

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**LAC QUI PARLE COUNTY**  
**MADISON, MINNESOTA**

**FOR THE YEAR ENDED DECEMBER 31, 2007**

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

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

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

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

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

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

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

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

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

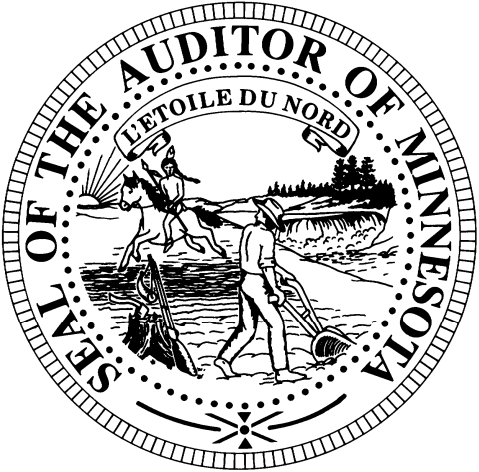
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

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**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

**For the Year Ended December 31, 2007**



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

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**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
<b>Introductory Section</b>		
Organization Schedule		1
Organization Schedule - Lac qui Parle-Yellow Bank Watershed District		2
Organization Schedule - Lac qui Parle County Economic Development Authority		3
<b>Financial Section</b>		
Independent Auditor's Report		4
Management's Discussion and Analysis		6
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	17
Statement of Activities	Exhibit 2	18
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	20
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	Exhibit 4	22
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 5	23
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	24
Fiduciary Funds		
Statement of Fiduciary Net Assets - Agency Funds	Exhibit 7	25
Notes to the Financial Statements		26
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
<b>Financial Section (Continued)</b>		
Supplementary Information		
Agency Funds		62
Combining Statement of Changes in Assets and Liabilities	Statement 1	63
Other Schedules		
Schedule of Intergovernmental Revenue	Schedule 5	64
Lac qui Parle-Yellow Bank Watershed District		
Governmental Funds Balance Sheet and Governmental Activities Statement of Net Assets	Schedule 6	66
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	Schedule 7	67
Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and Governmental Activities Statement of Activities	Schedule 8	68
Reconciliation of Changes in Governmental Fund Balance to Changes in Net Assets of Governmental Activities	Schedule 9	69
Budgetary Comparison Schedule - General Fund	Schedule 10	70
Lac qui Parle County Economic Development Authority		
Governmental Fund Balance Sheet and Governmental Activities Statement of Net Assets	Schedule 11	71
General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and Governmental Activities Statement of Activities	Schedule 12	72
Budgetary Comparison Schedule - General Fund	Schedule 13	73
<b>Management and Compliance Section</b>		
Schedule of Findings and Questioned Costs	Schedule 14	74
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>		90
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		93
Schedule of Expenditures of Federal Awards	Schedule 15	96
Notes to the Schedule of Expenditures of Federal Awards		97



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**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

ORGANIZATION SCHEDULE  
LAC QUI PARLE COUNTY  
2007

Office	Name	Term Expires
<b>Commissioners</b>		
1st District	Todd Patzer	January 2009
2nd District	Albert Hoffman*	January 2011
3rd District	Ivey Vonderharr**	January 2009
4th District	Terrence Overlander	January 2011
5th District	Harold Solem	January 2009
<b>Officers</b>		
<b>Elected</b>		
Attorney	Richard Stulz	January 2011
Coroner	Ralph Gerbig, M.D.	January 2008
Sheriff	Graylen Carlson	January 2011
<b>Appointed</b>		
Auditor-Treasurer	Jacob Sieg	Indefinite
Assessor	Lori Schwendemann	Indefinite
Environmental Officer	Jennifer Breberg	Indefinite
Highway Engineer	Steve Kubista	Indefinite
Recorder	Josh Amland	Indefinite
Veterans' Service Officer	Dan Meyer	Indefinite
<b>Welfare Board</b>		
Commissioner	Todd Patzer	January 2009
Commissioner	Albert Hoffman	January 2011
Commissioner	Ivey Vonderharr	January 2009
Commissioner	Merril Johnson	January 2011
Commissioner	Harold Solem	January 2009
Member	Ann Jenson	July 2009
Member	Mary Wodrich	July 2010
Director	Joel Churness	Indefinite

\*Chair 2007

\*\*Chair 2008

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

**ORGANIZATION SCHEDULE  
LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT  
BOARD OF SUPERVISORS  
2007**

<u>Name</u>	<u>Position</u>
Supervisor	
Willis Beecher	Chair
Darrel Ellefson	Vice Chair
David Ludvigson	Treasurer
David Craigmile	Secretary
Daniel Christianson	Publicity Chair
Staff	
Trudy Hastad	Administrator
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  
2007**

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

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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, 2007, 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, 2007, 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 November 13, 2008, 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

November 13, 2008



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

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**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2007  
(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, 2007. 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 \$46,671,947, of which \$36,233,193 is invested in capital assets and \$1,010,129 is restricted to specific purposes. The \$9,428,625 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

The County's net assets increased by \$1,640,902 for the year ended December 31, 2007. 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 \$3,062,952. The net cost was funded by general revenues and other items totaling \$4,703,854.

The fund balances of the governmental funds increased by \$114,040. Most of the increase was due to higher than expected earnings on investments and greater than expected intergovernmental revenue in the Family Services Special Revenue Fund.

For the year ended December 31, 2007, the unreserved fund balance of the General Fund was \$3,625,572, or 127 percent, of the total General Fund expenditures for the year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A is intended to serve as an introduction to the basic financial statements. The basic financial statements consist of three parts: (1) government-wide financial statements, (2) fund level financial statements, and (3) notes to the financial statements. This report also contains 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 the Combining Statement of Changes in Assets and Liabilities (Statement 1).

### 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 \$46,671,947 at the close of 2007. The largest portion of the net assets (77.6 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure, such as roads and bridges).

**Table 1**  
**Net Assets**

	<u>2007</u>	<u>2006</u>
Assets		
Current and other assets	\$ 11,493,547	\$ 10,735,761
Capital assets	<u>36,233,193</u>	<u>35,033,188</u>
Total Assets	<u>\$ 47,726,740</u>	<u>\$ 45,768,949</u>
Liabilities		
Long-term liabilities	\$ 311,625	\$ 306,260
Other liabilities	<u>743,168</u>	<u>431,644</u>
Total Liabilities	<u>\$ 1,054,793</u>	<u>\$ 737,904</u>
Net Assets		
Invested in capital assets	\$ 36,233,193	\$ 35,033,188
Restricted	1,010,129	537,154
Unrestricted	<u>9,428,625</u>	<u>9,460,703</u>
Total Net Assets	<u>\$ 46,671,947</u>	<u>\$ 45,031,045</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--are 20.2 percent of the net assets.

### Governmental Activities

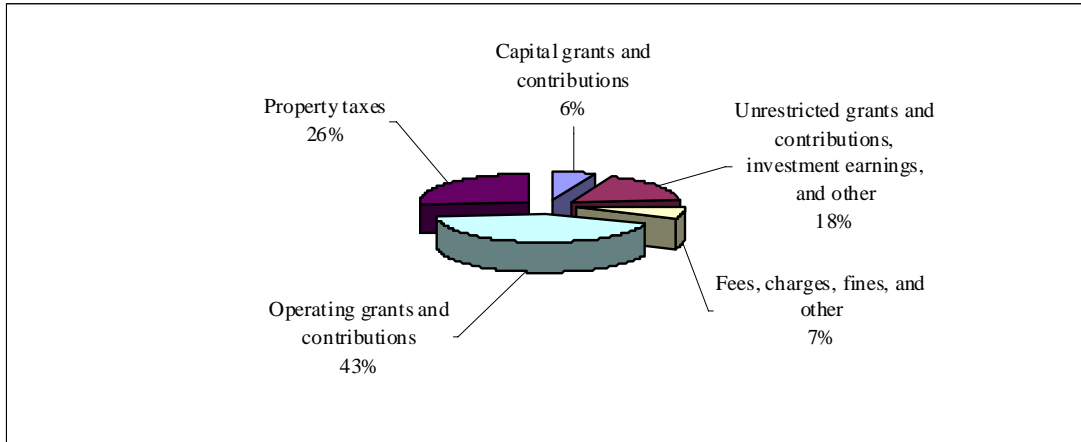
The County's activities increased net assets by 3.6 percent (\$46,671,947 for 2007 compared to \$45,031,045 for 2006). Key elements in this increase in net assets are as follows:

**Table 2**  
**Changes in Net Assets**

	<u>2007</u>	<u>2006</u>
Revenues		
Program revenues		
Charges for services	\$ 705,014	\$ 576,499
Operating grants and contributions	4,575,492	3,157,846
Capital grants and contributions	597,042	2,335,495
General revenues		
Property taxes	2,805,388	2,658,006
Other	1,898,466	1,844,574
Total Revenues	<u>\$ 10,581,402</u>	<u>\$ 10,572,420</u>
Expenses		
General government	\$ 1,329,524	\$ 1,636,461
Public safety	887,345	783,345
Highways and streets	3,971,878	2,423,173
Sanitation	103,500	102,913
Human services	2,002,635	1,819,829
Health	70,132	67,539
Culture and recreation	115,856	133,055
Conservation of natural resources	392,010	401,870
Economic development	67,620	112,220
Total Expenses	<u>\$ 8,940,500</u>	<u>\$ 7,480,405</u>
Increase in Net Assets	\$ 1,640,902	\$ 3,092,015
Net Assets - January 1	<u>45,031,045</u>	<u>41,939,030</u>
Net Assets - December 31	<u>\$ 46,671,947</u>	<u>\$ 45,031,045</u>

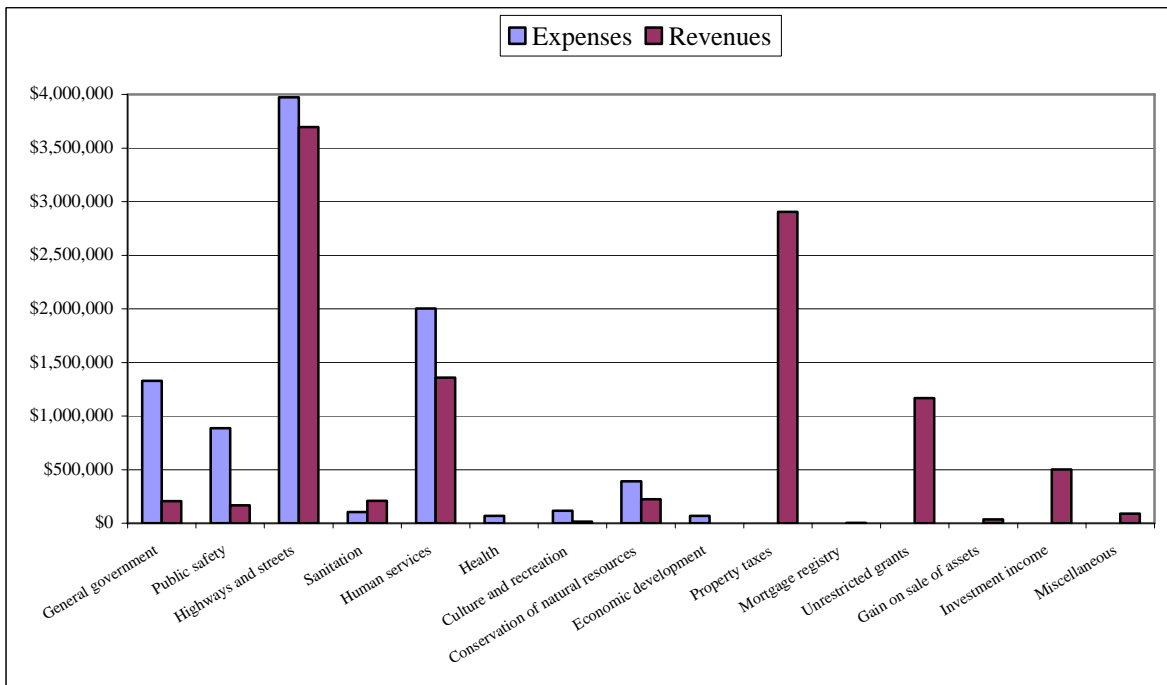
The County's total revenues were \$10,581,402. Table 3 presents the percent of total County revenues by source for the year ended December 31, 2007.

**Table 3  
County Revenues**



Total expenses were \$8,940,500, while total revenues were \$10,581,402. This reflects a \$1,640,902 increase in net assets for the year ended December 31, 2007. Table 4 presents the cost and revenues of each program, as well as the County's general revenues.

**Table 4  
Revenues and Expenses**



The cost of all governmental activities this year was \$8,940,500. 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 \$2,805,388 because some of the cost was paid by those who directly benefited from the programs (\$705,014) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,172,534). The County paid for the remaining “public benefit” portion of governmental activities with \$1,898,466 in general revenues such as grants and contributions not restricted to specific programs, interest, and gains on sale of capital assets.

Table 5 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 5**  
**Governmental Activities**  
**(in thousands)**

	Total Cost of Services 2007	Net Cost of Services 2007
Highways and streets	\$ 3,972	\$ (276)
Human services	2,003	(644)
General government	1,330	(1,122)
Public safety	887	(719)
All others	749	(302)
Totals	\$ 8,941	\$ (3,063)

## **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 \$9,760,932, an increase of \$114,040 in comparison with the prior year. Of the combined ending fund balances, \$9,228,315 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 \$3,625,572. 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 127 percent of total General Fund expenditures. During 2007, the ending fund balance decreased by \$167,967. The primary reason for this decrease was a transfer of \$200,000 to the Road and Bridge Special Revenue Fund to finance construction of a new road maintenance building in the City of Bellingham.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$1,871,321 at fiscal year-end, representing 36.6 percent of its annual expenditures. The ending fund balance decreased \$81,995 during 2007, primarily due to increased fuel costs and the construction of a new road maintenance building in the City of Bellingham.

The Family Services Special Revenue Fund had an unreserved fund balance of \$3,151,526 at fiscal year-end, representing 158.3 percent of its annual expenditures. The ending fund balance increased \$320,475 during 2007, 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 \$579,896 at fiscal year-end. The ending fund balance increased \$43,527 during 2007, primarily due to the 107 ditches needing less maintenance than was anticipated.

### **General Fund Budgetary Highlights**

The actual charges to appropriations (expenditures) were \$47,082 higher than the final budget amounts. The most significant negative variance, \$68,753, occurred in the County Sheriff's Office. 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 \$58,942 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, 2007, totaled \$36,233,193 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure.

**Table 6**  
**Capital Assets at Year-End**  
**(Net of Depreciation)**

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 146,903	\$ 9,500	\$ 600	\$ 155,803
Work in progress	-	244,381	-	244,381
Right-of-way	470,198	-	-	470,198
<b>Total capital assets not depreciated</b>	<b>\$ 617,101</b>	<b>\$ 253,881</b>	<b>\$ 600</b>	<b>\$ 870,382</b>
Capital assets depreciated				
Buildings	\$ 1,075,536	\$ 251,054	\$ 17,383	\$ 1,309,207
Machinery, furniture, and equipment	3,854,521	260,366	408,282	3,706,605
Infrastructure	41,818,972	1,592,549	-	43,411,521
<b>Total capital assets depreciated</b>	<b>\$ 46,749,029</b>	<b>\$ 2,103,969</b>	<b>\$ 425,665</b>	<b>\$ 48,427,333</b>
Less: accumulated depreciation for				
Buildings	\$ 674,447	\$ 18,605	\$ 17,383	\$ 675,669
Machinery, furniture, and equipment	2,398,308	301,690	439,563	2,260,435
Infrastructure	9,260,187	868,231	-	10,128,418
<b>Total accumulated depreciation</b>	<b>\$ 12,332,942</b>	<b>\$ 1,188,526</b>	<b>\$ 456,946</b>	<b>\$ 13,064,522</b>
<b>Total capital assets depreciated, net</b>	<b>\$ 34,416,087</b>	<b>\$ 915,443</b>	<b>\$ (31,281)</b>	<b>\$ 35,362,811</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 35,033,188</b>	<b>\$ 1,169,324</b>	<b>\$ (30,681)</b>	<b>\$ 36,233,193</b>

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 2008 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Lac qui Parle County at the end of 2007 was 5.0 percent. This is comparable with the state unemployment rate of 4.9 percent and shows a 19.0 percent increase from the County's 4.2 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, particularly tillable agricultural land.
- Wage increases for the area are not keeping up with increased cost of living expenses, including energy costs, health care, and property taxes.
- The County General Fund, Road and Bridge Special Revenue Fund, and Family Services Special Revenue Fund expenditures for 2008 are budgeted to decrease 1.5 percent (\$55,324) over the 2007 original budget. The 2008 anticipated revenues, other than tax levy, state aid, and special assessments, are budgeted to decrease 7.1 percent (\$432,856) over the 2007 original budget.
- The property tax levy for the County increased 6.87 percent (\$220,575) from 2007.

### **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 \$5,908,732, of which \$5,204,656 are invested in capital assets and \$704,076 is unrestricted.

The District's net assets increased by \$110,620 for the year ended December 31, 2007. A large part of the increase is attributable to increased intergovernmental revenues.

Program specific revenues were less than the cost of governmental activities for the current fiscal year by \$95,746.

## 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 \$5,908,732 at the close of 2007. The largest portion of the net assets (88.1 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure, such as water retention structures).

**Table 7**  
**Net Assets**

	<u>2007</u>	<u>2006</u>
Assets		
Current and other assets	\$ 966,610	\$ 726,353
Capital assets	<u>5,204,656</u>	<u>5,258,743</u>
Total Assets	<u>\$ 6,171,266</u>	<u>\$ 5,985,096</u>
Liabilities		
Long-term liabilities	\$ 227,409	\$ 156,829
Other liabilities	<u>35,125</u>	<u>30,155</u>
Total Liabilities	<u>\$ 262,534</u>	<u>\$ 186,984</u>
Net Assets		
Invested in capital assets	\$ 5,204,656	\$ 5,258,743
Restricted	<u>704,076</u>	<u>539,369</u>
Total Net Assets	<u>\$ 5,908,732</u>	<u>\$ 5,798,112</u>

## 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.

### FINANCIAL HIGHLIGHTS

Governmental activities' total net assets are \$134,956, which is unrestricted.

The Authority's net assets increased by \$6,894 for the year ended December 31, 2007. A large part of the increase is attributable to interest on investments.

Program specific revenues were less than the cost of governmental activities for the current fiscal year by \$105,472.

## 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 \$134,956 at the close of 2007. The largest portion of the net assets (97.9 percent) reflects its cash and pooled investments.

**Table 8**  
**Net Assets**

	<u>2007</u>	<u>2006</u>
Assets		
Current and other assets	<u>\$ 134,956</u>	<u>\$ 128,062</u>
Net Assets		
Unrestricted	<u>\$ 134,956</u>	<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.

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2007**

	<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>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 5,750,421	\$ 707,696	\$ 132,152
Investments	4,377,500	-	-
Receivables - net	1,241,024	258,914	2,804
Due from component unit	24,000	-	-
Inventories	100,482	-	-
Prepaid items	120	-	-
Capital assets			
Non-depreciable capital assets	870,382	688,668	-
Depreciable capital assets - net of accumulated depreciation	35,362,811	4,515,988	-
<b>Total Assets</b>	<b>\$ 47,726,740</b>	<b>\$ 6,171,266</b>	<b>\$ 134,956</b>
<b><u>Liabilities</u></b>			
Accounts payable and other current liabilities	\$ 488,093	\$ 29,125	\$ -
Unearned revenue	255,075	-	-
Due to primary government			
Due within one year	-	6,000	-
Due in more than one year	-	18,000	-
Long-term liabilities			
Due within one year	17,667	-	-
Due in more than one year	293,958	209,409	-
<b>Total Liabilities</b>	<b>\$ 1,054,793</b>	<b>\$ 262,534</b>	<b>\$ -</b>
<b><u>Net Assets</u></b>			
Invested in capital assets	\$ 36,233,193	\$ 5,204,656	\$ -
Restricted for			
Other purposes	102,392	-	-
Public safety	182,122	-	-
Highways and streets	684,059	-	-
Human services	41,556	-	-
Unrestricted	9,428,625	704,076	134,956
<b>Total Net Assets</b>	<b>\$ 46,671,947</b>	<b>\$ 5,908,732</b>	<b>\$ 134,956</b>

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>
<b><u>Functions/Programs</u></b>		
<b>Primary government</b>		
<b>Governmental activities</b>		
General government	\$ 1,329,524	\$ 181,039
Public safety	887,345	28,202
Highways and streets	3,971,878	55,807
Sanitation	103,500	57,442
Human services	2,002,635	212,095
Health	70,132	-
Culture and recreation	115,856	-
Conservation of natural resources	392,010	170,429
Economic development	67,620	-
<b>Total Primary Government</b>	<b>\$ 8,940,500</b>	<b>\$ 705,014</b>
<b>Component units</b>		
Lac qui Parle-Yellow Bank Watershed District	\$ 501,901	\$ 133,792
Lac qui Parle County Economic Development Authority	106,972	-
<b>Total Component Units</b>	<b>\$ 608,873</b>	<b>\$ 133,792</b>
<b>General Revenues</b>		
Property taxes		
Mortgage registry and deed tax		
Payments in lieu of tax		
Grants and contributions not restricted to specific programs		
Investment earnings		
Miscellaneous		
Gain on sale of capital assets		
<b>Total general revenues</b>		
<b>Change in net assets</b>		
<b>Net Assets - Beginning</b>		
<b>Net Assets - Ending</b>		

**EXHIBIT 2**

		<b>Net (Expense) Revenue and Changes in Net Assets</b>		
<b>Program Revenues</b>		<b>Discretely Presented Component Units</b>		
<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Primary Government Governmental Activities</b>	<b>Lac qui Parle- Yellow Bank Watershed District</b>	<b>Lac qui Parle County Economic Development Authority</b>
\$ 25,991	\$ -	\$ (1,122,494)		
140,267	-	(718,876)		
3,042,857	597,042	(276,172)		
151,443	-	105,385		
1,146,836	-	(643,704)		
-	-	(70,132)		
15,852	-	(100,004)		
52,246	-	(169,335)		
-	-	(67,620)		
<b>\$ 4,575,492</b>	<b>\$ 597,042</b>	<b>\$ (3,062,952)</b>		
\$ 271,414	\$ 949		\$ (95,746)	\$ -
1,500	-		-	(105,472)
<b>\$ 272,914</b>	<b>\$ 949</b>		<b>\$ (95,746)</b>	<b>\$ (105,472)</b>
		\$ 2,805,388	\$ 155,495	\$ -
		3,891	-	-
		100,531	-	-
		1,165,820	18,358	105,632
		501,090	18,650	6,734
		90,901	13,863	-
		36,233	-	-
		<b>\$ 4,703,854</b>	<b>\$ 206,366</b>	<b>\$ 112,366</b>
		<b>\$ 1,640,902</b>	<b>\$ 110,620</b>	<b>\$ 6,894</b>
		<b>45,031,045</b>	<b>5,798,112</b>	<b>128,062</b>
		<b>\$ 46,671,947</b>	<b>\$ 5,908,732</b>	<b>\$ 134,956</b>

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**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

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**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2007**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 3,813,428	\$ 205,506	\$ 1,106,601	\$ 573,973	\$ 5,699,508
Undistributed cash in agency funds	23,406	13,482	8,697	1,078	46,663
Petty cash and change funds	4,150	-	100	-	4,250
Investments	125,000	2,250,000	2,002,500	-	4,377,500
Taxes receivable					
Prior	21,001	14,263	9,654	-	44,918
Special assessments receivable					
Prior	8,323	-	-	549	8,872
Noncurrent	-	-	-	141,663	141,663
Accounts receivable	5,170	-	129	-	5,299
Accrued interest receivable	100,090	20,220	52,515	-	172,825
Due from governmental funds	-	-	-	12,500	12,500
Due from other governments	15,635	700,251	136,975	14,586	867,447
Due from component unit	24,000	-	-	-	24,000
Inventories	-	100,482	-	-	100,482
Prepaid items	120	-	-	-	120
<b>Total Assets</b>	<b><u>\$ 4,140,323</u></b>	<b><u>\$ 3,304,204</u></b>	<b><u>\$ 3,317,171</u></b>	<b><u>\$ 744,349</u></b>	<b><u>\$ 11,506,047</u></b>

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2007**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total Governmental Funds</u>
<b><u>Liabilities and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 42,850	\$ 97,633	\$ 49,840	\$ 17,621	\$ 207,944
Salaries payable	37,578	41,368	30,667	-	109,613
Contracts payable	18,793	110,358	-	-	129,151
Due to governmental funds	12,500	-	-	-	12,500
Due to other governments	13,751	17,882	5,132	4,620	41,385
Deferred revenue - unavailable	79,645	729,140	38,450	142,212	989,447
Deferred revenue - unearned	-	255,075	-	-	255,075
<b>Total Liabilities</b>	<b>\$ 205,117</b>	<b>\$ 1,251,456</b>	<b>\$ 124,089</b>	<b>\$ 164,453</b>	<b>\$ 1,745,115</b>
<b>Fund Balances</b>					
Reserved for					
Inventories	\$ -	\$ 100,482	\$ -	\$ -	\$ 100,482
Prepaid items	120	-	-	-	120
Missing heirs	4,590	-	-	-	4,590
Recorder's compliance fund	51,377	-	-	-	51,377
Recorder's technology fund	29,590	-	-	-	29,590
Enhanced 911	182,122	-	-	-	182,122
Attorney's forfeited property	11,886	-	-	-	11,886
Cemetery	1,000	-	-	-	1,000
Election equipment grant	4,949	-	-	-	4,949
Due from component unit	24,000	-	-	-	24,000
Highway allotments	-	80,945	-	-	80,945
Unspent grant monies	-	-	41,556	-	41,556
Unreserved					
Designated for future expenditures	-	810,400	-	-	810,400
Designated for capital improvements	-	-	895,238	-	895,238
Designated for capital equipment	2,213,509	91,900	-	-	2,305,409
Designated for buildings and grounds	-	122,800	-	-	122,800
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	1,412,063	846,221	1,556,288	579,896	4,394,468
<b>Total Fund Balances</b>	<b>\$ 3,935,206</b>	<b>\$ 2,052,748</b>	<b>\$ 3,193,082</b>	<b>\$ 579,896</b>	<b>\$ 9,760,932</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,140,323</b>	<b>\$ 3,304,204</b>	<b>\$ 3,317,171</b>	<b>\$ 744,349</b>	<b>\$ 11,506,047</b>

**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, 2007**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$ 9,760,932</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	36,233,193
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	989,447
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	<u>(311,625)</u>
<b>Net Assets of Governmental Activities (Exhibit 1)</b>	<b><u>\$ 46,671,947</u></b>

**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, 2007**

	General	Road and Bridge	Family Services	Ditch	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 1,306,290	\$ 909,747	\$ 587,173	\$ -	\$ 2,803,210
Special assessments	99,412	-	-	134,561	233,973
Licenses and permits	8,617	-	-	-	8,617
Intergovernmental	889,183	3,745,374	1,408,958	-	6,043,515
Charges for services	214,880	46,893	94,537	-	356,310
Fines and forfeits	1,707	-	-	-	1,707
Investment earnings	296,992	106,542	99,327	-	502,861
Miscellaneous	103,372	37,372	121,685	325	262,754
<b>Total Revenues</b>	<b>\$ 2,920,453</b>	<b>\$ 4,845,928</b>	<b>\$ 2,311,680</b>	<b>\$ 134,886</b>	<b>\$ 10,212,947</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 1,316,572	\$ -	\$ -	\$ -	\$ 1,316,572
Public safety	787,772	-	-	-	787,772
Highways and streets	-	4,833,260	-	-	4,833,260
Sanitation	139,984	-	-	-	139,984
Human services	-	-	1,991,205	-	1,991,205
Health	5,593	-	-	-	5,593
Culture and recreation	115,856	-	-	-	115,856
Conservation of natural resources	280,403	-	-	118,268	398,671
Economic development	20,620	-	-	-	20,620
<b>Intergovernmental</b>	<b>194,711</b>	<b>283,626</b>	<b>-</b>	<b>-</b>	<b>478,337</b>
<b>Total Expenditures</b>	<b>\$ 2,861,511</b>	<b>\$ 5,116,886</b>	<b>\$ 1,991,205</b>	<b>\$ 118,268</b>	<b>\$ 10,087,870</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 58,942</b>	<b>\$ (270,958)</b>	<b>\$ 320,475</b>	<b>\$ 16,618</b>	<b>\$ 125,077</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	\$ -	\$ 200,000	\$ -	\$ 26,909	\$ 226,909
Transfers out	(226,909)	-	-	-	(226,909)
Proceeds from sale of assets	-	36,833	-	-	36,833
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (226,909)</b>	<b>\$ 236,833</b>	<b>\$ -</b>	<b>\$ 26,909</b>	<b>\$ 36,833</b>
<b>Net Changes in Fund Balances</b>	<b>\$ (167,967)</b>	<b>\$ (34,125)</b>	<b>\$ 320,475</b>	<b>\$ 43,527</b>	<b>\$ 161,910</b>
<b>Fund Balances - January 1</b>	<b>4,103,173</b>	<b>2,134,743</b>	<b>2,872,607</b>	<b>536,369</b>	<b>9,646,892</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>(47,870)</b>	<b>-</b>	<b>-</b>	<b>(47,870)</b>
<b>Fund Balances - December 31</b>	<b>\$ 3,935,206</b>	<b>\$ 2,052,748</b>	<b>\$ 3,193,082</b>	<b>\$ 579,896</b>	<b>\$ 9,760,932</b>

**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, 2007**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ 161,910**

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	\$ 989,447	
Deferred revenue - January 1	(657,225)	332,222

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	\$ 2,357,850	
Net book value of assets disposed of	(600)	
Other adjustments to capital assets	31,281	
Current year depreciation	(1,188,526)	1,200,005

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	\$ (5,365)	
Change in inventories	(47,870)	(53,235)

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ 1,640,902**

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**FIDUCIARY FUNDS**

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LAC QUI PARLE COUNTY  
MADISON, MINNESOTA

*EXHIBIT 7*

STATEMENT OF FIDUCIARY NET ASSETS  
AGENCY FUNDS  
DECEMBER 31, 2007

Assets

Cash and pooled investments	<u>\$ 120,961</u>
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Liabilities

Due to other governments	<u>\$ 120,961</u>
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**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007

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, 2007. 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 it 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 it is a financial burden to the County.	Separate financial statements are not prepared.

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

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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**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

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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, 2007, 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 2007 were \$498,680.



**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

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

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

All receivables are shown net of an allowance for uncollectibles.

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

3. Inventories and Prepaid Items

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

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

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

4. Capital Assets

The 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**

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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, 2007, 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.

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

<u>Fund</u>	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General	\$ 2,861,511	\$ 2,814,429	\$ 47,082
Special Revenue Fund			
Family Services	1,991,205	1,962,140	29,065

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

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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	\$ 5,750,421
Investments	4,377,500
Statement of fiduciary net assets	
Cash and pooled investments	120,961
Total Cash and Investments	\$ 10,248,882
Petty cash and change funds	\$ 4,250
Checking	60,616
Money market savings	3,384,016
Certificates of deposit	6,800,000
Total Deposits and Investments	\$ 10,248,882

a. Deposits

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

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

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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, 2007, 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;
- (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;

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (5) commercial paper issued by United States corporations or their Canadian subsidiaries 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.

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, 2007, none of the County's investments were subject to custodial credit risk.

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. 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, 2007, for the County's governmental activities follow:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 44,918	\$ -
Special assessments	150,535	141,663
Due from other governments	867,447	-
Accounts receivable	5,299	-
Interest	172,825	-
	\$ 1,241,024	\$ 141,663
Total Governmental Activities		

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, 2007, of \$24,000. The balance is being repaid in annual installments of \$6,000.

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 146,903	\$ 9,500	\$ 600	\$ 155,803
Work in progress	-	244,381	-	244,381
Right-of-way	470,198	-	-	470,198
Total capital assets not depreciated	\$ 617,101	\$ 253,881	\$ 600	\$ 870,382
Capital assets depreciated				
Buildings	\$ 1,075,536	\$ 251,054	\$ 17,383	\$ 1,309,207
Machinery, furniture, and equipment	3,854,521	260,366	408,282	3,706,605
Infrastructure	41,818,972	1,592,549	-	43,411,521
Total capital assets depreciated	\$ 46,749,029	\$ 2,103,969	\$ 425,665	\$ 48,427,333
Less: accumulated depreciation for				
Buildings	\$ 674,447	\$ 18,605	\$ 17,383	\$ 675,669
Machinery, furniture, and equipment	2,398,308	301,690	439,563	2,260,435
Infrastructure	9,260,187	868,231	-	10,128,418
Total accumulated depreciation	\$ 12,332,942	\$ 1,188,526	\$ 456,946	\$ 13,064,522
Total capital assets depreciated, net	\$ 34,416,087	\$ 915,443	\$ (31,281)	\$ 35,362,811
Capital Assets, Net	\$ 35,033,188	\$ 1,169,324	\$ (30,681)	\$ 36,233,193

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

Governmental Activities	
General government	\$ 15,900
Public safety	30,872
Sanitation	16,234
Highways and streets, includes infrastructure assets	1,114,990
Human services	10,530
Total Depreciation Expense - Governmental Activities	\$ 1,188,526



**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

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3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2007, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
Ditch	General	\$ 12,500

The outstanding balances between funds result from the overpayment of ditch administrative fees from the Ditch Special Revenue Fund to the General Fund in 2007. This is due to the Lac qui Parle-Yellow Bank Watershed District becoming responsible for administration of various ditches during 2007. The payment of \$25,000 was made to the General Fund for a whole year, and the payment for the second half of 2007 needs to be returned to the Ditch Special Revenue Fund.

Interfund Transfers

During 2007, the General Fund transferred \$200,000 to the Road and Bridge Special Revenue Fund to help pay expenses for a new highway shop in Bellingham. The General Fund also transferred \$26,909 to the Ditch Special Revenue Fund for its share of interest earnings.

C. Liabilities

1. Payables

Payables at December 31, 2007, were as follows:

	Governmental Activities
Accounts	\$ 207,944
Salaries	109,613
Contracts	129,151
Due to other governments	41,385
Total Payables	\$ 488,093

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

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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. The County finances the plan on a pay-as-you-go basis and made no payments in 2007.

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. As of year-end December 31, 2007, the County has four eligible participants. The County finances the plan on a pay-as-you-go basis and, during 2007, the County expended \$15,807 for these benefits.

3. Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	<u>Compensated Absences</u>
Payable - January 1	\$ 306,260
Net changes	<u>5,365</u>
Payable - December 31	<u>\$ 311,625</u>
Amount due within one year	<u>\$ 17,667</u>

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

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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). PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

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 as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

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 defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for 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

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all Public Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent. Public Employees Police and Fire Fund members were required to contribute 7.80 percent of their annual covered

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

salary in 2007. That rate increased to 8.60 percent in 2008. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2007 and 2008:

	2007	2008
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.25	6.50
Public Employees Police and Fire Fund	11.70	12.90
Public Employees Correctional Fund	8.75	8.75

Lac qui Parle County's contributions for the years ending December 31, 2007, 2006, and 2005, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2007	2006	2005
Public Employees Retirement Fund	\$ 138,542	\$ 131,859	\$ 116,298
Public Employees Police and Fire Fund	39,223	32,865	28,724
Public Employees Correctional Fund	7,272	5,479	5,025

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

B. Defined Contribution Plan

Two employees of Lac qui Parle County are covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA 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**

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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. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by Lac qui Parle County during the year ended December 31, 2007, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 1,900	\$ 1,900
Percentage of covered payroll	5.00%	5.00%

Required contribution rates were 5.00 percent.

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.

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

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5. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$400,000 per claim in 2007 and \$410,000 per claim in 2008, 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.

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.

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

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

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.

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, 2007, was \$64,539.



**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Countryside Public Health Service (Continued)

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

Region 6W Community Corrections

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, 2007, was \$83,172. 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.

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Minnesota River Basin (Continued)

During 2007, the County contributed \$11,332 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.

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 contributed \$23,439 to the Task Force in 2007. 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.

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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.

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**

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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, one member appointed by the Yellow Medicine County Board, and one member appointed by the Lincoln 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, 2007, 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	\$ 707,696	\$ 132,152
Checking	\$ 277,497	\$ 3,115
Money market savings	25,199	56,832
Certificates of deposit	405,000	72,205
Total Deposits and Investments	\$ 707,696	\$ 132,152

Receivables

Lac qui Parle-Yellow Bank Watershed District

Receivables as of December 31, 2007, for the Lac qui Parle-Yellow Bank Watershed District's governmental activities follow:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 3,299	\$ -
Special assessments	215,739	213,816
Due from other governments	34,555	-
Accounts receivable	96	-
Interest	5,225	-
Total Governmental Activities	\$ 258,914	\$ 213,816

**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 \$2,804 at December 31, 2007.

Capital Assets

Component unit capital asset activity for the year ended December 31, 2007, 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	3,378	36,803	60,210
Total capital assets not depreciated	<u>\$ 722,093</u>	<u>\$ 3,378</u>	<u>\$ 36,803</u>	<u>\$ 688,668</u>
Capital assets depreciated				
Buildings	\$ 35,200	\$ -	\$ -	\$ 35,200
Machinery, furniture, and equipment	54,055	5,912	6,000	53,967
Land improvements	128,664	36,803	-	165,467
Infrastructure	5,334,207	-	-	5,334,207
Total capital assets depreciated	<u>\$ 5,552,126</u>	<u>\$ 42,715</u>	<u>\$ 6,000</u>	<u>\$ 5,588,841</u>
Less: accumulated depreciation for				
Buildings	\$ 35,200	\$ -	\$ -	\$ 35,200
Machinery, furniture, and equipment	38,217	3,512	6,000	35,729
Land improvements	63,514	6,523	-	70,037
Infrastructure	878,545	53,342	-	931,887
Total accumulated depreciation	<u>\$ 1,015,476</u>	<u>\$ 63,377</u>	<u>\$ 6,000</u>	<u>\$ 1,072,853</u>
Total capital assets depreciated, net	<u>\$ 4,536,650</u>	<u>\$ (20,662)</u>	<u>\$ -</u>	<u>\$ 4,515,988</u>
Capital Assets, Net	<u>\$ 5,258,743</u>	<u>\$ (17,284)</u>	<u>\$ 36,803</u>	<u>\$ 5,204,656</u>

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

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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>10,035</u>
Total Depreciation Expense	<u>\$ 63,377</u>

Lac qui Parle County Economic Development Authority

The Authority did not own any capital assets as of December 31, 2007.

Interfund Receivables, Payables, and Transfers

Lac qui Parle-Yellow Bank Watershed District did not have any interfund balances as of December 31, 2007.

2. Liabilities

Payables

Lac qui Parle-Yellow Bank Watershed District

Payables at December 31, 2007, were as follows:

	<u>Governmental Activities</u>
Accounts	\$ 21,017
Salaries	8,048
Due to other governments	<u>60</u>
Total Payables	<u>\$ 29,125</u>

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

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7. Component Unit Disclosures

B. Detailed Notes on All Funds

2. Liabilities

Payables (Continued)

Lac qui Parle County Economic Development Authority

The Lac qui Parle County Economic Development Authority did not have any payables as of December 31, 2007.

Construction Commitments

The Lac qui Parle-Yellow Bank Watershed District did not have any active construction projects as of December 31, 2007.

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, 2007, 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	\$ 17,727	2.00%	\$ 209,409	\$ 209,409

No final repayment schedule was available for this project at December 31, 2007.



**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

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7. Component Unit Disclosures

B. Detailed Notes on All Funds

2. Liabilities (Continued)

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, 2007, of \$24,000. The balance is being repaid in annual installments of \$6,000.

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, 2007, 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	\$ 30,000	\$ -	\$ 6,000	\$ 24,000	\$ 6,000
Loan payable	132,829	76,580	-	209,409	-

Lac qui Parle County Economic Development Authority

The Authority has no long-term liabilities at December 31, 2007.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

**Schedule 1**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,512,708	\$ 1,512,708	\$ 1,306,290	\$ (206,418)
Special assessments	100,000	100,000	99,412	(588)
Licenses and permits	7,450	7,450	8,617	1,167
Intergovernmental	627,402	627,402	889,183	261,781
Charges for services	211,850	211,850	214,880	3,030
Fines and forfeits	-	-	1,707	1,707
Investment earnings	220,000	220,000	296,992	76,992
Miscellaneous	135,019	135,019	103,372	(31,647)
<b>Total Revenues</b>	<b>\$ 2,814,429</b>	<b>\$ 2,814,429</b>	<b>\$ 2,920,453</b>	<b>\$ 106,024</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 165,711	\$ 165,711	\$ 169,731	\$ (4,020)
Courts	5,000	5,000	2,505	2,495
Auditor-treasurer	311,790	311,790	300,630	11,160
Assessor	138,109	138,109	125,722	12,387
Elections	1,975	1,975	-	1,975
Accounting and auditing	25,000	25,000	32,638	(7,638)
Data processing	122,100	122,100	118,454	3,646
Attorney	145,113	145,113	158,355	(13,242)
Recorder	119,922	119,922	131,997	(12,075)
Planning and zoning	42,789	42,789	24,785	18,004
Buildings and plant	120,927	120,927	98,490	22,437
Veterans' service officer	72,293	72,293	47,339	24,954
County car	1,100	1,100	671	429
Other general government	88,073	88,073	105,255	(17,182)
<b>Total general government</b>	<b>\$ 1,359,902</b>	<b>\$ 1,359,902</b>	<b>\$ 1,316,572</b>	<b>\$ 43,330</b>
<b>Public safety</b>				
Sheriff	\$ 624,910	\$ 624,910	\$ 693,663	\$ (68,753)
Boat and water safety	2,350	2,350	756	1,594
Snowmobile safety	1,500	1,500	822	678
Coroner	6,500	6,500	8,855	(2,355)
E-911 system	38,000	38,000	12,658	25,342
County jail	22,800	22,800	41,299	(18,499)
Civil defense	16,050	16,050	26,520	(10,470)
Other	2,350	2,350	3,199	(849)
<b>Total public safety</b>	<b>\$ 714,460</b>	<b>\$ 714,460</b>	<b>\$ 787,772</b>	<b>\$ (73,312)</b>

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Sanitation</b>				
Solid waste	\$ 23,865	\$ 23,865	\$ 68,401	\$ (44,536)
Recycling	86,019	86,019	71,583	14,436
<b>Total sanitation</b>	<b>\$ 109,884</b>	<b>\$ 109,884</b>	<b>\$ 139,984</b>	<b>\$ (30,100)</b>
<b>Health</b>				
Maternal and child health	\$ -	\$ -	\$ 2,593	\$ (2,593)
Ambulance	3,000	3,000	3,000	-
<b>Total health</b>	<b>\$ 3,000</b>	<b>\$ 3,000</b>	<b>\$ 5,593</b>	<b>\$ (2,593)</b>
<b>Culture and recreation</b>				
Historical society	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Minnesota trails	20,000	20,000	15,852	4,148
Parks	1,100	1,100	1,725	(625)
Senior citizens	500	500	500	-
County/regional library	75,697	75,697	75,697	-
Other	8,250	8,250	12,082	(3,832)
<b>Total culture and recreation</b>	<b>\$ 115,547</b>	<b>\$ 115,547</b>	<b>\$ 115,856</b>	<b>\$ (309)</b>
<b>Conservation of natural resources</b>				
Extension	\$ 80,154	\$ 80,154	\$ 77,351	\$ 2,803
Soil and water conservation	92,795	92,795	90,736	2,059
Agricultural society/County fair	7,550	7,550	7,550	-
Predator control	2,500	2,500	2,566	(66)
River basin	12,537	12,537	12,537	-
County farm	2,500	2,500	2,460	40
Water planning	32,321	32,321	32,405	(84)
Environmental officer	34,359	34,359	36,092	(1,733)
Feedlot administration	41,209	41,209	17,706	23,503
Other	1,000	1,000	1,000	-
<b>Total conservation of natural resources</b>	<b>\$ 306,925</b>	<b>\$ 306,925</b>	<b>\$ 280,403</b>	<b>\$ 26,522</b>
<b>Economic development</b>				
Airport	\$ 7,000	\$ 7,000	\$ 7,000	\$ -
Other	-	-	13,620	(13,620)
<b>Total economic development</b>	<b>\$ 7,000</b>	<b>\$ 7,000</b>	<b>\$ 20,620</b>	<b>\$ (13,620)</b>

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

*Schedule 1*  
*(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures (Continued)</b>				
<b>Intergovernmental</b>				
Public safety	\$ 83,172	\$ 83,172	\$ 83,172	\$ -
Health	\$ 64,539	\$ 64,539	\$ 64,539	\$ -
Economic development	\$ 50,000	\$ 50,000	\$ 47,000	\$ 3,000
<b>Total Expenditures</b>	<b>\$ 2,814,429</b>	<b>\$ 2,814,429</b>	<b>\$ 2,861,511</b>	<b>\$ (47,082)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 58,942</b>	<b>\$ 58,942</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(226,909)	(226,909)
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (167,967)</b>	<b>\$ (167,967)</b>
<b>Fund Balance - January 1</b>	<b>4,103,173</b>	<b>4,103,173</b>	<b>4,103,173</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,103,173</b>	<b>\$ 4,103,173</b>	<b>\$ 3,935,206</b>	<b>\$ (167,967)</b>

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,270,400	\$ 1,270,400	\$ 909,747	\$ (360,653)
Intergovernmental	3,204,400	3,204,400	3,745,374	540,974
Charges for services	40,000	40,000	46,893	6,893
Investment earnings	70,000	70,000	106,542	36,542
Miscellaneous	561,000	561,000	37,372	(523,628)
<b>Total Revenues</b>	<b>\$ 5,145,800</b>	<b>\$ 5,145,800</b>	<b>\$ 4,845,928</b>	<b>\$ (299,872)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 161,300	\$ 161,300	\$ 148,320	\$ 12,980
Maintenance	1,357,700	1,357,700	1,541,198	(183,498)
Construction	3,133,800	3,133,800	2,626,656	507,144
Equipment and maintenance shops	493,000	533,000	517,086	15,914
<b>Total highways and streets</b>	<b>\$ 5,145,800</b>	<b>\$ 5,185,800</b>	<b>\$ 4,833,260</b>	<b>\$ 352,540</b>
<b>Intergovernmental</b>				
Highways and streets	-	-	283,626	(283,626)
<b>Total Expenditures</b>	<b>\$ 5,145,800</b>	<b>\$ 5,185,800</b>	<b>\$ 5,116,886</b>	<b>\$ 68,914</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ (40,000)</b>	<b>\$ (270,958)</b>	<b>\$ (230,958)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ -	\$ 200,000	\$ 200,000	\$ -
Proceeds from sale of assets	-	-	36,833	36,833
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ 200,000</b>	<b>\$ 236,833</b>	<b>\$ 36,833</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ 160,000</b>	<b>\$ (34,125)</b>	<b>\$ (194,125)</b>
<b>Fund Balance - January 1</b>	<b>2,134,743</b>	<b>2,134,743</b>	<b>2,134,743</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>(47,870)</b>	<b>(47,870)</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,134,743</b>	<b>\$ 2,294,743</b>	<b>\$ 2,052,748</b>	<b>\$ (241,995)</b>



**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
FAMILY SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 830,131	\$ 830,131	\$ 587,173	\$ (242,958)
Intergovernmental	984,509	984,509	1,408,958	424,449
Charges for services	29,500	29,500	94,537	65,037
Investment earnings	30,000	30,000	99,327	69,327
Miscellaneous	88,000	88,000	121,685	33,685
<b>Total Revenues</b>	<b>\$ 1,962,140</b>	<b>\$ 1,962,140</b>	<b>\$ 2,311,680</b>	<b>\$ 349,540</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 592,338	\$ 592,338	\$ 550,552	\$ 41,786
Social services	1,369,802	1,369,802	1,440,653	(70,851)
<b>Total Expenditures</b>	<b>\$ 1,962,140</b>	<b>\$ 1,962,140</b>	<b>\$ 1,991,205</b>	<b>\$ (29,065)</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 320,475</b>	<b>\$ 320,475</b>
<b>Fund Balance - January 1</b>	<b>2,872,607</b>	<b>2,872,607</b>	<b>2,872,607</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,872,607</b>	<b>\$ 2,872,607</b>	<b>\$ 3,193,082</b>	<b>\$ 320,475</b>

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

*Schedule 4*

**BUDGETARY COMPARISON SCHEDULE  
DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Special assessments	\$ 130,176	\$ 130,176	\$ 134,561	\$ 4,385
Investment earnings	10,000	10,000	-	(10,000)
Miscellaneous	-	-	325	325
<b>Total Revenues</b>	<b>\$ 140,176</b>	<b>\$ 140,176</b>	<b>\$ 134,886</b>	<b>\$ (5,290)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Other	690,663	690,663	118,268	572,395
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (550,487)</b>	<b>\$ (550,487)</b>	<b>\$ 16,618</b>	<b>\$ 567,105</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	26,909	26,909
<b>Net Change in Fund Balance</b>	<b>\$ (550,487)</b>	<b>\$ (550,487)</b>	<b>\$ 43,527</b>	<b>\$ 594,014</b>
<b>Fund Balance - January 1</b>	<b>536,369</b>	<b>536,369</b>	<b>536,369</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ (14,118)</b>	<b>\$ (14,118)</b>	<b>\$ 579,896</b>	<b>\$ 594,014</b>

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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 Special Revenue Fund	\$ 5,145,800	\$ 40,000	\$ 5,185,800

The County did not amend the budget for the General Fund or the other special revenue funds.

4. Excess of Expenditures Over Budget

Fund	Expenditures	Final Budget	Excess
General	\$ 2,861,511	\$ 2,814,429	\$ 47,082
Special Revenue Fund			
Family Services	1,991,205	1,962,140	29,065

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**SUPPLEMENTARY INFORMATION**

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**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

**AGENCY FUNDS**

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

Forfeited Tax - to account for all funds received from the sale of lands forfeited for unpaid taxes and the subsequent disbursement to the various agencies.

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

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**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, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>STATE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 25,156	\$ 1,064,619	\$ 1,078,643	\$ 11,132
<b><u>Liabilities</u></b>				
Due to other governments	\$ 25,156	\$ 1,064,619	\$ 1,078,643	\$ 11,132
<b><u>FORFEITED TAX</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 1,198	\$ 58,577	\$ 45,148	\$ 14,627
<b><u>Liabilities</u></b>				
Due to other governments	\$ 1,198	\$ 58,577	\$ 45,148	\$ 14,627
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 91,315	\$ 8,160,516	\$ 8,156,629	\$ 95,202
<b><u>Liabilities</u></b>				
Due to other governments	\$ 91,315	\$ 8,160,516	\$ 8,156,629	\$ 95,202
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 117,669	\$ 9,283,712	\$ 9,280,420	\$ 120,961
<b><u>Liabilities</u></b>				
Due to other governments	\$ 117,669	\$ 9,283,712	\$ 9,280,420	\$ 120,961

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## **OTHER SCHEDULES**

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**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

*Schedule 5*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Total Primary Government</b>	<b>Discretely Presented Component Units</b>	
		<b>Lac qui Parle- Yellow Bank Watershed District</b>	<b>Lac qui Parle County Economic Development Authority</b>
<b>Shared Revenue</b>			
<b>State</b>			
Highway users tax	\$ 3,116,912	\$ -	\$ -
County program aid	725,367	-	-
PERA rate reimbursement	12,441	132	-
Disparity reduction aid	51,145	-	-
Police aid	32,685	-	-
Enhanced 911	79,523	-	-
Market value credit	376,867	18,226	-
<b>Total Shared Revenue</b>	<b>\$ 4,394,940</b>	<b>\$ 18,358</b>	<b>\$ -</b>
<b>Reimbursement for Services</b>			
<b>State</b>			
Minnesota Department of Human Services	\$ 480,076	\$ -	\$ -
<b>Payments</b>			
<b>Local</b>			
Payments in lieu of taxes	\$ 100,531	\$ -	\$ -
Local grants	-	100,673	500
Contributions from participants	-	-	105,632
<b>Total Payments</b>	<b>\$ 100,531</b>	<b>\$ 100,673</b>	<b>\$ 106,132</b>
<b>Grants</b>			
<b>State</b>			
Minnesota Department/Board of			
Human Services	\$ 522,398	\$ -	\$ -
Natural Resources	19,720	-	-
Public Safety	6,473	1,978	-
Water and Soil Resources	52,246	3,751	-
Pollution Control Agency	52,039	-	-
Peace Officer Standards and Training Board	2,010	-	-
Historical Society	-	-	1,000
<b>Total State</b>	<b>\$ 654,886</b>	<b>\$ 5,729</b>	<b>\$ 1,000</b>

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

*Schedule 5*  
*(Continued)*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Total Primary Government</b>	<b>Discretely Presented Component Units</b>	
		<b>Lac qui Parle- Yellow Bank Watershed District</b>	<b>Lac qui Parle County Economic Development Authority</b>
<b>Grants (Continued)</b>			
<b>Federal</b>			
Department of			
Agriculture	\$ 3,005	\$ -	\$ -
Transportation	234,704	-	-
Health and Human Services	164,678	-	-
Homeland Security	10,695	-	-
Environmental Protection Agency	-	165,961	-
<b>Total Federal</b>	<b>\$ 413,082</b>	<b>\$ 165,961</b>	<b>\$ -</b>
<b>Total State and Federal Grants</b>	<b>\$ 1,067,968</b>	<b>\$ 171,690</b>	<b>\$ 1,000</b>
<b>Total Intergovernmental Revenue</b>	<b>\$ 6,043,515</b>	<b>\$ 290,721</b>	<b>\$ 107,132</b>

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

*Schedule 6*

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT  
GOVERNMENTAL FUNDS BALANCE SHEET  
AND GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS  
WITH ADJUSTMENTS TO RECONCILE BETWEEN MODIFIED AND FULL ACCRUAL  
DECEMBER 31, 2007**

	General	Ditch Special Revenue	Total Governmental Funds	Adjustments (Schedule 7)	Statement of Net Assets
<b>Assets</b>					
Cash and pooled investments	\$ 629,426	\$ 78,270	\$ 707,696	\$ -	\$ 707,696
Taxes receivable					
Prior	3,299	-	3,299	-	3,299
Special assessments receivable					
Prior	-	1,923	1,923	-	1,923
Noncurrent	190,628	23,188	213,816	-	213,816
Accounts receivable	96	-	96	-	96
Accrued interest receivable	4,116	1,109	5,225	-	5,225
Due from other governments	34,555	-	34,555	-	34,555
Capital assets					
Non-depreciable	-	-	-	688,668	688,668
Depreciable - net of accumulated depreciation	-	-	-	4,515,988	4,515,988
<b>Total Assets</b>	<b>\$ 862,120</b>	<b>\$ 104,490</b>	<b>\$ 966,610</b>	<b>\$ 5,204,656</b>	<b>\$ 6,171,266</b>
<b>Liabilities</b>					
Accounts payable	\$ 20,367	\$ 650	\$ 21,017	\$ -	\$ 21,017
Salaries payable	8,048	-	8,048	-	8,048
Due to other governments	60	-	60	-	60
Deferred revenue - unavailable	193,927	25,111	219,038	(219,038)	-
Due to primary government					
Due within one year	-	-	-	6,000	6,000
Due in more than one year	-	-	-	18,000	18,000
ISTS loans					
Due in more than one year	-	-	-	209,409	209,409
<b>Total Liabilities</b>	<b>\$ 222,402</b>	<b>\$ 25,761</b>	<b>\$ 248,163</b>	<b>\$ 14,371</b>	<b>\$ 262,534</b>
<b>Fund Balances</b>					
Unreserved					
Reserved for					
Sewer/septic loans	\$ 18,781	\$ -	\$ 18,781	\$ (18,781)	
Designated for					
Ditch repairs and maintenance	-	78,729	78,729	(78,729)	
Flood control	620,937	-	620,937	(620,937)	
<b>Total Fund Balances</b>	<b>\$ 639,718</b>	<b>\$ 78,729</b>	<b>\$ 718,447</b>	<b>\$ (718,447)</b>	
<b>Total Liabilities and Fund Balances</b>	<b>\$ 862,120</b>	<b>\$ 104,490</b>	<b>\$ 966,610</b>		
<b>Net Assets</b>					
Invested in capital assets				\$ 5,204,656	\$ 5,204,656
Unrestricted				704,076	704,076
<b>Total Net Assets</b>				<b>\$ 5,908,732</b>	<b>\$ 5,908,732</b>

**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, 2007**

<b>Fund balances - total governmental funds</b>	<b>\$ 718,447</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	5,204,656
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	219,038
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	(24,000)
Loans payable	(209,409)
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 5,908,732</u></b>



**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

*Schedule 8*

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT  
GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
AND GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES  
WITH ADJUSTMENTS TO RECONCILE BETWEEN MODIFIED AND FULL ACCRUAL  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>General</u>	<u>Ditch Special Revenue</u>	<u>Total Governmental Funds</u>	<u>Adjustments (Schedule 9)</u>	<u>Statement of Activities</u>
<b>Revenues</b>					
Taxes	\$ 154,988	\$ -	\$ 154,988	\$ 507	\$ 155,495
Special assessments	-	7,848	7,848	57,736	65,584
Intergovernmental	290,721	-	290,721	-	290,721
Charges for services	59,435	-	59,435	-	59,435
Interest on investments	17,277	1,373	18,650	-	18,650
Miscellaneous	22,636	-	22,636	-	22,636
<b>Total Revenues</b>	<b>\$ 545,057</b>	<b>\$ 9,221</b>	<b>\$ 554,278</b>	<b>\$ 58,243</b>	<b>\$ 612,521</b>
<b>Expenditures/Expenses</b>					
<b>Current</b>					
Culture and recreation	\$ 80,122	\$ -	\$ 80,122	\$ 745	\$ 80,867
Conservation of natural resources	364,942	650	365,592	53,342	418,934
<b>Debt service</b>					
Principal	-	6,000	6,000	(6,000)	-
Interest	-	2,100	2,100	-	2,100
<b>Total Expenditures/Expenses</b>	<b>\$ 445,064</b>	<b>\$ 8,750</b>	<b>\$ 453,814</b>	<b>\$ 48,087</b>	<b>\$ 501,901</b>
<b>Excess of Revenues Over (Under) Expenditures/Expenses</b>	<b>\$ 99,993</b>	<b>\$ 471</b>	<b>\$ 100,464</b>	<b>\$ 10,156</b>	<b>\$ 110,620</b>
<b>Other Financing Sources (Uses)</b>					
Loans issued	76,580	-	76,580	(76,580)	-
<b>Net Change in Fund Balances/Net Assets</b>	<b>\$ 176,573</b>	<b>\$ 471</b>	<b>\$ 177,044</b>	<b>\$ (66,424)</b>	<b>\$ 110,620</b>
<b>Fund Balances/Net Assets</b>					
<b>January 1</b>	<b>463,145</b>	<b>78,258</b>	<b>541,403</b>	<b>5,256,709</b>	<b>5,798,112</b>
<b>December 31</b>	<b>\$ 639,718</b>	<b>\$ 78,729</b>	<b>\$ 718,447</b>	<b>\$ 5,190,285</b>	<b>\$ 5,908,732</b>

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

**Schedule 9**

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT  
RECONCILIATION OF CHANGES IN GOVERNMENTAL FUND BALANCE TO  
CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**Net change in fund balance - total governmental funds** **\$ 177,044**

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	\$ 219,038	
Deferred revenue - January 1	<u>(160,795)</u>	58,243

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	\$ 9,290	
Current year depreciation	<u>(63,377)</u>	(54,087)

Governmental funds report ISTS loans issued as other financing sources. However, in the statement of activities, the loans are reported as a liability. (76,580)

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** **\$ 110,620**

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

*Schedule 10*

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 155,000	\$ 155,000	\$ 154,988	\$ (12)
Intergovernmental	-	-	290,721	290,721
Charges for services	52,200	52,200	59,435	7,235
Investment earnings	-	-	17,277	17,277
Miscellaneous	-	-	22,636	22,636
<b>Total Revenues</b>	<b>\$ 207,200</b>	<b>\$ 207,200</b>	<b>\$ 545,057</b>	<b>\$ 337,857</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Culture and recreation</b>				
Parks	\$ 58,200	\$ 58,200	\$ 80,122	\$ (21,922)
<b>Conservation of natural resources</b>				
Watershed	149,000	149,000	364,942	(215,942)
<b>Total Expenditures</b>	<b>\$ 207,200</b>	<b>\$ 207,200</b>	<b>\$ 445,064</b>	<b>\$ (237,864)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 99,993</b>	<b>\$ 99,993</b>
<b>Other Financing Sources (Uses)</b>				
Loans issued	-	-	76,580	76,580
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 176,573</b>	<b>\$ 176,573</b>
<b>Fund Balance - January 1</b>	<b>463,145</b>	<b>463,145</b>	<b>463,145</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 463,145</b>	<b>\$ 463,145</b>	<b>\$ 639,718</b>	<b>\$ 176,573</b>

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

*Schedule 11*

**LAC QUI PARLE COUNTY ECONOMIC DEVELOPMENT AUTHORITY  
GOVERNMENTAL FUND BALANCE SHEET  
AND GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS  
WITH ADJUSTMENTS TO RECONCILE BETWEEN MODIFIED AND FULL ACCRUAL  
DECEMBER 31, 2007**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Statement of Net Assets</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 132,152	\$ -	\$ 132,152
Accrued interest receivable	2,804	-	2,804
<b>Total Assets</b>	<b>\$ 134,956</b>	<b>\$ -</b>	<b>\$ 134,956</b>
<b><u>Liabilities and Fund Balance/Net Assets</u></b>			
Liabilities			
Deferred revenue - unavailable	\$ 2,804	\$ (2,804)	\$ -
Fund Balance			
Unreserved			
Undesignated	132,152	(132,152)	-
Net Assets			
Unrestricted	-	134,956	134,956
<b>Total Liabilities and Fund Balance/Net Assets</b>	<b>\$ 134,956</b>	<b>\$ (2,804)</b>	<b>\$ 134,956</b>
<b>Reconciliation of the General Fund Balance to Net Assets</b>			
Fund Balance - General Fund			\$ 132,152
Amounts reported for governmental activities in the statement of net assets are different because certain long-term assets are not available to pay for current period expenditures and are deferred in the governmental fund.			2,804
<b>Net Assets - Governmental Activities</b>			<b>\$ 134,956</b>

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

*Schedule 12*

**LAC QUI PARLE COUNTY ECONOMIC DEVELOPMENT AUTHORITY  
GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
AND GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES  
WITH ADJUSTMENTS TO RECONCILE BETWEEN MODIFIED AND FULL ACCRUAL  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	General Fund	Adjustments	Statement of Activities
<b>Revenues</b>			
Intergovernmental	\$ 107,132	\$ -	\$ 107,132
Investment earnings	5,718	1,016	6,734
<b>Total Revenues</b>	<b>\$ 112,850</b>	<b>\$ 1,016</b>	<b>\$ 113,866</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
Economic development	106,972	-	106,972
<b>Net Change in Fund Balance/Net Assets</b>	<b>\$ 5,878</b>	<b>\$ 1,016</b>	<b>\$ 6,894</b>
<b>Fund Balance/Net Assets - January 1</b>	<b>126,274</b>	<b>1,788</b>	<b>128,062</b>
<b>Fund Balance/Net Assets - December 31</b>	<b>\$ 132,152</b>	<b>\$ 2,804</b>	<b>\$ 134,956</b>
<b>Net change in fund balance - total governmental funds</b>			<b>\$ 5,878</b>
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		\$ 2,804	
Deferred revenue - January 1		(1,788)	1,016
<b>Change in Net Assets of Governmental Activities</b>			<b>\$ 6,894</b>

**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

*Schedule 13*

**LAC QUI PARLE COUNTY ECONOMIC DEVELOPMENT AUTHORITY  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 80,000	\$ 80,000	\$ 107,132	\$ 27,132
Investment earnings	-	-	5,718	5,718
<b>Total Revenues</b>	<b>\$ 80,000</b>	<b>\$ 80,000</b>	<b>\$ 112,850</b>	<b>\$ 32,850</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Economic development</b>				
Community development	80,000	80,000	106,972	(26,972)
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,878</b>	<b>\$ 5,878</b>
<b>Fund Balance - January 1</b>	<b>126,274</b>	<b>126,274</b>	<b>126,274</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 126,274</b>	<b>\$ 126,274</b>	<b>\$ 132,152</b>	<b>\$ 5,878</b>



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**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

**Schedule 14**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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

- A. Our report expresses unqualified opinions on the basic financial statements of Lac qui Parle County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Lac qui Parle County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." Some of the significant deficiencies are material weaknesses.
- C. No instances of noncompliance material to the financial statements of Lac qui Parle County were disclosed during the audit.
- D. A significant deficiency relating to the audit of the major federal award programs is reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133." The significant deficiency is not a material weakness.
- E. The Auditor's Report on Compliance for the major federal award programs for Lac qui Parle County expresses an unqualified opinion.
- F. A finding relative to a major federal award program for Lac qui Parle County was reported as required by Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Highway Planning and Construction	CFDA #20.205
Social Services Block Grant - Title XX	CFDA #93.667
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Lac qui Parle County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-1 Segregation of Duties

Due to the limited number of office personnel within the various County offices and departments, segregation of accounting functions necessary to ensure adequate internal accounting control is not always possible. This is not unusual in operations the size of Lac qui Parle County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view, as the situation increases the risk that errors or irregularities may occur and not be detected in a timely manner.

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.

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

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.*

06-2 Accounting System Journal Entry Function

The County does not limit access to the accounting system journal entry function to select County employees. Thirteen users were set up to work with journal entries. 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 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 to ensure that no journal entries have been made which have not been submitted for review and approval.

Client's Response:

*A policy will be established where a limited number of people will be granted access to write journal entries. The policy will also designate who may approve those entries.*

06-3 Computer System Controls

Risk management begins with a risk assessment of the County's computer systems 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.

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 re-assessment 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.*

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 on this spreadsheet and depreciation is calculated. Capital assets procedures utilized by the County in maintaining the capital asset system differ from the policy formally approved by the County Board. Procedures documented in a capital assets policy that defines the County's accounting policies over capital assets, such as capitalization thresholds, useful lives, and depreciation methods, should either be followed or the policy should be updated and rewritten.

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.

The responsibilities relating to capital assets are not clearly defined. There is no policy to assign the responsibility for recording and tracking capital assets or for determining both the annual and accumulated depreciation. When asked for the capital assets listing with the respective depreciation schedules, the information relating to the Road and Bridge Special Revenue Fund was not complete or available. We also noted that records kept for the Road and Bridge Special Revenue Fund for financial reporting purposes were not in accordance with generally accepted accounting principles, as the County's records indicate only the amount of cash paid for assets and do not reflect other costs that should be capitalized such as trade-in allowances.

We recommend the County follow an approved capital assets policy that defines 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. The policy should also be consistent with generally accepted accounting principles.

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 current capital asset policy will be re-evaluated by the County and updated. This update will include procedures on redetermination of useful asset life and clarification of responsibilities in the capital asset tracking process. In the future, all capital asset tracking for financial reporting purposes will be handled by the County Auditor-Treasurer's Office. This centralization will help ensure that the capital asset policy is followed uniformly for the assets of the different departments.*

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 that 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 acknowledges the need for a comprehensive accounting policies and procedures manual and will work with the state auditors in the development of this policy.*

06-6 Preparation of Financial Statements

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 both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) 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 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.

**Schedule 14**  
**(Continued)**

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. During our audit, we noted several 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.

Although Lac qui Parle County has identified and has been training individuals to obtain the expertise to improve its preparation of financial statements, we recommend the County continue to obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP, including preparing and reporting appropriate government-wide and fund financial statements and including the related notes to the financial statements. Also, 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.

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 financial statement preparation then, at a minimum, it must identify and train individuals to obtain the expertise to sufficiently review, understand, and approve the financial statements, including notes.

**Client's Response:**

*The County plans to work toward taking additional responsibility each year for the preparation of the financial statements. The Auditor-Treasurer's Office has budgeted funds for 2009 to hire a consultant to assist in this process.*

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: human resource considerations, including staffing levels and qualifications, needing to be addressed; 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 expenditures, and overstating fund balance and revenues; 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 could 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 believes that the relatively new accounting staff employed by the County will improve its accounting accuracy with experience. The accounting staff will work together to implement procedures and controls that will ensure that account balances are properly supported with adequate documentation.*



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 year-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 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. Those adjustments were made to report receivables and revenue (deferred revenue in the funds) for special assessments, interest, and federal grants; to reclassify fund balance reserves, various revenues, and some debt service expenditures; and to report expenditures and payables for liabilities.

We recommend the respective Boards be mindful that limited staffing causes inherent risks in safeguarding each 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.*

ITEMS ARISING THIS YEAR

07-1 Documenting and Monitoring Internal Controls

County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

At a minimum, the following significant internal control areas should be documented:

- cash and investment activities;
- capital assets (capitalization process and related depreciation);
- major funding sources (taxes, intergovernmental revenues, charges for services, and miscellaneous items);
- expenditure/expense processing; and
- payroll.

We recommend that County management document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize the risks. We also recommend that a formal plan be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

*The County acknowledges that while controls are in place for many of the significant control areas, improvement needs to be made to document that the policies and procedures are actually being followed. These policies will be updated to specify how to document that the policies are being monitored.*

07-2 Payroll

No controls exist to verify the correct pay rates were in the payroll system for all employees, that pay rates were updated for authorized reasons, or that any payroll information changes were reviewed by other County personnel. These conditions represent a serious weakness in the County's internal controls. Without improved controls, employees could be receiving incorrect pay or employees could be added or deleted from the system without being noticed.

We recommend that County management implement oversight procedures to ensure any changes made to an employee's payroll information are correct, are made for authorized purposes, and are reviewed by someone other than the person making the change.

Client's Response:

*The County is currently in the process of training additional personnel who will be qualified to monitor payroll processing. This training, along with new policies, will ensure that payroll information changes are accurate and legitimate.*

**PREVIOUSLY REPORTED ITEM RESOLVED**

**Adding New Vendors to the Accounting System (06-1)**

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

**Resolution**

The County established a policy for adding new vendors to the Integrated Financial System.

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

INTERNAL CONTROL

ITEM ARISING THIS YEAR

07-3 Highway Planning and Construction (Davis-Bacon Requirements, CFDA #20.205)

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

Per Part 3 of the Federal Compliance Supplement, “all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL. Non-federal entities shall include in their construction contracts subject to Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements. . . . This includes a requirement for the contractor or subcontractor to submit to the non-federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls). . . .”

The County received the payroll reports from the contractors on project 37-090-02 to show compliance; however, in our review of selected payrolls, it was noted that labor code 217 for crane work was not paid the appropriate rate, and it was found that neither the County nor the consulting firm hired by the County was reviewing the labor reports for payment of prevailing wage rates.

We recommend that the County establish a monitoring system that demonstrates and provides necessary evidence that Davis-Bacon Act compliance requirements have been adequately monitored.

Corrective Action Plan:

Contact Person Responsible for Corrective Action:

*Project Engineer in charge of the project (Peter Sarberg, WSN)*

Action Taken:

*This project was addressed and resolved. Lac qui Parle County Highway Department was the fiscal agent for the City of Dawson on this project. When our office became aware of an incorrect rate of pay, the Lac qui Parle County Engineer contacted the Project Engineer that was in charge of the project. The additional back pay was paid and they signed off that they had made the corrections.*

Completion Date:

*September 29, 2008*

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

**A. MINNESOTA LEGAL COMPLIANCE**

**PREVIOUSLY REPORTED ITEM NOT RESOLVED**

**96-1 Ditch Fund Cash and Fund Deficits**

Nine of the 102 individual ditch systems had deficit cash balances totaling \$52,017 at December 31, 2007. This amount is down from the prior year when we reported that 8 of the 107 individual ditch systems had deficit cash balances totaling \$62,890. 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.*

**PREVIOUSLY REPORTED ITEMS RESOLVED**

**Collateral Substitution (03-2)**

The procedures used for collateral substitutions for KleinBank allowed the bank to substitute collateral before giving any notice to the governmental entity, as required by Minn. Stat. § 118A.03, subd. 5.

**Resolution**

Language in the depository pledge agreement was updated to state notice must be given, and confirmation received, before collateral is substituted.

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

The depository pledge agreement between the County and KleinBank stated that the County was required to give notice of failure, insolvency, or breach to the bank and wait at least three business days after the notice before the County could collect the collateral from the custodian so the bank had time to cure the default.

**Resolution**

The depository pledge agreement was updated to be consistent with the default language of Minn. Stat. § 118A.03, subd. 4.

**Publication of Budget (06-9)**

A summary budget statement was not published in the official newspaper of the County.

**Resolution**

The County complied with Minn. Stat. § 375.169 for the 2008 budget.

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.

*Schedule 14*  
*(Continued)*

This year, the legislature enacted a new law, Minn. Stat. § 471.6175, intended to help counties address their OPEB liability in at least three important ways:

- it allows counties to create both irrevocable and revocable OPEB trusts;
- it authorizes the use of a different list of permissible investments for both irrevocable and revocable OPEB trusts; and
- it also permits counties to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

Some of the issues that the County Board will need to address in order to comply with GASB Statements 43 and 45 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 comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;
- if an OPEB trust will be established, the County will have to decide whether to establish an irrevocable or a revocable trust, and report that trust appropriately in the financial statements; and
- in order to determine annual costs and liabilities 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 years ended December 31, 2008 and 2009, respectively.





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, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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, 06-2 through 06-8, 07-1, and 07-2 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 06-4, 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 item 96-1.

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to 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 been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses 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 the County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

November 13, 2008

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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 each of its major federal programs for the year ended December 31, 2007. Lac qui Parle County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 each of its major federal programs for the year ended December 31, 2007.

### 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the County's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 07-3 to be a significant deficiency.

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 the County's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

### 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, 2007, which collectively

comprise the County's basic financial statements, and have issued our report thereon dated November 13, 2008. Our audit was performed for the purpose of forming opinions on 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.

Lac qui Parle County's written corrective action plan to the finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plan and, accordingly, we express no opinion on it.

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

November 13, 2008

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**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

Schedule 15

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	\$ <u>3,005</u>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 227,021
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	3,550
Alcohol Traffic and Drunk Driving	20.601	1,750
Minimum Penalties for Repeat Offenders	20.608	883
Hazardous Materials Public Sector Training and Planning	20.703	<u>1,500</u>
<b>Total U.S. Department of Transportation</b>		<b>\$ <u>234,704</u></b>
<b>U.S. Environmental Protection Agency</b>		
Passed Through Minnesota Pollution Control Agency Water Pollution Control State, Interstate, and Tribal Program Support	66.419	\$ 28,499
Nonpoint Source Implementation Grants	66.460	<u>137,462</u>
<b>Total U.S. Environmental Protection Agency</b>		<b>\$ <u>165,961</u></b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Human Services Temporary Assistance for Needy Families (TANF)	93.558	\$ 25,926
Child Care and Development Block Grant	93.575	16,146
Child Care Mandatory Matching Funds	93.596	21,197
Foster Care - Title IV-E	93.658	24,381
Social Services Block Grant	93.667	74,830
Chafee Foster Care Independence Program	93.674	875
Block Grants for Community Mental Health Services	93.958	<u>1,660</u>
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ <u>165,015</u></b>
<b>U.S. Department of Homeland Security</b>		
Passed Through United Way Emergency Food and Shelter National Board Program	97.024	\$ 2,670
Passed Through Minnesota Department of Public Safety Homeland Security Grant Program	97.067	<u>8,025</u>
<b>Total U.S. Department of Homeland Security</b>		<b>\$ <u>10,695</u></b>
<b>Total Federal Awards</b>		<b>\$ <u>579,380</u></b>

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**LAC QUI PARLE COUNTY  
MADISON, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities 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. Basis of Presentation

The accounting records for grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual--when both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Lac qui Parle County considers all revenues to be available if they are collected within 60 days of the current period. Expenditures are recorded when the liability is incurred.

The information in the schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

3. Reconciliation to Schedule of Intergovernmental Revenues

Federal grant revenue per Schedule of Intergovernmental Revenues	\$ 579,043
Chafee Foster Care Independence Living grant monies unspent in prior years and expended in 2007 (CFDA #93.674)	<u>337</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u><u>\$ 579,380</u></u>

4. Passed Through to Subrecipients

During 2007, the County did not pass any federal money to subrecipients.

5. Pass-Through Grant Numbers

Pass-through grant numbers were not assigned by the pass-through agencies.