natural resources | \$ 275,314 | \$ 275,314 | \$ 268,626 | \$ 6,688 |
| Economic development | | | | |
| Airport | \$ 7,000 | \$ 7,000 | \$ 7,000 | \$ - |
| Other | 1,200 | 1,200 | 11,220 | (10,020) |
| Total economic development | \$ 8,200 | \$ 8,200 | \$ 18,220 | \$ (10,020) |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

***Schedule 1
(Continued)***

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

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | |
| Expenditures (Continued) | | | | |
| Intergovernmental | | | | |
| Public safety | \$ 67,036 | \$ 67,036 | \$ 67,036 | \$ - |
| Health | \$ 64,539 | \$ 64,539 | \$ 64,539 | \$ - |
| Economic development | \$ 50,000 | \$ 50,000 | \$ 94,000 | \$ (44,000) |
| Total Expenditures | \$ 2,672,824 | \$ 2,672,824 | \$ 3,122,055 | \$ (449,231) |
| Excess of Revenues Over (Under) Expenditures | \$ - | \$ - | \$ 114,929 | \$ 114,929 |
| Other Financing Sources (Uses) | | | | |
| Transfers out | - | - | (20,717) | (20,717) |
| Net Change in Fund Balance | \$ - | \$ - | \$ 94,212 | \$ 94,212 |
| Fund Balance - January 1 | 4,008,961 | 4,008,961 | 4,008,961 | - |
| Fund Balance - December 31 | \$ 4,008,961 | \$ 4,008,961 | \$ 4,103,173 | \$ 94,212 |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 2

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

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|--|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 1,153,800 | \$ 1,153,800 | \$ 792,446 | \$ (361,354) |
| Intergovernmental | 4,157,600 | 4,157,600 | 4,326,257 | 168,657 |
| Charges for services | 123,000 | 123,000 | 30,135 | (92,865) |
| Investment earnings | 20,000 | 20,000 | 62,542 | 42,542 |
| Miscellaneous | 62,000 | 62,000 | 4,255 | (57,745) |
| Total Revenues | \$ 5,516,400 | \$ 5,516,400 | \$ 5,215,635 | \$ (300,765) |
| Expenditures | | | | |
| Current | | | | |
| Highways and streets | | | | |
| Administration | \$ 147,100 | \$ 147,100 | \$ 147,381 | \$ (281) |
| Maintenance | 1,566,900 | 1,666,900 | 1,737,964 | (71,064) |
| Construction | 3,424,300 | 3,424,300 | 2,937,488 | 486,812 |
| Equipment and maintenance shops | 378,100 | 378,100 | 294,269 | 83,831 |
| Total highways and streets | \$ 5,516,400 | \$ 5,616,400 | \$ 5,117,102 | \$ 499,298 |
| Intergovernmental | | | | |
| Highways and streets | - | - | 289,404 | (289,404) |
| Total Expenditures | \$ 5,516,400 | \$ 5,616,400 | \$ 5,406,506 | \$ 209,894 |
| Excess of Revenues Over (Under) Expenditures | \$ - | \$ (100,000) | \$ (190,871) | \$ (90,871) |
| Other Financing Sources (Uses) | | | | |
| Proceeds from sale of assets | - | - | 28,329 | 28,329 |
| Net Change in Fund Balance | \$ - | \$ (100,000) | \$ (162,542) | \$ (62,542) |
| Fund Balance - January 1 | 2,261,898 | 2,261,898 | 2,261,898 | - |
| Increase (decrease) in reserved for inventories | - | - | 35,387 | 35,387 |
| Fund Balance - December 31 | \$ 2,261,898 | \$ 2,161,898 | \$ 2,134,743 | \$ (27,155) |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 3

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

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|-----------------------------------|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 799,341 | \$ 799,341 | \$ 548,876 | \$ (250,465) |
| Intergovernmental | 1,002,175 | 1,002,175 | 1,347,642 | 345,467 |
| Charges for services | 28,800 | 28,800 | 86,723 | 57,923 |
| Investment earnings | 15,000 | 15,000 | 43,431 | 28,431 |
| Miscellaneous | 30,500 | 30,500 | 48,547 | 18,047 |
| Total Revenues | \$ 1,875,816 | \$ 1,875,816 | \$ 2,075,219 | \$ 199,403 |
| Expenditures | | | | |
| Current | | | | |
| Human services | | | | |
| Income maintenance | \$ 509,787 | \$ 509,787 | \$ 501,450 | \$ 8,337 |
| Social services | 1,366,029 | 1,366,029 | 1,303,039 | 62,990 |
| Total Expenditures | \$ 1,875,816 | \$ 1,875,816 | \$ 1,804,489 | \$ 71,327 |
| Net Change in Fund Balance | \$ - | \$ - | \$ 270,730 | \$ 270,730 |
| Fund Balance - January 1 | 2,601,877 | 2,601,877 | 2,601,877 | - |
| Fund Balance - December 31 | \$ 2,601,877 | \$ 2,601,877 | \$ 2,872,607 | \$ 270,730 |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 4

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

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|---------------------|---------------------|--------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Special assessments | \$ 94,992 | \$ 94,992 | \$ 103,249 | \$ 8,257 |
| Investment earnings | 15,000 | 15,000 | - | (15,000) |
| Total Revenues | \$ 109,992 | \$ 109,992 | \$ 103,249 | \$ (6,743) |
| Expenditures | | | | |
| Current | | | | |
| Conservation of natural resources | | | | |
| Other | 690,663 | 690,663 | 132,244 | 558,419 |
| Excess of Revenues Over (Under) Expenditures | \$ (580,671) | \$ (580,671) | \$ (28,995) | \$ 551,676 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | - | - | 20,717 | 20,717 |
| Net Change in Fund Balance | \$ (580,671) | \$ (580,671) | \$ (8,278) | \$ 572,393 |
| Fund Balance - January 1 | 544,647 | 544,647 | 544,647 | - |
| Fund Balance - December 31 | \$ (36,024) | \$ (36,024) | \$ 536,369 | \$ 572,393 |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

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

1. General Budget Policies

The Lac qui Parle 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. Comparisons of final budgeted revenues and expenditures to actual are presented in required supplementary information for the General Fund and special revenue funds.

2. Budget Basis of Accounting

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

3. Budget Amendments

The expenditure budget in the Road and Bridge Special Revenue Fund was amended as follows:

| | Original Budget | Increase (Decrease) | Final Budget |
|----------------------|--------------------|------------------------|-----------------|
| Road and Bridge Fund | \$ 5,516,400 | \$ 100,000 | \$ 5,616,400 |

The County did not amend the budget for the General fund or the remaining special revenue funds.

4. Excess of Expenditures Over Budget

| Fund | Expenditures | Final Budget | Excess |
|---------|--------------|--------------|------------|
| General | \$ 3,122,055 | \$ 2,672,824 | \$ 449,231 |

This page was left blank intentionally.

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Statement 1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|--------------------------------------|------------------------------|------------------|-------------------|--------------------------------|
| <u>STATE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 25,296 | \$ 1,048,399 | \$ 1,048,539 | \$ 25,156 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 25,296 | \$ 1,048,399 | \$ 1,048,539 | \$ 25,156 |
| <u>FORFEITED TAX</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 2,791 | \$ 11,300 | \$ 12,893 | \$ 1,198 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 2,791 | \$ 11,300 | \$ 12,893 | \$ 1,198 |
| <u>TAXES AND PENALTIES</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 75,698 | \$ 7,736,034 | \$ 7,720,417 | \$ 91,315 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 75,698 | \$ 7,736,034 | \$ 7,720,417 | \$ 91,315 |
| <u>TOTAL ALL AGENCY FUNDS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 103,785 | \$ 8,795,733 | \$ 8,781,849 | \$ 117,669 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 103,785 | \$ 8,795,733 | \$ 8,781,849 | \$ 117,669 |

This page was left blank intentionally.

OTHER SCHEDULES

This page was left blank intentionally.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 5

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2006**

| | Total Primary Government | Discretely Presented Component Units | |
|--|---|--|--|
| | | Lac qui Parle- Yellow Bank Watershed District | Lac qui Parle County Economic Development Authority |
| Shared Revenue | | | |
| State | | | |
| Highway users tax | \$ 3,670,811 | \$ - | \$ - |
| County program aid | 779,834 | - | - |
| PERA rate reimbursement | 12,441 | 132 | - |
| Disparity reduction aid | 51,576 | - | - |
| Police aid | 28,724 | - | - |
| Enhanced 911 | 79,453 | - | - |
| Market value credit | 369,906 | 17,585 | - |
| Total Shared Revenue | \$ 4,992,745 | \$ 17,717 | \$ - |
| Reimbursement for Services | | | |
| State | | | |
| Minnesota Department of Human Services | \$ 471,299 | \$ - | \$ - |
| Payments | | | |
| Local | | | |
| Payments in lieu of taxes | \$ 103,174 | \$ - | \$ - |
| Local grants | - | 4,131 | - |
| Contributions from participants | - | - | 157,888 |
| Total Payments | \$ 103,174 | \$ 4,131 | \$ 157,888 |
| Grants | | | |
| State | | | |
| Minnesota Department of Human Services | \$ 459,173 | \$ - | \$ - |
| Natural Resources | 40,765 | - | - |
| Veterans Affairs | 1,400 | - | - |
| Water and Soil Resources Board | 42,341 | 25,751 | - |
| Pollution Control Agency | 49,079 | - | - |
| Peace Officer Standards and Training Board | 1,809 | - | - |
| Total State | \$ 594,567 | \$ 25,751 | \$ - |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 5
(Continued)

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2006**

| | Total Primary Government | Discretely Presented Component Units | |
|--|---|--|--|
| | | Lac qui Parle- Yellow Bank Watershed District | Lac qui Parle County Economic Development Authority |
| Grants (Continued) | | | |
| Federal | | | |
| Department of | | | |
| Agriculture | \$ 1,245 | \$ - | \$ - |
| Transportation | 266,945 | - | - |
| Health and Human Services | 169,190 | - | - |
| Homeland Security | 11,806 | 10,288 | - |
| Election Assistance Commission | 308,841 | - | - |
| Environmental Protection Agency | - | 45,071 | - |
| Total Federal | \$ 758,027 | \$ 55,359 | \$ - |
| Total State and Federal Grants | \$ 1,352,594 | \$ 81,110 | \$ - |
| Total Intergovernmental Revenue | \$ 6,919,812 | \$ 102,958 | \$ 157,888 |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 6

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2006**

| | General | Ditch Special Revenue | Total Governmental Funds | Adjustments (Schedule 7) | Statement of Net Assets |
|--|-------------------|--------------------------------------|---|-------------------------------------|------------------------------------|
| Assets | | | | | |
| Cash and pooled investments | \$ 484,229 | \$ 57,674 | \$ 541,903 | \$ - | \$ 541,903 |
| Taxes receivable | | | | | |
| Prior | 2,792 | - | 2,792 | - | 2,792 |
| Special assessments receivable | | | | | |
| Prior | - | 1,686 | 1,686 | - | 1,686 |
| Noncurrent | 127,331 | 28,986 | 156,317 | - | 156,317 |
| Accounts receivable | 37 | - | 37 | - | 37 |
| Accrued interest receivable | 2,038 | 956 | 2,994 | - | 2,994 |
| Due from other funds | - | 19,628 | 19,628 | (19,628) | - |
| Due from other governments | 20,624 | - | 20,624 | - | 20,624 |
| Capital assets | | | | | |
| Non-depreciable | - | - | - | 722,093 | 722,093 |
| Depreciable - net of accumulated depreciation | - | - | - | 4,536,650 | 4,536,650 |
| | \$ 637,051 | \$ 108,930 | \$ 745,981 | \$ 5,239,115 | \$ 5,985,096 |
| Liabilities | | | | | |
| Accounts payable | \$ 17,730 | \$ - | \$ 17,730 | \$ - | \$ 17,730 |
| Salaries payable | 6,391 | - | 6,391 | - | 6,391 |
| Due to other funds | 19,628 | - | 19,628 | (19,628) | - |
| Due to other governments | 34 | - | 34 | - | 34 |
| Deferred revenue - unavailable | 130,123 | 30,672 | 160,795 | (160,795) | - |
| Due to primary government | | | | | |
| Due within one year | - | - | - | 6,000 | 6,000 |
| Due in more than one year | - | - | - | 24,000 | 24,000 |
| ISTS loans | | | | | |
| Due in more than one year | - | - | - | 132,829 | 132,829 |
| | \$ 173,906 | \$ 30,672 | \$ 204,578 | \$ (17,594) | \$ 186,984 |
| Fund Balances | | | | | |
| Unreserved | | | | | |
| Designated for | | | | | |
| Future expenditures | \$ 7,500 | \$ - | \$ 7,500 | \$ (7,500) | |
| Ditch repairs and maintenance | - | 78,258 | 78,258 | (78,258) | |
| Flood control | 455,645 | - | 455,645 | (455,645) | |
| | \$ 463,145 | \$ 78,258 | \$ 541,403 | \$ (541,403) | |
| Total Fund Balances | \$ 463,145 | \$ 78,258 | \$ 541,403 | \$ (541,403) | |
| Total Liabilities and Fund Balances | \$ 637,051 | \$ 108,930 | \$ 745,981 | | |
| Net Assets | | | | | |
| Invested in capital assets | | | | \$ 5,258,743 | \$ 5,258,743 |
| Unrestricted | | | | 539,369 | 539,369 |
| | | | | \$ 5,798,112 | \$ 5,798,112 |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 7

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006**

| | |
|--|----------------------------|
| Fund balances - total governmental funds (Schedule 6) | \$ 541,403 |
| 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. | 5,258,743 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. | 160,795 |
| 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 | (30,000) |
| Loans payable | <u>(132,829)</u> |
| Net Assets of Governmental Activities (Exhibit 1) | <u>\$ 5,798,112</u> |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 8

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2006**

| | General | Ditch Special Revenue | Total Governmental Funds | Adjustments | Statement of Activities |
|--|--------------------|-----------------------------|--------------------------------|---------------------|----------------------------|
| Revenues | | | | | |
| Taxes | \$ 127,756 | \$ - | \$ 127,756 | \$ 1,293 | \$ 129,049 |
| Special assessments | - | 16,515 | 16,515 | 64,197 | 80,712 |
| Intergovernmental | 102,958 | - | 102,958 | - | 102,958 |
| Charges for services | 87,100 | - | 87,100 | - | 87,100 |
| Interest on investments | 14,212 | 233 | 14,445 | - | 14,445 |
| Miscellaneous | 25,120 | 50 | 25,170 | - | 25,170 |
| Total Revenues | \$ 357,146 | \$ 16,798 | \$ 373,944 | \$ 65,490 | \$ 439,434 |
| Expenditures/Expenses | | | | | |
| Current | | | | | |
| Culture and recreation | \$ 181,627 | \$ - | \$ 181,627 | \$ 9,353 | \$ 190,980 |
| Conservation of natural resources | 241,204 | 2,710 | 243,914 | (43,866) | 200,048 |
| Debt service | | | | | |
| Principal | - | 6,000 | 6,000 | (6,000) | - |
| Interest | - | 2,520 | 2,520 | - | 2,520 |
| Total Expenditures | \$ 422,831 | \$ 11,230 | \$ 434,061 | \$ (40,513) | \$ 393,548 |
| Excess of Revenues Over (Under) Expenditures/Expenses | \$ (65,685) | \$ 5,568 | \$ (60,117) | \$ 106,003 | \$ 45,886 |
| Other Financing Sources (Uses) | | | | | |
| Loans issued | 77,850 | - | 77,850 | (77,850) | - |
| Net Change in Fund Balances/Net Assets | \$ 12,165 | \$ 5,568 | \$ 17,733 | \$ 28,153 | \$ 45,886 |
| Fund Balances/Net Assets | | | | | |
| January 1 | 450,980 | 72,690 | 523,670 | 5,228,556 | 5,752,226 |
| December 31 | \$ 463,145 | \$ 78,258 | \$ 541,403 | \$ 5,256,709 | \$ 5,798,112 |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 8
(Continued)

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2006**

Net change in fund balance - total governmental funds **\$ 17,733**

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.

| | | |
|--------------------------------|------------|--------|
| Deferred revenue - December 31 | \$ 160,795 | |
| Deferred revenue - January 1 | (95,305) | 65,490 |
| | | |

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

| | | |
|--|-----------|--------|
| Expenditures for capital assets and infrastructure | \$ 97,208 | |
| Current year depreciation | (62,695) | 34,513 |
| | | |

Governmental funds report ISTS loans issued as other financing sources. However, in the statement of activities the loans are reported as a liability. (77,850)

Payments on long-term debt are reported as expenditures in the governmental funds, but reduce liabilities at the government-wide level. 6,000

Change in Net Assets of Governmental Activities (Exhibit 2) **\$ 45,886**

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 9

**LAC QUI PARLE COUNTY ECONOMIC DEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2006**

| | General Fund | Adjustments (Schedule 10) | Statement of Net Assets |
|---|-------------------|------------------------------|----------------------------|
| <u>Assets</u> | | | |
| Cash and pooled investments | \$ 126,274 | \$ - | \$ 126,274 |
| Accrued interest receivable | 1,788 | - | 1,788 |
| Total Assets | \$ 128,062 | \$ - | \$ 128,062 |
| <u>Liabilities</u> | | | |
| Deferred revenue - unavailable | \$ 1,788 | \$ (1,788) | \$ - |
| <u>Fund Balance/Net Assets</u> | | | |
| Fund Balance | | | |
| Unreserved | | | |
| Undesignated | 126,274 | (126,274) | |
| Total Liabilities and Fund Balance | \$ 128,062 | | |
| Net Assets | | | |
| Unrestricted | | 128,062 | 128,062 |
| Total Net Assets | | \$ 128,062 | \$ 128,062 |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 10

**LAC QUI PARLE COUNTY ECONOMIC DEVELOPMENT AUTHORITY
RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006**

Fund balance - total governmental funds (Schedule 9) \$ 126,274

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. 1,788

Net Assets of Governmental Activities (Exhibit 1) \$ 128,062

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 11

**LAC QUI PARLE COUNTY ECONOMIC DEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2006**

| | General Fund | Adjustments | Statement of Activities |
|--|-------------------|-----------------|----------------------------|
| Revenues | | | |
| Intergovernmental | \$ 157,888 | \$ - | \$ 157,888 |
| Investment earnings | 2,319 | 1,788 | 4,107 |
| Total Revenues | \$ 160,207 | \$ 1,788 | \$ 161,995 |
| Expenditures/Expenses | | | |
| Current | | | |
| Economic development | 33,933 | - | 33,933 |
| Net Change in Fund Balance/Net Assets | \$ 126,274 | \$ 1,788 | \$ 128,062 |
| Fund Balance/Net Assets - January 1 | - | - | - |
| Fund Balance/Net Assets - December 31 | \$ 126,274 | \$ 1,788 | \$ 128,062 |
| | | | |
| Net change in fund balance - total governmental funds | | | \$ 126,274 |
| 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. | | | |
| Deferred revenue - December 31 | | | 1,788 |
| Change in Net Assets of Governmental Activities (Exhibit 2) | | | \$ 128,062 |

This page was left blank intentionally.

This page was left blank intentionally.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

99-1 Internal Accounting Controls

Due to the limited number of office personnel within the various County offices and departments, segregation of the accounting functions necessary to ensure adequate internal accounting control is not always possible.

One basic objective of internal control is to provide for segregation of incompatible duties. In other words, responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction. The following duties should be segregated if possible:

- Someone independent of the cash collection and receipting function and the cash disbursement function should prepare bank reconciliations. If this is not possible, someone independent of these functions should review the bank reconciliations.
- Individuals who collect and receipt cash should not also:
 - post cash receipts to the general ledger system,
 - process cash disbursements,
 - maintain the general ledger,
 - make bank deposits,
 - make wire transfers,
 - make general journal entries, or
 - prepare billings.
- Individuals who process vouchers for payments should not also:
 - print or sign checks or
 - make journal entries.

The County does not segregate the duties of the payroll function. The payroll clerk makes changes or updates the payroll master file, prepares the payroll, and generates the payroll reports and checks with little oversight or review.

We recommend that County management segregate these duties within the accounting functions as much as possible by limiting access to accounting programs commensurate to the employees' duties and job responsibilities. If it is not possible to segregate these duties, County management should be aware of this lack of segregation of duties and implement oversight procedures to ensure the integrity and reliability of the financial information in the accounting system.

Client's Response:

The County Board has been advised and is well aware of the lack of segregation of the accounting functions. Lac qui Parle County will create or modify policies to ensure that duties are segregated wherever possible and reasonable.

ITEMS ARISING THIS YEAR

06-1 Adding New Vendors to the Accounting System

The County does not have any procedures for determining how new vendors are added to the accounts payable system or if the new vendors added are legitimate vendors.

The ability to set up new vendors on the accounts payable system should be limited to those individuals with a logical need for this function. In addition, periodically a report called "Vendors Added List by Number" should be printed and reviewed by someone independent of the accounts payable system. That person should document the review by signing off on the report.

Also, when invoices are submitted for vendors that have not previously done business with the County, some procedures should be required to verify whether the vendor is legitimate. Procedures could include looking up the vendor in the phone book or on the internet or requiring the company to send information about their business. Periodically, the vendor listing should be reviewed for old, unused vendors, and those vendors should be removed from the system.

Client's Response:

The County is currently creating a policy for adding new vendors.

06-2 Controls Over the Accounting System Journal Entry Function

The County does not limit access to the accounting system journal entry function to select County employees. Seventeen users were set up to work with journal entries. The report also showed access to a user that was no longer employed by the County. The journal entries made to the accounting system are not reviewed or approved by anyone.

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

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

Client's Response:

The user that is no longer a County employee has been removed from the system. The County is in the process of evaluating the necessity of all functions in the accounting system to ensure that users only have access to the functions that they need and use. In the future, a procedure will be established where all journal entries are reviewed and approved by an independent individual.

06-3 Computer System Controls

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

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

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

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

Client's Response:

The County Board has been advised and is well aware of the lack of segregation in the information technology staff. The degree to which duties may be segregated in this department is limited by staff size, but the County will modify procedures where possible to minimize risk. Password requirements have been updated, and the County will re-evaluate its disaster recovery plan.

06-4 Capital Assets Policies and Procedures

For financial reporting and asset management purposes, the County is required to keep records of its capital assets, including infrastructure. The County maintains its capital asset records on a separate spreadsheet system. Capital asset additions and deletions are entered to this system, and depreciation is calculated by the system. Capital asset

policies utilized by the County in maintaining the capital asset system have not been formally approved. A capital assets policy should be adopted that defines the County's accounting policies over capital assets, such as capitalization thresholds, useful lives, and depreciation methods.

It is not clear how the costs of replaced infrastructure assets are being deleted, if at all. The County is carrying a significant amount of fully depreciated assets. Typically, a capital asset still in use should not be considered fully depreciated. For significant assets, the estimated useful lives assigned to capital assets should be reconsidered. At the time of redetermination, the estimated useful life of an asset includes both the years the asset has been in service and the estimated number of years of service remaining.

We recommend the County Board establish a capital assets policy to define the County's accounting policies over capital assets. The policy should establish procedures to identify capital asset additions and deletions, to accurately estimate useful lives, and to address the point when useful lives of current capital assets should be reconsidered.

Department heads should report capital asset additions and deletions to the person maintaining the capital asset records at least annually. Also, we recommend a physical inventory of capital assets be performed periodically. This physical inventory can be rotated so that a portion of the capital assets is inventoried each year. Each asset should be counted at least once every four years. Some critical capital assets may need more frequent accounting.

Client's Response:

The County will re-examine current capital asset tracking procedures and determine if a more centralized and automated system is necessary. The County will also modify current policies to include regular physical inspection of capital assets.

06-5 Accounting Policies and Procedures Manual

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

An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in the County's internal control system and can help to avoid circumvention of County policies.

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

Client's Response:

The County is aware of the need for a comprehensive accounting policy and will work with the state auditors in the development of this policy.

06-6 Financial Reporting

The County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal control over recording, processing, and summarizing accounting data (maintaining internal books and records) and preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

As is the case with many small and medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the County's internal control. This condition was caused by the County's decision that it is more cost effective to have its auditors prepare its basic financial statements than to incur the time and expense of obtaining the

Schedule 12
(Continued)

necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the County lacks internal controls over the preparation of financial statements in accordance with GAAP.

The County's accounting system has been upgraded to accommodate the modified accrual and full accrual bases of accounting in separate general ledger systems to allow for the preparation of the annual financial statements in accordance with generally accepted accounting principles for governments.

In order to utilize this upgrade to generate materially correct financial statements, the first step is for counties to change their accounting practices and account structure to be compliant with County Financial Accounting and Reporting Standards (COFARS). The second step is to code receipt and disbursement accounts 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. The last step is to prepare modified accrual and full accrual adjusting journal entries to convert the cash basis information in the accounting system to the necessary basis of accounting for the County's annual financial report.

During our audit, we noted the following deficiencies that prevented the accounting system from providing accurate modified and full 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.

- As a result of coding and mapping errors and incomplete accrual adjusting journal entries, the modified accrual basis fund financial statements were materially misstated and needed numerous audit adjustments. The most significant of these audit adjustments related to receivables, payables, and deferred revenue. The net effect of our audit adjustments to the governmental funds financial statements for selected financial statement captions was as follows:

| | Client's Amounts Over/(Under) <u>Audited Totals</u> |
|--------------------|---|
| Total Assets | \$ (459,823) |
| Total Liabilities | (160,387) |
| Total Fund Balance | (299,454) |
| Total Revenues | 160,233 |
| Total Expenditures | 424,296 |

- The full accrual statements prepared by the County were also materially misstated. The County did not accrue and post full accrual journal adjusting entries to convert the modified accrual statements to full accrual financial statements. Entries should have been made to report capital assets and long-term debt and eliminate interfund activities.

We recommend that the County train staff in coding receipts and disbursements and maintain COFARS-compliant accounts in the accounting system with correct mapping to allow for the detail to be summarized as required in the financial statements. This process should be monitored by a knowledgeable person to ensure that the accounts are correctly summarized for financial statement purposes. As part of the financial statement preparation, summary schedules and worksheets should be prepared by County staff to document the various accrual adjusting journal entries and to demonstrate how the accounts in the financial records are classified or summarized for the annual financial statements. When the financial statements are completed by the accounting system, County staff should review the statements to ensure that reported amounts can be traced back to the prepared supporting schedules and worksheets. Finally, the County will need to prepare full accrual journal entries in the separate general ledger accounting system to convert the financial statements from modified accrual to the full accrual basis.

In order to accomplish this, the County Board should ensure that staff assigned to prepare the annual financial statements and the required notes to the financial statements have adequate training and have a good understanding of the requirements of generally accepted accounting principles for governments. In addition, the Board should ensure that staff has the time necessary to complete the draft financial report by the date mutually agreed to with the Office of the State Auditor.

We are available to assist the County with the implementation of these recommendations. If the County intends to have staff from the Office of the State Auditor assist in preparation, then at a minimum, it must identify and train individuals to obtain the expertise that can sufficiently review, understand, and approve the financial statements, including notes.

Client's Response:

The County will evaluate the staff availability, cost effectiveness and efficiency benefits of internally preparing the annual financial statements.

06-7 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect misstatements of the financial statements on a timely basis. A control deficiency that typically is considered significant is the identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls.

During our audit, we proposed numerous adjustments that resulted in significant changes to the County's financial statements. The adjustments resulted from: County staff needing continued guidance on accounting principles and oversight to provide accurate and reliable information; errors made in recording transactions and with mapping of various account codes; controls over calculating the proper amounts of assets and liabilities did not detect a number of errors, which resulted in the client's records understating assets, liabilities, and fund balance, and overstating revenues and expenditures; and the County did not consider the need for controls over the recording of certain accounting transactions. The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements may not be fairly presented.

We recommend that the County review internal controls currently in place, then design and implement procedures to improve internal controls over financial reporting to detect misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

Client's Response:

The County accounting staff has experienced some turnover in the past year. This turnover has resulted in a collective decrease in accounting experience. As new staff becomes more knowledgeable in governmental accounting principles, accounting accuracy should increase.

06-8 Internal Control/Segregation of Duties - Component Units

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and

completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of the Lac qui Parle-Yellow Bank Watershed District, the Lac qui Parle County Economic Development Authority, and their staffing limits the internal control that management can design and implement into the organizations. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

Management has requested that we prepare the annual financial statements and related notes. This arrangement is not unusual for organizations the size of the Lac qui Parle-Yellow Bank Watershed District or the Lac qui Parle County Economic Development Authority. These decisions were based on the availability of the Watershed District's staff and Authority's staff and the cost benefit of using our expertise.

During our audit, we proposed numerous adjustments to convert each organization's financial records to the financial statements as reported. These adjustments are described in more detail in our Required Communication Letter to each Board.

We recommend the Boards be mindful that limited staffing causes inherent risks in safeguarding the organization's assets and proper reporting of its financial activity. We recommend each Board continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

Each board recognizes both the needs of separating duties for internal control and limitations due to small staff size. The boards are supportive of implementing any practical procedures to limit risk due to these deficiencies.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 Ditch Fund Cash and Fund Deficits

Eight of the 107 individual ditch systems had deficit cash balances totaling \$62,890 at December 31, 2006. This amount is up from the prior year when we reported that 8 of the 107 individual ditch systems had deficit cash balances totaling \$46,091. 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.” Minn. Stat. § 103E.655, subd. 2, allows for loans to be made from ditch systems with surplus funds or from the General Fund to a ditch with insufficient cash to pay expenditures. If the County Board transfers money from another account or fund to a drainage system account, the money plus interest must be reimbursed from the proceeds of the drainage system that received the transfer.

Allowing a ditch system to maintain a deficit cash balance, in effect, constitutes an interest-free loan from other County funds and, as such, is in noncompliance with Minnesota law.

Minn. Stat. § 103E.735, subd. 1, provides that a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

We recommend that the County eliminate the ditch system cash deficits by borrowing from an eligible fund with a surplus cash balance and by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus balance to provide for the repair and maintenance costs of a ditch system.

Client's Response:

The County continues to levy ditch assessments in an effort to bring all ditch accounts to a positive balance.

03-2 Collateral Substitution

The procedures used for pledging new collateral and for collateral substitutions changed for KleinBank. The depository pledge agreement for KleinBank states that the bank “. . . may substitute for any or more such securities other securities of the same or greater market value and of the character authorized herein. Such right of substitution shall remain in full force and may be exercised by Bank as often as it is desired. . . .”

Minn. Stat. § 118A.03, subd. 5, states, “[a] financial institution may withdraw excess collateral or substitute other collateral after giving written notice to the governmental entity and receiving confirmation.” The processes described by the bank do not meet this standard because they allow the financial institution to substitute collateral before it gives any notice to the governmental entity.

We recommend that the County Attorney review these procedural changes for compliance with Minn. Stat. § 118A.03, subd. 5.

Client’s Response:

KleinBank has agreed to provide written notice before substituting collateral.

05-2 Depository Pledge Agreement

The depository pledge agreement between the County and KleinBank 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:

KleinBank is working with the Minnesota Department of Commerce to address this issue.

ITEM ARISING THIS YEAR

06-9 Publication of Budget

A summary budget statement was not published in the official newspaper of the County. The County publishes its Board minutes which contain budget information as the particular parts of the budget are being adopted, but the budget is not published in its entirety.

Minn. Stat. § 375.169 states: “[a]nnually, upon adoption of the county budget, the county board shall cause a summary budget statement to be published in the official newspaper of the county. . . .” The statement shall contain information relating to anticipated revenues and expenditures and should be presented in such a manner that comparisons can be made between the current year and the budget year.

We recommend that the County comply with Minn. Stat. § 375.169.

Client’s Response:

The County will publish a summary budget in accordance with this statute.

B. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

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

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

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the 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
- 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 Lac qui Parle County, GASB Statements 43 and 45 would be implemented for the years ending December 31, 2008 and 2009, respectively.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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
Lac qui Parle County

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Lac qui Parle County as of and for the year ended December 31, 2006, and have issued our report thereon dated December 31, 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 Lac qui Parle County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 99-1 and 06-1 through 06-8 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 99-1, 06-2, 06-3, 06-6, 06-7, and 06-8 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lac qui Parle 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, Lac qui Parle County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 96-1, 03-2, 05-2, and 06-9.

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

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 31, 2007

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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

Board of County Commissioners
Lac qui Parle County

Compliance

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

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

In our opinion, Lac qui Parle County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2006.

Internal Control Over Compliance

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

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Lac qui Parle County as of and for the year ended December 31, 2006, and have issued our report thereon dated December 31, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 31, 2007

This page was left blank intentionally.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 13

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

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Expenditures |
|--|------------------------------------|--------------------------|
| U.S. Department of Agriculture | | |
| Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program | 10.561 | \$ <u>1,245</u> |
| U.S. Department of Transportation | | |
| Passed Through Minnesota Department of Transportation Highway Planning and Construction | 20.205 | \$ 264,614 |
| Passed Through Minnesota Department of Public Safety State and Community Highway Safety | 20.600 | 831 |
| Hazardous Materials Public Sector Training and Planning | 20.703 | <u>1,500</u> |
| Total U.S. Department of Transportation | | \$ <u>266,945</u> |
| U.S. Environmental Protection Agency | | |
| Passed Through Minnesota Pollution Control Agency Nonpoint Source Implementation Grants | 66.460 | \$ <u>45,071</u> |
| U.S. Election Assistance Commission | | |
| Passed Through Office of the Minnesota Secretary of State Help America Vote Act Requirements Payments | 90.401 | \$ <u>304,497</u> |
| U.S. Department of Health and Human Services | | |
| Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families | 93.556 | \$ 2,646 |
| Temporary Assistance for Needy Families (TANF) | 93.558 | 35,914 |
| Child Care and Development Block Grant | 93.575 | 30,734 |
| Child Welfare Services - State Grants | 93.645 | 3,282 |
| Foster Care - Title IV-E | 93.658 | 14,192 |
| Social Services Block Grant | 93.667 | 74,831 |
| Chafee Foster Care Independence Program | 93.674 | 875 |
| Block Grants for Community Mental Health Services | 93.958 | <u>3,451</u> |
| Total U.S. Department of Health and Human Services | | \$ <u>165,925</u> |
| U.S. Department of Homeland Security | | |
| Passed Through United Way Emergency Food and Shelter National Board Program | 97.024 | \$ 2,931 |
| Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Program | 97.004 | 1,500 |
| Disaster Grants - Public Assistance | 97.036 | 10,288 |
| Homeland Security Grant Program | 97.067 | <u>7,375</u> |
| Total U.S. Department of Homeland Security | | \$ <u>22,094</u> |
| Total Federal Awards | | \$ <u>805,777</u> |

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 13
(Continued)

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

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Lac qui Parle County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. During 2006, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.