

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

LAC QUI PARLE COUNTY
MADISON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2010

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

For the Year Ended December 31, 2010



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

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

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MADISON, MINNESOTA**

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**ORGANIZATION SCHEDULE
LAC QUI PARLE COUNTY
2010**

Office	Name	Term Expires
Commissioners		
1st District	Todd Patzer**	January 2013
2nd District	Albert Hoffman	January 2011
3rd District	Graylen Carlson	January 2013
4th District	Terrence Overlander	January 2011
5th District	Harold Solem*	January 2013
Officers		
Elected		
Attorney	Richard Stulz	January 2011
Coroner	Ralph Gerbig, M.D.	January 2011
Sheriff	Dallas Schellberg ¹	January 2011
Appointed		
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	Josh Beninga	Indefinite
Welfare Board		
Commissioner	Todd Patzer	January 2013
Commissioner	Albert Hoffman	January 2011
Commissioner	Graylen Carlson	January 2013
Commissioner	Terrence Overlander	January 2011
Commissioner	Harold Solem	January 2013
Member	Ann Jenson	July 2011
Member	Mary Wodrich	July 2012
Director	Joel Churness	Indefinite

*Chair 2010

**Chair 2011

¹ appointed to fill remaining term as of January 1, 2009

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**ORGANIZATION SCHEDULE
LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
BOARD OF SUPERVISORS
2010**

<u>Position</u>	<u>Name</u>	<u>Term Expires</u>
Supervisor		
Chair	Willis Beecher	April 2012
Vice Chair	Darrel Ellefson	December 2012
Treasurer	David Ludvigson	April 2011
Secretary	David Craigmile	April 2011
Publicity Chair	Daniel Christianson	April 2012
Staff		
Administrator	Trudy Hastad	Indefinite
Park Manager	Ron Fjerkenstad	Indefinite
Attorney	Steve Torvik	Indefinite
Clean Water Coordinator	Mary Homan	Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Lac qui Parle County

We have audited the accompanying 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, Minnesota, as of and for the year ended December 31, 2010, 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 did not audit the financial statements of the Lac qui Parle County Economic Development Authority, which represent 3 percent, 3 percent, and 28 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to amounts included for that component unit, is based solely on the report of the other auditors.

We conducted our audit 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 U.S. Office of Management and Budget (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 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 and the report of the other auditors provide a reasonable basis for our opinions.

As discussed in Note 1.D.7. to the financial statements, Lac qui Parle County has not reported a liability for its other postemployment benefits (OPEB) in the governmental activities and, accordingly, has not reported an expense for the current period change in the net OPEB obligation. Accounting principles generally accepted in the United States of America require that OPEB obligations, which arise from an exchange of salaries and benefits for employee service and are part of the compensation that employers offer for services received, and the annual OPEB cost be accrued as liabilities and expenses as the employees earn the right to the benefits. Accruing OPEB costs would increase liabilities, reduce net assets, and change the expenses of the governmental activities. The amount by which this departure would affect the liabilities, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, except for the effects of not reporting a liability and related expense for OPEB as described above, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of Lac qui Parle County as of December 31, 2010, 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.

In addition, in our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Lac qui Parle County as of December 31, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lac qui Parle County's basic financial statements taken as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2011, 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, 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

September 27, 2011

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
(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, 2010. 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 \$51,439,199, of which \$39,980,717 is invested in capital assets and \$2,514,277 is restricted to specific purposes. The \$8,944,205 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

The County's net assets increased by \$1,197,528 for the year ended December 31, 2010. A large part of the increase is attributable to the increases in capital assets and a buildup of fund balance in the Road and Bridge Fund for future project expenditures.

The net cost of governmental activities for the current fiscal year was \$3,055,667. The net cost was funded by general revenues and other items totaling \$4,253,195.

The fund balances of the governmental funds decreased by \$389,528. Most of the decrease was due to budgeted deficit spending in the General Fund, unallotment of the reimbursement for the State of Minnesota's Market Value Credit Program, less than expected investment revenues, and unbudgeted capital expenditures.

For the year ended December 31, 2010, the unreserved fund balance of the General Fund was \$1,738,812, or 48 percent of the total General Fund expenditures for the year. The unreserved fund balance of the Road and Bridge Fund was \$2,026,010, or 48 percent of the total Road and Bridge Fund expenditures for the year. The unreserved fund balance of the Family Services Fund was \$3,744,246, or 175 percent of the total Family Services 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. Fiduciary Activities for the Lac qui Parle-Yellow Bank Watershed District are reported in the Combining Statement of Changes in Assets and Liabilities (Exhibit B-1). The County reports the Lac qui Parle Economic Development Authority as a discretely presented component unit. The Lac qui Parle Economic Development Authority has separately issued financial statements.

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 \$51,439,199 at the close of 2010. The largest portion of the net assets (77.7 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure, such as roads and bridges).

Table 1
Net Assets

	<u>2010</u>	<u>2009</u>
Assets		
Current and other assets	\$ 12,506,228	\$ 11,949,140
Capital assets	<u>39,980,717</u>	<u>39,169,537</u>
Total Assets	<u>\$ 52,486,945</u>	<u>\$ 51,118,677</u>
Liabilities		
Long-term liabilities	\$ 348,046	\$ 336,816
Other liabilities	<u>699,700</u>	<u>540,190</u>
Total Liabilities	<u>\$ 1,047,746</u>	<u>\$ 877,006</u>
Net Assets		
Invested in capital assets	\$ 39,980,717	\$ 39,169,537
Restricted	2,514,277	1,602,388
Unrestricted	<u>8,944,205</u>	<u>9,469,746</u>
Total Net Assets	<u>\$ 51,439,199</u>	<u>\$ 50,241,671</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 17.4 percent of the net assets.

Governmental Activities

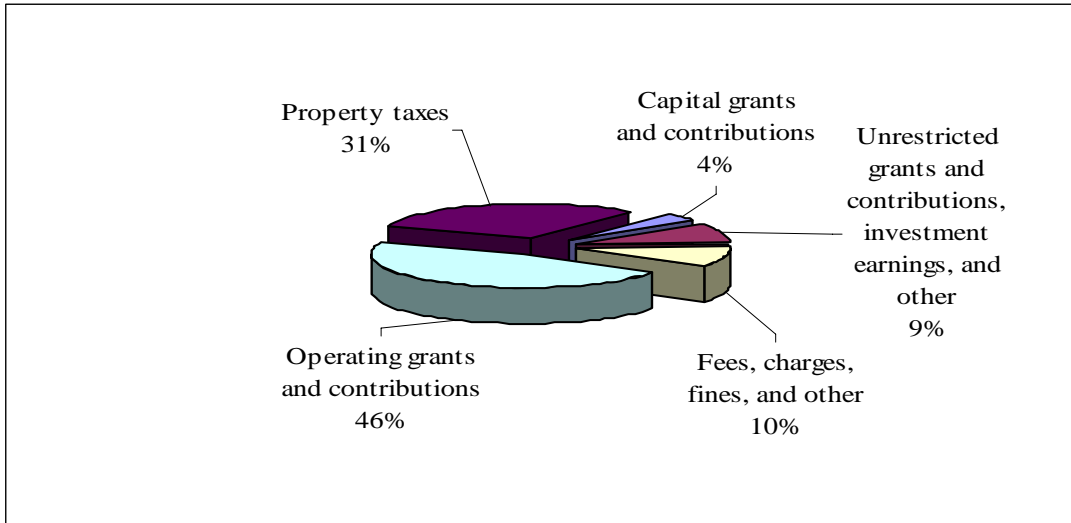
The County's activities increased net assets by 2.4 percent (\$51,439,199 for 2010 compared to \$50,241,671 for 2009). Key elements in this increase in net assets are as follows:

Table 2
Changes in Net Assets

	<u>2010</u>	<u>2009</u>
Revenues		
Program revenues		
Charges for services	\$ 1,035,716	\$ 886,329
Operating grants and contributions	4,922,074	3,073,701
Capital grants and contributions	428,020	1,478,614
General revenues		
Property taxes	3,261,050	3,244,023
Other	992,145	1,403,170
Total Revenues	<u>\$ 10,639,005</u>	<u>\$ 10,085,837</u>
Expenses		
General government	\$ 1,715,753	\$ 1,671,972
Public safety	976,802	959,825
Highways and streets	3,729,464	4,133,861
Sanitation	171,387	128,760
Human services	2,145,707	2,024,175
Health	64,539	67,539
Culture and recreation	142,056	204,220
Conservation of natural resources	411,713	427,933
Economic development	84,056	16,570
Total Expenses	<u>\$ 9,441,477</u>	<u>\$ 9,634,855</u>
Increase in Net Assets	\$ 1,197,528	\$ 450,982
Net Assets - January 1	<u>50,241,671</u>	<u>49,790,689</u>
Net Assets - December 31	<u>\$ 51,439,199</u>	<u>\$ 50,241,671</u>

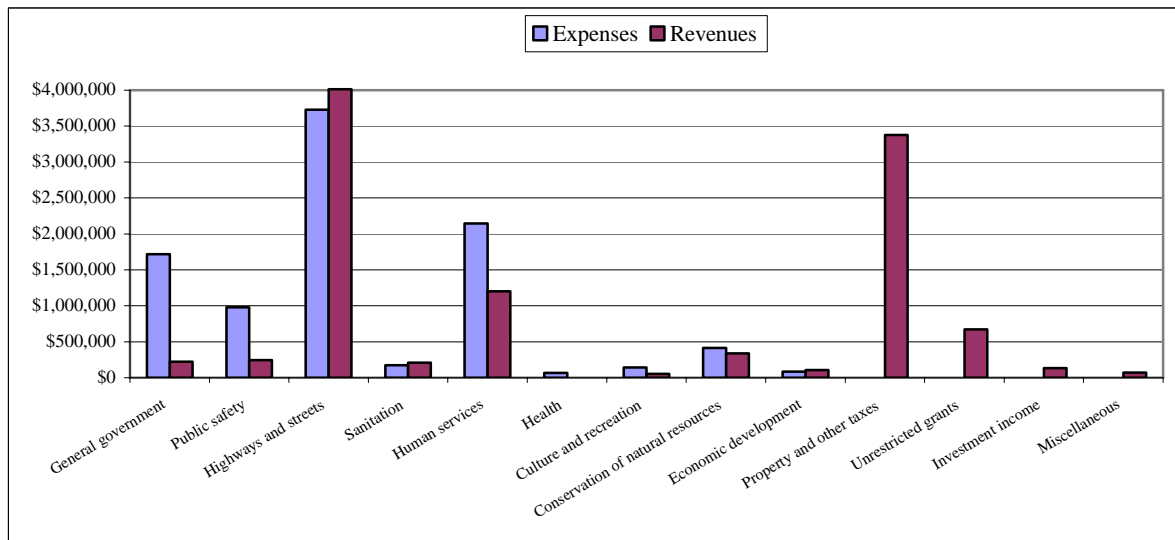
The County's total revenues were \$10,639,005. Table 3 presents the percent of total County revenues by source for the year ended December 31, 2010.

**Table 3
County Revenues**



Total expenses were \$9,441,477 while total revenues were \$10,639,005. This reflects a \$1,197,528 increase in net assets for the year ended December 31, 2010. 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 \$9,441,477. 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 \$3,261,050 because some of the cost was paid by those who directly benefited from the programs (\$1,035,716) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,350,094). The County paid for the remaining “public benefit” portion of governmental activities with \$992,145 in general revenues such as grants and contributions not restricted to specific programs, and interest.

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. Note that highways and streets shows a negative net cost of services for 2010 – this is due to revenues received in 2010 that will be used for future infrastructure projects.

Table 5
Governmental Activities
(in thousands)

	Total Cost of Services 2010	Net Cost of Services 2010
Highways and streets	\$ 3,729	\$ (286)
Human services	2,146	945
General government	1,716	1,493
Public safety	977	731
All others	873	173
Totals	\$ 9,441	\$ 3,056

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 \$9,579,965, a decrease of \$389,528 in comparison with the prior year. Of the combined ending fund balances, \$8,329,281 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 \$1,783,812. 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 48 percent of total General Fund expenditures. During 2010, the ending fund balance decreased by \$1,016,359. The primary reason for this decrease was budgeted deficit spending paid for with General Fund unreserved fund balance. This use of available fund balance allowed the General Fund to decrease the property tax revenue needed to balance the budget in this fund, which in turn allowed increased budgeted property tax revenues to balance the budgets for the Road and Bridge and Family Services Funds. Other reasons for this decrease included unbudgeted capital outlays, reductions in state aids received, unallotment of the state reimbursement for its Market Value Credit program, greater than budgeted personnel expenditures in the Sheriff's Office, and less than expected investment revenue.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$2,026,010 at fiscal year-end, representing 48 percent of its annual expenditures. The ending fund balance increased \$606,165 during 2010, primarily due to building of fund balances to fund future construction and maintenance projects.

The Family Services Special Revenue Fund had an unreserved fund balance of \$3,744,246 at fiscal year-end, representing 175 percent of its annual expenditures. The ending fund balance decreased \$1,861 during 2010.

The Ditch Special Revenue Fund had an unreserved fund balance of \$775,213 at fiscal year-end. The ending fund balance increased \$22,527 during 2010, primarily due to the 101 ditches needing less maintenance than was anticipated.

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) were \$687,902 higher than the final budget amounts. The most significant departmental variances occurred in the category of "Other General Government" and in the public safety departments.

In Other General Government, the county incurred unbudgeted costs of approximately \$140,000 related to the construction of a multi-media conference room and emergency operations center in the County Annex Building.

In the area of Public Safety, the county incurred significant unbudgeted expenses of over \$150,000 related to the purchase and setup of equipment as part of the ARMER 800 MHz radio project, necessitated by changes in federal regulations. Some of these costs either have been or will be reimbursed by grants and payments from other governmental units. Furthermore, personnel costs were significantly over budget in the Sheriff's Office primarily as a result of greater than expected overtime and part-time wage expenses.

A significant negative variance of approximately \$106,550 occurred in the Recycling Department, due to unbudgeted expenses incurred to install and monitor testing wells and also a storm water diversion and tiling project. Approximately \$122,000 of expense was incurred in order for the landfill to be in compliance with requirements necessary to re-permit the demolition landfill through the Minnesota Pollution Control Agency.

Reasons for other significant variances of actual expenditures from final budget included the shifting of costs from the state to provide public defenders for parents in CHIPs (child in need of protective services) cases, an unbudgeted one-time contribution to MCIS (a consortium of counties that provides necessary software) for the construction of a new office building, and an unbudgeted increase in the county's recycling contract.

Resources available for appropriation were \$113,491 above the final budgeted amount. This was the primarily due to the receipt of grant funds for the Sheriff ARMER radio project and receipt of pass-thru funds relating to a Small Cities Development Program. However, these positive budget variances were countered by lower than expected investment revenues and the unallotment of an expected reimbursement from the State of Minnesota for the property tax Market Value Credit program.

CAPITAL ASSETS

The County's capital assets at December 31, 2010, totaled \$39,980,717 (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	\$ 164,903	\$ -	\$ -	\$ 164,903
Right-of-way	470,198	-	-	470,198
Construction in progress	-	1,163,574	-	1,163,574
Total capital assets not depreciated	<u>\$ 635,101</u>	<u>\$ 1,163,574</u>	<u>\$ -</u>	<u>\$ 1,798,675</u>
Capital assets depreciated				
Buildings	\$ 2,182,098	\$ 42,059	\$ 8,510	\$ 2,215,647
Improvements other than building	-	81,405	-	81,405
Machinery, furniture, and equipment	4,251,982	247,756	105,956	4,393,782
Infrastructure	47,405,629	585,480	-	47,991,109
Total capital assets depreciated	<u>\$ 53,839,709</u>	<u>\$ 956,700</u>	<u>\$ 114,466</u>	<u>\$ 54,681,943</u>

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 547,235	\$ 51,681	\$ 8,510	\$ 590,406
Improvements other than building	-	581	-	581
Machinery, furniture, and equipment	2,681,728	297,145	105,956	2,872,917
Infrastructure	12,076,310	959,687	-	13,035,997
Total accumulated depreciation	<u>\$ 15,305,273</u>	<u>\$ 1,309,094</u>	<u>\$ 114,466</u>	<u>\$ 16,499,901</u>
Total capital assets depreciated, net	<u>\$ 38,534,436</u>	<u>\$ (352,394)</u>	<u>\$ -</u>	<u>\$ 38,182,042</u>
Capital Assets, Net	<u><u>\$ 39,169,537</u></u>	<u><u>\$ 811,180</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 39,980,717</u></u>

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County's elected and appointed officials considered many factors when setting the 2011 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Lac qui Parle County at the end of 2010 was 5.8 percent. This is comparable with the state unemployment rate of 6.9 percent and shows a 0.1 percent decrease from the County's 5.9 percent rate of one year ago. This could impact the level of services requested by County residents.
- Tillable agricultural land values in the County continue to increase, albeit at a reduced rate in comparison with previous years. This can be considered an indicator of a strong local agriculture economy and a strong local economy overall.
- Investment rates for the County have dropped significantly for the past several years and will continue to stay low for the foreseeable future. Lac qui Parle County's significant reserve balances have in the past been used to generate investment revenues which are used to offset necessary property tax levy dollars.
- A national recession has created budget crises at the state level. This has resulted in tremendous uncertainty for counties regarding expected aids, operating grants, and reimbursement revenues. As most services and programs administered by Minnesota counties are mandated and funded by the state, changes in how the state funds these items can have a tremendous impact on county finances. Furthermore, recent efforts to address the state budget issues have only succeeded to manage the problems on a short-term basis. This likely means that this uncertainty will continue into the foreseeable future.

- 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 2011 are budgeted to increase 20.5 percent (\$1,920,757) over the 2010 final budget. The 2011 anticipated revenues for the same funds are budgeted to increase 16.4 percent (\$1,546,477) over the 2010 final budget.
- The 2011 property tax levy for the County increased 12.8 percent from 2010. The County Board of Commissioners chose to increase the property tax levy significantly in comparison with previous years to counter the effects of decreased revenue from the state and also to begin to erase the budget deficit from the previous year. One of the main reasons for this deficit was the Board's decision to increase the property tax levy by zero percent in 2010. This decision was intended to provide a measure of short-term property tax relief to agricultural land owners who have realized significant increases in their taxable value due to both market conditions and the expiration of the Limited Market Value laws.

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 \$5,823,969, of which \$5,225,991 is invested in capital assets and \$597,978 is unrestricted.

The District's net assets decreased by \$127,190 for the year ended December 31, 2010. A large part of the increase is attributable to a project at Stone Hill Regional Park to replace the residence/office provided on-site for the park superintendant.

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 \$5,823,969 at the close of 2010. The largest portion of the net assets (89.7 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure, such as water retention structures).

Table 7
Net Assets

	2010	2009
Assets		
Current and other assets	\$ 1,137,730	\$ 1,294,580
Capital assets	5,225,991	5,149,544
Total Assets	\$ 6,363,721	\$ 6,444,124
Liabilities		
Long-term liabilities	\$ 359,625	\$ 334,622
Other liabilities	180,127	158,343
Total Liabilities	\$ 539,752	\$ 492,965
Net Assets		
Invested in capital assets	\$ 5,225,991	\$ 5,149,544
Unrestricted	597,978	801,615
Total Net Assets	\$ 5,823,969	\$ 5,951,159

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, Suite 6, Madison, Minnesota 56256.

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, 2010**

	<u>Primary Government Governmental Activities</u>	<u>Discretely Presented Component Units</u>	
		<u>Lac qui Parle- Yellow Bank Watershed District</u>	<u>Lac qui Parle County Economic Development Authority</u>
<u>Assets</u>			
Cash and pooled investments	\$ 5,024,358	\$ 846,534	\$ 169,434
Investments	4,700,000	-	-
Receivables - net	2,707,045	290,920	24,904
Due from component unit	6,000	-	-
Inventories	67,103	-	-
Prepaid items	1,722	276	-
Capital assets			
Non-depreciable capital assets	1,798,675	628,458	-
Depreciable capital assets - net of accumulated depreciation	<u>38,182,042</u>	<u>4,597,533</u>	<u>14,915</u>
Total Assets	<u>\$ 52,486,945</u>	<u>\$ 6,363,721</u>	<u>\$ 209,253</u>
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 644,881	\$ 52,404	\$ 8,453
Unearned revenue	54,819	121,723	-
Due to primary government			
Due within one year	-	6,000	-
Long-term liabilities			
Due within one year	18,124	28,815	-
Due in more than one year	<u>329,922</u>	<u>330,810</u>	<u>4,593</u>
Total Liabilities	<u>\$ 1,047,746</u>	<u>\$ 539,752</u>	<u>\$ 13,046</u>
<u>Net Assets</u>			
Invested in capital assets	\$ 39,980,717	\$ 5,225,991	\$ 14,915
Restricted for			
Other purposes	83,375	-	-
Public safety	297,011	-	-
Highways and streets	2,129,732	-	-
Human services	4,159	-	-
Unrestricted	<u>8,944,205</u>	<u>597,978</u>	<u>181,292</u>
Total Net Assets	<u>\$ 51,439,199</u>	<u>\$ 5,823,969</u>	<u>\$ 196,207</u>

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

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 1,715,753	\$ 177,960
Public safety	976,802	57,236
Highways and streets	3,729,464	178,887
Sanitation	171,387	152,446
Human services	2,145,707	184,148
Health	64,539	-
Culture and recreation	142,056	-
Conservation of natural resources	411,713	285,039
Economic development	84,056	-
	\$ 9,441,477	\$ 1,035,716
Total Primary Government		
Component units		
Lac qui Parle-Yellow Bank Watershed District	\$ 684,135	\$ 163,679
Lac qui Parle County Economic Development Authority	167,018	-
	\$ 851,153	\$ 163,679
Total Component Units		

General Revenues

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

Total general revenues

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Primary Governmental Activities	Discretely Presented Component Units	
Operating Grants and Contributions	Capital Grants and Contributions		Lac qui Parle Yellow Bank Watershed District	Lac qui Parle County Economic Development Authority
\$ 44,445	\$ -	\$ (1,493,348)		
169,834	18,727	(731,005)		
3,427,095	409,293	285,811		
55,950	-	37,009		
1,016,380	-	(945,179)		
-	-	(64,539)		
51,916	-	(90,140)		
51,586	-	(75,088)		
104,868	-	20,812		
\$ 4,922,074	\$ 428,020	\$ (3,055,667)		
\$ 163,991	\$ 3,500		\$ (352,965)	\$ -
-	-		-	(167,018)
\$ 163,991	\$ 3,500		\$ (352,965)	\$ (167,018)
		\$ 3,261,050	\$ 170,460	\$ 111,702
		4,556	-	-
		110,936	1,538	-
		669,855	17,311	101,936
		134,099	15,674	2,727
		72,699	20,792	1,350
		\$ 4,253,195	\$ 225,775	\$ 217,715
		\$ 1,197,528	\$ (127,190)	\$ 50,697
		50,241,671	5,951,159	145,510
		\$ 51,439,199	\$ 5,823,969	\$ 196,207

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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, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled investments	\$ 2,221,884	\$ 611,561	\$ 1,319,378	\$ 803,019	\$ 4,955,842
Undistributed cash in agency funds	28,701	20,084	12,437	3,044	64,266
Petty cash and change funds	4,150	-	100	-	4,250
Investments	325,000	1,950,000	2,425,000	-	4,700,000
Taxes receivable					
Prior	22,813	19,575	12,464	-	54,852
Special assessments receivable					
Prior	8,044	-	-	1,322	9,366
Noncurrent	-	-	-	229,796	229,796
Accounts receivable	5,878	2,824	13,196	-	21,898
Accrued interest receivable	13,423	7,486	2,025	-	22,934
Due from other funds	49,477	40,708	-	-	90,185
Due from other governments	80,349	1,920,022	104,788	11,037	2,116,196
Due from component unit	6,000	-	-	-	6,000
Loans receivable	252,003	-	-	-	252,003
Inventories	-	67,103	-	-	67,103
Prepaid items	1,722	-	-	-	1,722
Total Assets	\$ 3,019,444	\$ 4,639,363	\$ 3,889,388	\$ 1,048,218	\$ 12,596,413

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 229,908	\$ 36,466	\$ 60,831	\$ 23,984	\$ 351,189
Salaries payable	40,456	32,253	33,066	-	105,775
Contracts payable	-	80,479	-	-	80,479
Due to other funds	40,708	44,477	-	5,000	90,185
Due to other governments	31,361	28,552	34,622	12,903	107,438
Deferred revenue - unavailable	49,584	1,933,397	12,464	231,118	2,226,563
Deferred revenue - unearned	54,819	-	-	-	54,819
Total Liabilities	\$ 446,836	\$ 2,155,624	\$ 140,983	\$ 273,005	\$ 3,016,448
Fund Balances					
Reserved for					
Encumbrances	\$ -	\$ 212,292	\$ -	\$ -	\$ 212,292
Inventories	-	67,103	-	-	67,103
Prepaid items	1,722	-	-	-	1,722
Missing heirs	5,589	-	-	-	5,589
Recorder's compliance fund	37,046	-	-	-	37,046
Recorder's technology fund	33,211	-	-	-	33,211
Enhanced 911	297,011	-	-	-	297,011
Attorney's forfeited property	7,529	-	-	-	7,529
Cemetery	1,000	-	-	-	1,000
Due from component unit	6,000	-	-	-	6,000
Election equipment grant	8,700	-	-	-	8,700
Highway allotments	-	178,334	-	-	178,334
Unspent grant monies	-	-	4,159	-	4,159
Loans receivable	252,003	-	-	-	252,003
EDA loans	138,985	-	-	-	138,985
Unreserved					
Designated for					
Future expenditures	-	951,400	-	-	951,400
Capital improvements	1,156,838	-	1,724,882	-	2,881,720
Capital equipment	-	589,500	-	-	589,500
Out-of-home placements	-	-	250,000	-	250,000
Administration	-	-	150,000	-	150,000
Poor relief	-	-	300,000	-	300,000
Solid waste assessments	258,782	-	-	-	258,782
Flex account	1,661	-	-	-	1,661
Recorder enhancement	7,505	-	-	-	7,505
Building and grounds	-	25,100	-	-	25,100
Undesignated	359,026	460,010	1,319,364	775,213	2,913,613
Total Fund Balances	\$ 2,572,608	\$ 2,483,739	\$ 3,748,405	\$ 775,213	\$ 9,579,965
Total Liabilities and Fund Balances	\$ 3,019,444	\$ 4,639,363	\$ 3,889,388	\$ 1,048,218	\$ 12,596,413

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

**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, 2010**

Fund balance - total governmental funds (Exhibit 3)	\$ 9,579,965
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.	39,980,717
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	2,226,563
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	<u>(348,046)</u>
Net Assets of Governmental Activities (Exhibit 1)	<u>\$ 51,439,199</u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total</u>
Revenues					
Taxes	\$ 1,294,936	\$ 1,225,078	\$ 755,686	\$ -	\$ 3,275,700
Special assessments	98,992	-	-	164,386	263,378
Licenses and permits	13,191	-	-	-	13,191
Intergovernmental	788,063	3,471,244	1,194,288	-	5,453,595
Charges for services	227,564	14,765	133,887	-	376,216
Fines and forfeits	2,114	-	-	-	2,114
Gifts and contributions	250	-	-	-	250
Investment earnings	89,360	17,229	27,510	-	134,099
Miscellaneous	117,550	164,122	50,261	320	332,253
Total Revenues	\$ 2,632,020	\$ 4,892,438	\$ 2,161,632	\$ 164,706	\$ 9,850,796
Expenditures					
Current					
General government	\$ 1,813,687	\$ -	\$ -	\$ -	\$ 1,813,687
Public safety	956,561	-	-	-	956,561
Highways and streets	-	3,902,680	-	-	3,902,680
Sanitation	250,075	-	-	-	250,075
Human services	-	-	2,138,493	-	2,138,493
Culture and recreation	142,056	-	-	-	142,056
Conservation of natural resources	256,387	-	-	153,124	409,511
Economic development	84,056	-	-	-	84,056
Intergovernmental	185,715	342,393	-	-	528,108
Total Expenditures	\$ 3,688,537	\$ 4,245,073	\$ 2,138,493	\$ 153,124	\$ 10,225,227
Excess of Revenues Over (Under) Expenditures	\$ (1,056,517)	\$ 647,365	\$ 23,139	\$ 11,582	\$ (374,431)
Other Financing Sources (Uses)					
Transfers in	\$ 50,000	\$ -	\$ -	\$ 10,945	\$ 60,945
Transfers out	(10,945)	(25,000)	(25,000)	-	(60,945)
Proceeds from sale of capital assets	1,103	-	-	-	1,103
Total Other Financing Sources (Uses)	\$ 40,158	\$ (25,000)	\$ (25,000)	\$ 10,945	\$ 1,103
Net Change in Fund Balance	\$ (1,016,359)	\$ 622,365	\$ (1,861)	\$ 22,527	\$ (373,328)
Fund Balance - January 1	3,588,967	1,877,574	3,750,266	752,686	9,969,493
Increase (decrease) in reserved for inventories	-	(16,200)	-	-	(16,200)
Fund Balance - December 31	\$ 2,572,608	\$ 2,483,739	\$ 3,748,405	\$ 775,213	\$ 9,579,965

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

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

Net change in fund balance - total governmental funds (Exhibit 5) \$ (373,328)

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

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

Deferred revenue - December 31	\$ 2,226,563	
Deferred revenue - January 1	<u>(1,439,457)</u>	787,106

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets sold.

Expenditures for general capital assets and infrastructure	\$ 2,120,274	
Current year depreciation	<u>(1,309,094)</u>	811,180

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	\$ (11,230)	
Change in inventories	<u>(16,200)</u>	<u>(27,430)</u>

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 1,197,528

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FIDUCIARY FUNDS

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LAC QUI PARLE COUNTY
MADISON, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2010

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ <u><u>357,713</u></u>
<u>Liabilities</u>	
Due to other governments	\$ <u><u>357,713</u></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, 2010

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, 2010. 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 a 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 a majority of the Board, and it is a financial burden to the County.	Separate financial statements can be obtained at: 600 - 6th Street, Suite 10 Madison, Minnesota 56256

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Discretely Presented Component Units (Continued)

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

Joint Ventures

The County participates in several joint ventures which are described in Note 6.C. The County also participates in jointly-governed organizations described in Note 6.D.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government and its component units. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities normally are supported by taxes and intergovernmental revenues.

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

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department, 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**

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, 2010, 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 2010 were \$63,636.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

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

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

All receivables are shown net of an allowance for uncollectibles.

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 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**

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 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	30 - 66
Land improvements	20 - 35
Public domain infrastructure	15 - 70
Furniture, equipment, and vehicles	5 - 25

5. Compensated Absences

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Deferred Revenue

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

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. At December 31, 2010, Lac qui Parle County reported no bonded debt.

The County has not calculated its other postemployment benefits (OPEB) obligation in order to report the liability on the government-wide statement of net assets. Therefore, the change in the net OPEB obligation has not been reported in the government-wide statement of activities. These are departures from generally accepted accounting principles.

8. Fund Equity

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

9. Use of Estimates

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

<u>Fund</u>	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General	\$ 3,688,537	\$ 3,000,635	\$ 687,902
Road and Bridge	4,245,073	4,203,000	42,073
Family Services	2,138,493	2,132,239	6,254
Ditch	153,124	129,549	23,575

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	\$ 5,024,358
Investments	4,700,000
Statement of fiduciary net assets	
Cash and pooled investments	<u>357,713</u>
Total Cash and Investments	<u>\$ 10,082,071</u>
Petty cash and change funds	\$ 4,250
Checking	65,023
Money market savings	8,962,798
Certificates of deposit	<u>1,050,000</u>
Total Deposits and Investments	<u>\$ 10,082,071</u>

a. Deposits

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County has adopted a policy for custodial credit risk 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, 2010, the County deposits were not exposed to custodial credit risk.

b. Investments

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

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries rated in the highest quality category by two nationally recognized rating agencies and maturing in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At December 31, 2010, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. Lac qui Parle County mitigates the concentration of credit risk by purchasing certificates of deposit from multiple banks.

2. Receivables/Due From Component Unit

Receivables

Receivables as of December 31, 2010, for the County's governmental activities follow:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 54,852	\$ -
Special assessments	239,162	-
Due from other governments	2,116,196	-
Accounts receivable	21,898	-
Loan receivable	252,003	201,634
Interest	22,934	-
	\$ 2,707,045	\$ 201,634

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables/Due From Component Unit (Continued)

Due From Component Unit

The Lac qui Parle-Yellow Bank Watershed District has a balance due to the Lac qui Parle County General Fund at December 31, 2010, of \$6,000. The balance is being repaid in annual installments of \$6,000.

Loans Receivable

The County received funds from the Community Development Block Grant in 2008 for Noah's Ark Holding, LLC, of Dawson. The grant agreement states these funds are to be repaid to the County and used under specific conditions. At December 31, 2010, the County has a loan receivable from Noah's Ark Holding, LLC, with a balance remaining of \$252,003, which is to be repaid in monthly installments of \$4,770.

3. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 164,903	\$ -	\$ -	\$ 164,903
Right-of-way	470,198	-	-	470,198
Construction in progress	-	1,163,574	-	1,163,574
Total capital assets not depreciated	\$ 635,101	\$ 1,163,574	\$ -	\$ 1,798,675
Capital assets depreciated				
Buildings	\$ 2,182,098	\$ 42,059	\$ 8,510	\$ 2,215,647
Improvements other than building	-	81,405	-	81,405
Machinery, furniture, and equipment	4,251,982	247,756	105,956	4,393,782
Infrastructure	47,405,629	585,480	-	47,991,109
Total capital assets depreciated	\$ 53,839,709	\$ 956,700	\$ 114,466	\$ 54,681,943

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 547,235	\$ 51,681	\$ 8,510	\$ 590,406
Improvements other than building	-	581	-	581
Machinery, furniture, and equipment	2,681,728	297,145	105,956	2,872,917
Infrastructure	12,076,310	959,687	-	13,035,997
Total accumulated depreciation	\$ 15,305,273	\$ 1,309,094	\$ 114,466	\$ 16,499,901
Total capital assets depreciated, net	\$ 38,534,436	\$ (352,394)	\$ -	\$ 38,182,042
Capital Assets, Net	\$ 39,169,537	\$ 811,180	\$ -	\$ 39,980,717

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

Governmental Activities	
General government	\$ 51,077
Public safety	33,993
Highways and streets, including infrastructure assets	1,218,482
Sanitation	2,717
Human services	1,765
Conservation	1,060
Total Depreciation Expense - Governmental Activities	\$ 1,309,094

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2010, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Special Revenue Fund	\$ 44,477
	Ditch Special Revenue Fund	5,000
Total General Fund		\$ 49,477

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

Receivable Fund	Payable Fund	Amount
Road and Bridge Special Revenue Fund	General Fund	\$ 40,708
Total Due To/From Other Funds		\$ 90,185

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

2. Interfund Transfers

During 2010, the General Fund transferred \$10,945 to the Ditch Special Revenue Fund or its share of interest earnings.

During 2010, the Road and Bridge Special Revenue Fund and Family Services Special Revenue Fund each transferred \$25,000 to the General Fund for their share of the media room project.

C. Liabilities

1. Payables

Payables at December 31, 2010, were as follows:

	Governmental Activities
Accounts payable	\$ 351,189
Salaries payable	105,775
Contracts payable	80,479
Due to other governments	107,438
Total Payables	\$ 644,881

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Construction Commitments

The government has active construction projects as of December 31, 2010. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Road and bridge projects	\$ 1,571,169	\$ 256,233

3. Other Postemployment Benefits (OPEB)

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 2010.

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, 2010, the County has four eligible participants. The County finances the plan on a pay-as-you-go basis and, during 2010, the County expended \$15,336 for these benefits.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

	Compensated Absences
Payable - January 1	\$ 336,816
Net changes	11,230
Payable - December 31	\$ 348,046
Amount Due Within One Year	\$ 18,124

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan, and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.00 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.40 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County and the Lac qui Parle-Yellow Bank Watershed District are required to contribute the following percentages of annual covered payroll in 2010:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.00
Public Employees Police and Fire Fund	14.10
Public Employees Correctional Fund	8.75

Lac qui Parle County's contributions for the years ending December 31, 2010, 2009, and 2008, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
General Employees Retirement Fund	\$ 165,784	\$ 161,487	\$ 148,671
Public Employees Police and Fire Fund	52,145	48,521	44,218
Public Employees Correctional Fund	7,932	7,571	7,988

Lac qui Parle-Yellow Bank Watershed District's contributions for the years ending December 31, 2010, 2009, and 2008, for the Public Employees Retirement Fund were:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
General Employees Retirement Fund	\$ 8,744	\$ 7,948	\$ 7,462

The contribution amounts for the County and the Lac qui Parle-Yellow Bank Watershed District are equal to the contractually required contributions for each year as set by state statute.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans (Continued)

B. Defined Contribution Plan

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

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

Total contributions by dollar amount and percentage of covered payroll made by Lac qui Parle County during the year ended December 31, 2010, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 3,051	\$ 3,051
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

5. Risk Management

Lac qui Parle County and the Lac qui Parle-Yellow Bank Watershed District are exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

5. Risk Management (Continued)

Divisions. For employee group health insurance benefits, the County is a member of the Southwest/West Central Service Cooperative (Service Cooperative). For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$450,000 per claim in 2010 and 2011. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

6. Summary of Significant Contingencies and Other Items

A. Subsequent Event

The County partnered with Farmer's Mutual Telephone Cooperative to apply as co-applicant for Rural Utility Service (RUS) Broadband Infrastructure Program (BIP) to install fiber optic broadband service throughout the County. The County was notified in 2010 of the approval of a \$9,600,000 loan/grant for a project planned to begin in 2011. The County pledged to extend a line of credit for \$2,413,240 through the Lac qui Parle County Economic Development Authority to assist with cash flows of the project.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

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

B. Contingent Liabilities

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

Lincoln-Pipestone Rural Water System

At December 31, 2010, the Lincoln-Pipestone Rural Water System had \$36,859,000 of general obligation bonds outstanding through 2050. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

The debt is paid by the Lincoln-Pipestone Rural Water System from special assessments levied against property specially benefited by the applicable expansion, extension, or enlargement of the system and from the net revenues from time to time received in excess of the current costs of operating and maintaining the system. The bonds are general obligations of the issuing counties for which their full faith, credit, and unlimited taxing powers are pledged.

The participating counties (Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, and Yellow Medicine) have adopted board resolutions and have signed joint powers agreements to define their liability for a proportional share of the debt should the issuing counties make any debt service payments. In such a situation, each of the other counties will promptly reimburse the paying counties in proportion to the percentage of Lincoln-Pipestone Rural Water System customers located in such county, in accordance with Minn. Stat. § 116A.24, subd. 3. The outstanding bonds are reported as liabilities in the annual financial statements of the Lincoln-Pipestone Rural Water System and are not reported as liabilities in the financial statements of any of the nine participating counties. The participating counties disclose a contingent liability due to the guarantee of indebtedness.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

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

C. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the County entered into a joint powers agreement with Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, McLeod, Meeker, Nobles, Pipestone, Redwood, Renville, Rock, Swift, and Yellow Medicine Counties; and Lincoln, Lyon, and Murray Counties, represented by the Lincoln, Lyon, & Murray Human Services Board, 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, 2009 (most recent information available):

Total assets	\$ 2,304,308
Total liabilities	327,637
Total net assets	1,976,671
Total revenues	4,271,686
Total expenses	4,327,451
Net decrease in net assets	55,765

The Consortium Board reported no long-term obligations at December 31, 2009.

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.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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 Yellow Medicine 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, 2010, was \$64,539.

Complete financial statements for the Countryside Public Health Service can be obtained from its administrative office 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 the Community Corrections' activities. Lac qui Parle County's contribution for the year ended December 31, 2010, was \$121,176.

Complete financial statements for Region 6W Community Corrections can be obtained at 1215 Black Oak Avenue, P. O. Box 551, Montevideo, Minnesota 56265.

Kandiyohi - Region 6W Community Corrections Agencies Detention Center (Prairie Lakes 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 Youth Programs (PLYP)--pursuant to Minn. Stat. § 471.59.

The PLYP provides detention services to juveniles under the jurisdiction of the counties which are parties to the agreement (Chippewa, Lac qui Parle, Swift, and Yellow Medicine--which are served by the Region 6W Community Corrections Agency) and Kandiyohi County.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

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

Control of the PLYP is vested in a joint board 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 for the PLYP 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 for the PLYP can be obtained at P. O. Box 894, Willmar, Minnesota 56201.

Lincoln-Pipestone Rural Water System

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

Bonds were issued by Lincoln, Nobles, and Yellow Medicine Counties to finance the construction of the Rural Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2010, were \$36,859,000.

The Lincoln-Pipestone Rural Water System's 2010 financial report shows total net assets of \$42,424,191, including unrestricted net assets of \$18,949,248. The increase in net assets for the year ended December 31, 2010, was \$5,340,636.

Complete financial statements of the Lincoln-Pipestone Rural Water System can be obtained at East Highway 14, P. O. Box 188, Lake Benton, Minnesota 56149-0188.

Southwest Minnesota Regional Radio Board

The Southwest Minnesota Regional Radio Board Joint Powers Board was established April 22, 2008, between Lac qui Parle County, the City of Marshall, the City of Worthington, and 12 other counties under authority of Minn. Stat. §§ 471.59 and 403.39. The purpose of the agreement is to formulate a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

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

During 2010, Lac qui Parle County did not make any contributions to the Joint Powers Board.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Minnesota Counties Information Systems

The Counties of Aitkin, Carlton, Cass, Chippewa, Cook, Crow Wing, Dodge, Itasca, Koochiching, Lac qui Parle, Lake, Sherburne, and St. Louis entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, creating and operating Minnesota Counties Information Systems (MCIS). MCIS operates and maintains data processing facilities and management information systems for the benefit of members of this agreement.

MCIS is governed by a 13-member board. Each participating county appoints a member. Financing is obtained through user charges to the members. Cass County is the fiscal agent for MCIS.

Each county's share of the assets and liabilities cannot be accurately determined since it will depend on the number of counties that are members when the agreement is dissolved.

A summary of the financial information of MCIS at December 31, 2008 (the most recent information available), was:

Total Assets	\$ 1,007,784
Total Liabilities	256,583
Total Net Assets	751,201
Total Revenues	2,534,122
Total Expenses	2,365,437
Change in Net Assets	168,685

Separate financial information can be obtained from:

Minnesota Counties Information Systems
413 Southeast 7th Avenue
Grand Rapids, Minnesota 55744

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Supporting Hands Nurse Family Partnership

The Supporting Hands Nurse Family Partnership was established in July 2007 by a joint powers agreement among Lac qui Parle County and eleven other counties under the authority of Minn. Stat. §§ 471.59 and 145A.17. Lac qui Parle County is part of the Countryside Public Health Service and is required to have this joint agreement. The purpose of this agreement is to organize, govern, plan, and administer a multi-county based Nurse Family Partnership Program specifically within the jurisdictional boundaries of the counties involved.

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2010, Lac qui Parle County did not make a contribution to the Partnership, as a contribution was made by the Countryside Public Health Service.

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

D. Jointly-Governed Organizations

Minnesota River Board

The Minnesota River Board (formerly the Minnesota River Basin Joint Powers Board) was established July 12, 1995, by an agreement between Lac qui Parle County and 37 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.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Minnesota River Board (Continued)

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

During 2010, the County contributed \$11,570 to the Board. Complete financial statements for the Minnesota River Board can be obtained from its administrative office at 135 Trafton Science Center South, Minnesota State University, Mankato, Minnesota 56001.

Pioneer Land Regional Library System

Lac qui Parle County, along with several cities and other counties, participates in the Pioneer Land Regional Library System in order to provide efficient and improved regional public library service. During the year, the County contributed \$75,697 to the Library System.

7. Component Unit Disclosures - Lac qui Parle-Yellow Bank Watershed District

A. Summary of Significant Accounting Policies

In addition to those policies identified in Note 1, the Lac qui Parle-Yellow Bank Watershed District has 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 members 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.

Because of the significance of the financial relationship, Lac qui Parle County considers this entity a major component unit.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

7. Component Unit Disclosures - Lac qui Parle-Yellow Bank Watershed District

A. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

The Lac qui Parle-Yellow Bank Watershed District does not prepare separate financial statements. The District has 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.

Deposits and Investments

Deposits and investments are reported at their fair value at December 31, 2010, based on market price.

B. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

<u>Fund</u>	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General	\$ 785,518	\$ 273,675	\$ 511,843
Ditch Special Revenue	7,600	5,000	2,600

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

7. Component Unit Disclosures - Lac qui Parle-Yellow Bank Watershed District (Continued)

C. Detailed Notes on All Funds

1. Assets

Deposits and Investments

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

Cash and pooled investments	\$	846,534
Checking	\$	218,180
Money market savings		223,354
Certificates of deposit		405,000
Total Deposits and Investments	\$	846,534

Receivables

Receivables as of December 31, 2010, for the Lac qui Parle-Yellow Bank Watershed District follow:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes	\$ 4,994	\$ -
Special assessments	269,352	227,982
Accounts receivable	574	
Due from other governments	9,842	-
Interest	6,158	-
Total Receivables	\$ 290,920	\$ 227,982

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

7. Component Unit Disclosures - Lac qui Parle-Yellow Bank Watershed District

C. Detailed Notes on All Funds

1. Assets (Continued)

Capital Assets

The Lac qui Parle-Yellow Bank Watershed District capital asset activity for the year ended December 31, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 628,458	\$ -	\$ -	\$ 628,458
Capital assets depreciated				
Buildings	\$ 95,410	\$ 128,790	\$ -	\$ 224,200
Machinery, furniture, and equipment	53,967	-	-	53,967
Land improvements	244,277	17,272	-	261,549
Infrastructure	5,334,207	-	-	5,334,207
Total capital assets depreciated	<u>\$ 5,727,861</u>	<u>\$ 146,062</u>	<u>\$ -</u>	<u>\$ 5,873,923</u>
Less: accumulated depreciation for				
Buildings	\$ 39,214	\$ 4,583	\$ -	\$ 43,797
Machinery, furniture, and equipment	42,753	2,915	-	45,668
Land improvements	86,237	8,775	-	95,012
Infrastructure	1,038,571	53,342	-	1,091,913
Total accumulated depreciation	<u>\$ 1,206,775</u>	<u>\$ 69,615</u>	<u>\$ -</u>	<u>\$ 1,276,390</u>
Total capital assets depreciated, net	<u>\$ 4,521,086</u>	<u>\$ 76,447</u>	<u>\$ -</u>	<u>\$ 4,597,533</u>
Capital Assets, Net	<u>\$ 5,149,544</u>	<u>\$ 76,447</u>	<u>\$ -</u>	<u>\$ 5,225,991</u>

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

Conservation of natural resources	\$ 57,925
Culture and recreation	<u>11,690</u>
Total Depreciation Expense	<u>\$ 69,615</u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

7. Component Unit Disclosures - Lac qui Parle-Yellow Bank Watershed District

C. Detailed Notes on All Funds (Continued)

2. Liabilities

Payables

Payables at December 31, 2010, were as follows:

Accounts payable	\$ 43,903
Salaries payable	<u>8,501</u>
Total Payables	<u>\$ 52,404</u>

Construction Commitments

The Lac qui Parle-Yellow Bank Watershed District did not have any active construction projects as of December 31, 2010.

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.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

7. Component Unit Disclosures - Lac qui Parle-Yellow Bank Watershed District

C. Detailed Notes on All Funds

2. Liabilities

Long-Term Debt (Continued)

Long-term debt outstanding at December 31, 2010, for the Lac qui Parle-Yellow Bank Watershed District consists of the following:

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate	Original Issue Amount	Remaining Commitment
Lac qui Parle River Water Mainstem CWP Project	2019	\$ 16,267	2.00%	\$ 293,540	\$ 266,744
Lac qui Parle River Water Mainstem Quality Enhancement Project	Not finalized	Not finalized	Not finalized	87,019	87,019
Total Loans Payable				<u>\$ 380,559</u>	<u>\$ 353,763</u>

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, 2010, of \$6,000. The balance is being repaid in annual installments of \$6,000.

Debt Service Requirements

Debt service requirements at December 21, 2010, were as follows:

Year Ending December 31	Loans Payable	
	Principal	Interest
2011	\$ 27,334	\$ 5,199
2012	27,884	4,649
2013	28,444	4,089
2014	29,016	3,517
2015	29,599	2,934
2016 - 2019	124,467	5,666
Total	<u>\$ 266,744</u>	<u>\$ 26,054</u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

7. Component Unit Disclosures - Lac qui Parle-Yellow Bank Watershed District

C. Detailed Notes on All Funds

2. Liabilities

Other Long-Term Liabilities

Debt Service Requirements (Continued)

Clean water loans of \$87,019 for the Water Quality Enhancement Project were not included in the debt service requirements because fixed repayment schedules are not available.

Changes in Long-Term Liabilities

Changes in long-term liabilities of the Lac qui Parle-Yellow Bank Watershed District for the year ended December 31, 2010, were:

	Balance January 1	Additions	Deductions	Balance December 31	Amount Due Within One Year
Loans payable	\$ 329,020	\$ 51,539	\$ 26,796	\$ 353,763	\$ 27,334
Compensated absences	5,602	260	-	5,862	1,481
Total	<u>\$ 334,622</u>	<u>\$ 51,799</u>	<u>\$ 26,796</u>	<u>\$ 359,625</u>	<u>\$ 28,815</u>

8. Component Unit Disclosures - Lac qui Parle County Economic Development Authority

A. Summary of Significant Accounting Policies

In addition to those policies identified in Note 1, the Lac qui Parle County Economic Development Authority has the following significant accounting policies.

Reporting Entity

The Lac qui Parle County Economic Development Authority is a public body politic and corporate and a political subdivision of the State of Minnesota. The primary purpose of the Authority is to serve as an Economic Development Authority pursuant to Minn. Stat. ch. 469. The Authority is governed by a Board of Commissioners consisting of seven members. Two members are from the County Board of

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

8. Component Unit Disclosures - Lac qui Parle County Economic Development Authority

A. Summary of Significant Accounting Policies

Reporting Entity (Continued)

Commissioners, three members are “at large” from within the County, and two members are appointed--one from the City of Dawson and one from the City of Madison.

Because of the significance of the financial relationship, Lac qui Parle County considers this entity a major component unit.

Basis of Presentation

The Lac qui Parle County Economic Development Authority prepares separate financial statements. The District presents the following major governmental fund:

The General Fund includes all transactions relating to the Authority.

Deposits and Investments

Cash and temporary investments include balances invested to the extent available in various securities as authorized by state law. Short-term, highly liquid debt instruments (including commercial paper, bankers’ acceptances, and U.S. Treasury and agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

B. Detailed Notes

1. Assets

Receivables

Receivables as of December 31, 2010, for the Lac qui Parle County Economic Development Authority follow:

Governmental Activities	
Taxes	\$ 4,487
Interest	341
Accounts receivable	<u>20,076</u>
Total Governmental Activities	<u>\$ 24,904</u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

8. Component Unit Disclosures - Lac qui Parle County Economic Development Authority

B. Detailed Notes

1. Assets

Receivables (Continued)

Capital Assets

The Lac qui Parle Economic Development Authority capital asset activity for the year ended December 31, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Machinery, furniture, and equipment	\$ -	\$ 15,168	\$ -	\$ 15,168
Less: accumulated depreciation for				
Machinery, furniture, and equipment	<u>-</u>	<u>253</u>	<u>-</u>	<u>253</u>
Capital Assets, Net	<u>\$ -</u>	<u>\$ 14,915</u>	<u>\$ -</u>	<u>\$ 14,915</u>

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

Economic Development	<u>\$ 253</u>
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2. Liabilities

Payables

Payables at December 31, 2010, were as follows:

Accounts payable	\$ 2,716
Salaries payable	4,390
Due to other governments	<u>1,347</u>
Total Payables	<u>\$ 8,453</u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

8. Component Unit Disclosures - Lac qui Parle County Economic Development Authority

B. Detailed Notes

2. Liabilities (Continued)

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

	<u>Compensated Absences</u>
Payable - January 1	\$ 3,543
Net changes	<u>1,050</u>
Payable - December 31	<u>\$ 4,593</u>
Amount due within one year	<u><u>\$ -</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,447,422	\$ 1,447,422	\$ 1,294,936	\$ (152,486)
Special assessments	100,750	100,750	98,992	(1,758)
Licenses and permits	10,120	10,120	13,191	3,071
Intergovernmental	519,302	519,302	788,063	268,761
Charges for services	212,975	212,975	227,564	14,589
Fines and forfeits	-	-	2,114	2,114
Gifts and contributions	-	-	250	250
Investment earnings	132,000	132,000	89,360	(42,640)
Miscellaneous	95,960	95,960	117,550	21,590
Total Revenues	\$ 2,518,529	\$ 2,518,529	\$ 2,632,020	\$ 113,491
Expenditures				
Current				
General government				
Commissioners	\$ 187,889	\$ 187,889	\$ 191,861	\$ (3,972)
Courts	2,500	2,500	18,637	(16,137)
Jury manager	-	-	1,548	(1,548)
Auditor-Treasurer	343,529	343,529	350,300	(6,771)
Assessor	148,292	148,292	138,626	9,666
Elections	23,343	23,343	47,618	(24,275)
Data processing	130,494	130,494	187,515	(57,021)
Attorney	174,693	174,693	173,581	1,112
Recorder	175,391	175,391	149,402	25,989
Planning and zoning	33,825	33,825	29,590	4,235
Buildings and plant	118,519	118,519	177,313	(58,794)
Veterans service officer	93,544	95,044	94,552	492
County car	1,030	1,030	1,053	(23)
Other general government	83,800	83,800	252,091	(168,291)
Total general government	\$ 1,516,849	\$ 1,518,349	\$ 1,813,687	\$ (295,338)
Public safety				
Sheriff	\$ 598,306	\$ 598,306	\$ 742,494	\$ (144,188)
Boat and water safety	2,600	2,600	14,672	(12,072)
Snowmobile safety	1,158	1,158	3,794	(2,636)
Coroner	7,100	7,100	4,621	2,479
E-911 system	28,050	28,050	76,514	(48,464)
County jail	38,750	38,750	51,431	(12,681)
Civil defense	59,305	59,305	59,512	(207)
Ambulance	3,000	3,000	3,000	-
Other	4,500	4,500	523	3,977
Total public safety	\$ 742,769	\$ 742,769	\$ 956,561	\$ (213,792)

The notes to the required supplementary information are an integral part of this schedule.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	\$ 48,131	\$ 48,131	\$ 54,100	\$ (5,969)
Recycling	89,425	89,425	195,975	(106,550)
Total sanitation	\$ 137,556	\$ 137,556	\$ 250,075	\$ (112,519)
Culture and recreation				
Historical society	\$ 10,300	\$ 10,300	\$ 10,300	\$ -
Minnesota trails	20,000	20,000	51,916	(31,916)
Parks	1,008	1,008	3,243	(2,235)
Senior citizens	500	500	500	-
County/regional library	75,697	75,697	75,697	-
Other	-	-	400	(400)
Total culture and recreation	\$ 107,505	\$ 107,505	\$ 142,056	\$ (34,551)
Conservation of natural resources				
Extension	\$ 88,913	\$ 88,913	\$ 89,943	\$ (1,030)
Soil and water conservation	101,337	101,337	101,669	(332)
Agricultural society/County fair	9,550	9,550	9,550	-
River basin	1,088	1,088	1,088	-
Water planning	30,346	30,346	-	30,346
Environmental officer	27,580	27,580	25,238	2,342
Feedlot administration	27,900	27,900	25,300	2,600
Other	2,000	2,000	3,599	(1,599)
Total conservation of natural resources	\$ 288,714	\$ 288,714	\$ 256,387	\$ 32,327
Economic development				
Airport	\$ 7,000	\$ 7,000	\$ 7,000	\$ -
Economic development	-	-	65,486	(65,486)
Area II	11,570	11,570	11,570	-
Total economic development	\$ 18,570	\$ 18,570	\$ 84,056	\$ (65,486)

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
Intergovernmental				
Public safety	\$ 122,633	\$ 122,633	\$ 121,176	\$ 1,457
Health	64,539	64,539	64,539	-
Total intergovernmental	\$ 187,172	\$ 187,172	\$ 185,715	\$ 1,457
Total Expenditures	\$ 2,999,135	\$ 3,000,635	\$ 3,688,537	\$ (687,902)
Excess of Revenues Over (Under)				
Expenditures				
	\$ (480,606)	\$ (482,106)	\$ (1,056,517)	\$ (574,411)
Other Financing Sources (Uses)				
Transfers in	\$ 5,000	\$ 5,000	\$ 50,000	\$ 45,000
Transfers out	-	-	(10,945)	(10,945)
Proceeds from sale of capital assets	-	-	1,103	1,103
Total Other Financing Sources (Uses)	\$ 5,000	\$ 5,000	\$ 40,158	\$ 35,158
Net Change in Fund Balance	\$ (475,606)	\$ (477,106)	\$ (1,016,359)	\$ (539,253)
Fund Balance - January 1	3,588,967	3,588,967	3,588,967	-
Fund Balance - December 31	\$ 3,113,361	\$ 3,111,861	\$ 2,572,608	\$ (539,253)

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,503,050	\$ 1,503,050	\$ 1,225,078	\$ (277,972)
Intergovernmental	2,948,000	2,948,000	3,471,244	523,244
Charges for services	-	-	14,765	14,765
Investment earnings	60,000	60,000	17,229	(42,771)
Miscellaneous	110,000	110,000	164,122	54,122
Total Revenues	\$ 4,621,050	\$ 4,621,050	\$ 4,892,438	\$ 271,388
Expenditures				
Current				
Highways and streets				
Administration	\$ 164,300	\$ 164,300	\$ 152,982	\$ 11,318
Maintenance	1,570,450	1,570,450	1,751,767	(181,317)
Construction	1,898,150	1,898,150	1,835,611	62,539
Equipment and maintenance shops	230,100	230,100	162,320	67,780
Total highways and streets	\$ 3,863,000	\$ 3,863,000	\$ 3,902,680	\$ (39,680)
Intergovernmental				
Highways and streets	340,000	340,000	342,393	(2,393)
Total Expenditures	\$ 4,203,000	\$ 4,203,000	\$ 4,245,073	\$ (42,073)
Excess of Revenues Over (Under) Expenditures	\$ 418,050	\$ 418,050	\$ 647,365	\$ 229,315
Other Financing Sources (Uses)				
Transfers out	-	-	(25,000)	(25,000)
Net Change in Fund Balance	\$ 418,050	\$ 418,050	\$ 622,365	\$ 204,315
Fund Balance - January 1	1,877,574	1,877,574	1,877,574	-
Increase (decrease) in reserved for inventories	-	-	(16,200)	(16,200)
Fund Balance - December 31	\$ 2,295,624	\$ 2,295,624	\$ 2,483,739	\$ 188,115

The notes to the required supplementary information are an integral part of this schedule.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 927,230	\$ 927,230	\$ 755,686	\$ (171,544)
Intergovernmental	1,014,475	1,014,475	1,194,288	179,813
Charges for services	73,396	73,396	133,887	60,491
Investment earnings	75,000	75,000	27,510	(47,490)
Miscellaneous	42,138	42,138	50,261	8,123
Total Revenues	\$ 2,132,239	\$ 2,132,239	\$ 2,161,632	\$ 29,393
Expenditures				
Current				
Human services				
Income maintenance	\$ 612,176	\$ 612,176	\$ 597,625	\$ 14,551
Social services	1,520,063	1,520,063	1,540,868	(20,805)
Total Expenditures	\$ 2,132,239	\$ 2,132,239	\$ 2,138,493	\$ (6,254)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 23,139	\$ 23,139
Other Financing Sources (Uses)				
Transfers out	-	-	(25,000)	(25,000)
Net Change in Fund Balance	\$ -	\$ -	\$ (1,861)	\$ (1,861)
Fund Balance - January 1	3,750,266	3,750,266	3,750,266	-
Fund Balance - December 31	\$ 3,750,266	\$ 3,750,266	\$ 3,748,405	\$ (1,861)

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 109,549	\$ 109,549	\$ 164,386	\$ 54,837
Investment earnings	10,000	10,000	-	(10,000)
Miscellaneous	-	-	320	320
Total Revenues	\$ 119,549	\$ 119,549	\$ 164,706	\$ 45,157
Expenditures				
Current				
Conservation of natural resources				
Other	119,549	129,549	153,124	(23,575)
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ (10,000)	\$ 11,582	\$ 21,582
Other Financing Sources (Uses)				
Transfers in	-	-	10,945	10,945
Net Change in Fund Balance	\$ -	\$ (10,000)	\$ 22,527	\$ 32,527
Fund Balance - January 1	752,686	752,686	752,686	-
Fund Balance - December 31	\$ 752,686	\$ 742,686	\$ 775,213	\$ 32,527

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2010**

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. Expenditures may not legally exceed budgeted appropriations. Comparisons of final budgeted revenues and expenditures to actual are presented in required supplementary information for the General Fund and the special revenue funds.

2. Budget Basis of Accounting

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

3. Budget Amendments

Expenditure budgets were amended in the following funds:

	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 2,999,135	\$ 1,500	\$ 3,000,635
Ditch Special Revenue Fund	119,549	10,000	129,549

The budget amendments fall into two categories: new information changing original budget estimates and greater than anticipated costs.

4. Excess of Expenditures Over Budget

Fund	Expenditures	Final Budget	Excess
General	\$ 3,688,537	\$ 3,000,635	\$ 687,902
Special Revenue			
Road and Bridge	4,245,073	4,203,000	42,073
Family Services	2,138,493	2,132,239	6,254
Ditch	153,124	129,549	23,575

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SUPPLEMENTARY INFORMATION

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

AGENCY FUNDS

Children's Mental Health Collaborative - to account for the collection and disbursement of funds for the local collaborative.

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**

EXHIBIT B-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CHILDREN'S MENTAL HEALTH COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 130,722	\$ 91,182	\$ 56,616	\$ 165,288
<u>Liabilities</u>				
Due to other governments	\$ 130,722	\$ 91,182	\$ 56,616	\$ 165,288
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 14,415	\$ 1,025,971	\$ 1,010,367	\$ 30,019
<u>Liabilities</u>				
Due to other governments	\$ 14,415	\$ 1,025,971	\$ 1,010,367	\$ 30,019
 <u>FORFEITED TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 5,482	\$ 1,800	\$ 4,889	\$ 2,393
<u>Liabilities</u>				
Due to other governments	\$ 5,482	\$ 1,800	\$ 4,889	\$ 2,393

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**EXHIBIT B-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 139,906</u>	<u>\$ 9,991,642</u>	<u>\$ 9,971,535</u>	<u>\$ 160,013</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 139,906</u>	<u>\$ 9,991,642</u>	<u>\$ 9,971,535</u>	<u>\$ 160,013</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 290,525</u>	<u>\$ 11,110,595</u>	<u>\$ 11,043,407</u>	<u>\$ 357,713</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 290,525</u>	<u>\$ 11,110,595</u>	<u>\$ 11,043,407</u>	<u>\$ 357,713</u>

OTHER SCHEDULES

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT C-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Primary Government	Discretely Presented Component Unit Lac qui Parle- Yellow Bank Watershed District
Shared Revenue		
State		
Highway users tax	\$ 2,636,269	\$ -
Market value credit	252,607	17,245
PERA rate reimbursement	12,441	66
Disparity reduction aid	50,502	-
County program aid	354,305	-
Police aid	39,710	-
E-911	79,523	-
	\$ 3,425,357	\$ 17,311
Total shared revenue		
Reimbursement for Services		
State		
Minnesota Department of Human Services	\$ 236,844	\$ -
	\$ 236,844	\$ -
Payments		
Local		
Local contributions	\$ -	\$ 15,500
Payments in lieu of taxes	110,936	1,538
	\$ 110,936	\$ 17,038
Total payments		
Grants		
State		
Minnesota Department/Board of		
Human Services	\$ 351,315	\$ -
Natural Resources	57,875	-
Public Safety	31,392	-
Transportation	391,383	-
Veterans Affairs	7,000	-
Water and Soil Resources	51,586	9,315
Pollution Control Agency	57,459	142,676
	\$ 948,010	\$ 151,991
Total state		

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**EXHIBIT C-1
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Primary Government</u>	<u>Discretely Presented Component Unit Lac qui Parle- Yellow Bank Watershed District</u>
Grants (Continued)		
Federal		
Department of		
Agriculture	\$ 61,174	\$ -
Housing and Urban Development	104,868	-
Transportation	22,289	-
Health and Human Services	390,011	-
Homeland Security	145,406	-
Election Assistance Commission	8,700	-
	<hr/>	<hr/>
Total federal	\$ 732,448	\$ -
	<hr/>	<hr/>
Total state and federal grants	\$ 1,680,458	\$ 151,991
	<hr/>	<hr/>
Total Intergovernmental Revenue	\$ 5,453,595	\$ 186,340
	<hr/> <hr/>	<hr/> <hr/>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT C-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Supplemental Nutrition Assistance Program (SNAP) Cluster		
State Administrative Matching Grants for SNAP	10.561	\$ 60,277
State Administrative Matching Grants for SNAP - ARRA	10.561	897
Total U.S. Department of Agriculture		\$ 61,174
U.S. Department of Commerce		
Passed Through Southwest Minnesota Regional Radio Board Public Safety Interoperable Communications Grant Program	11.555	\$ 18,727
U.S. Department of Housing and Urban Development		
Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	\$ 104,868
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 17,910
Passed Through Minnesota Department of Public Safety Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	4,379
Total U.S. Department of Transportation		\$ 22,289
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 3,705
Temporary Assistance for Needy Families	93.558	46,300
Child Support Enforcement Cluster		
Child Support Enforcement	93.563	70,074
Child Support Enforcement - ARRA	93.563	7,404
Refugee and Entrant Assistance State-Administered Programs	93.566	8
Child Care Mandatory Matching Funds for the Child Care and Development Fund	93.596	1,666
Foster Care Title IV-E	93.658	14,914
Social Services Block Grant	93.667	73,557
Chafee Foster Care Independence Program	93.674	379
Children's Health Insurance Program	93.767	159
Medical Assistance Program	93.778	171,845
Total U.S. Department of Health and Human Services		\$ 390,011

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**EXHIBIT C-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	\$ 13,000
Passed Through United Way Emergency Food and Shelter National Board Program	97.024	4,022
Passed Through Minnesota Department of Public Safety Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	103,345
Emergency Management Performance Grants	97.042	<u>25,039</u>
Total U.S. Department of Homeland Security		\$ 145,406
Total Federal Awards		\$ <u>742,475</u>

**LAC QUI PARLE COUNTY
MARSHALL, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Lac qui Parle County and its discretely presented component unit, the Lac qui Parle-Yellow Bank Watershed District, but not the discretely presented component unit, the Lac qui Parle County Economic Development Authority. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Lac qui Parle County under programs of the federal government for the year ended December 31, 2010. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Lac qui Parle County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Lac qui Parle County.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 732,448
Public Safety Interoperable Communications Grant Program monies received more than 60 days after year-end, deferred in 2010 (CFDA #11.555)	18,727
Help America Vote Act Requirements Payments grant monies received but not expended during 2010 (CFDA #90.401)	<u>(8,700)</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 742,475</u>

**LAC QUI PARLE COUNTY
MARSHALL, MINNESOTA**

5. Subrecipients

During 2010, the County did not pass any federal money to subrecipients.

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.

**LAC QUI PARLE-YELLOW BANK
WATERSHED DISTRICT**

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT D-1

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and pooled investments	\$ 846,534
Taxes receivable	
Prior	4,994
Special assessments receivable	
Noncurrent	269,352
Accounts receivable	574
Accrued interest receivable	6,158
Due from other governments	9,842
Prepaid items	276
Capital assets	
Non-depreciable	628,458
Depreciable - net of accumulated depreciation	<u>4,597,533</u>
Total Assets	<u>\$ 6,363,721</u>
<u>Liabilities</u>	
Accounts payable	\$ 43,903
Salaries payable	8,501
Unearned revenue	121,723
Due to primary government	
Due within one year	6,000
ISTS loans	
Due in one year	27,334
Due in more than one year	326,429
Compensated absences	
Due within one year	1,481
Due in more than one year	<u>4,381</u>
Total Liabilities	<u>\$ 539,752</u>
<u>Net Assets</u>	
Invested in capital assets	\$ 5,225,991
Unrestricted	<u>597,978</u>
Total Net Assets	<u><u>\$ 5,823,969</u></u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT D-2

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Program Revenues			Net (Expense)
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
<u>Functions/Programs</u>				
Governmental activities				
Culture and recreation	\$ 101,339	\$ 84,871	\$ -	\$ 3,500
Conservation of natural resources	576,219	78,808	163,991	-
Interest	6,577	-	-	-
	\$ 684,135	\$ 163,679	\$ 163,991	\$ 3,500
Total Governmental Activities	\$ 684,135	\$ 163,679	\$ 163,991	\$ 3,500
 General Revenues				
Property taxes				\$ 170,460
Payments in lieu of tax				1,538
Grants and contributions not restricted to specific programs				17,311
Unrestricted investment earnings				15,674
Miscellaneous				20,792
				\$ 225,775
Total general revenues				\$ 225,775
Change in net assets				\$ (127,190)
Net Assets - Beginning				5,951,159
Net Assets - Ending				\$ 5,823,969

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT D-3

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2010**

	General	Ditch Special Revenue	Total
<u>Assets</u>			
Cash and pooled investments	\$ 746,533	\$ 100,001	\$ 846,534
Taxes receivable			
Prior	4,994	-	4,994
Special assessments receivable			
Noncurrent	263,555	5,797	269,352
Accounts receivable	574	-	574
Accrued interest receivable	5,814	344	6,158
Due from other governments	9,842	-	9,842
Prepaid items	276	-	276
	\$ 1,031,588	\$ 106,142	\$ 1,137,730
<u>Liabilities and Fund Balance</u>			
Liabilities			
Accounts payable	\$ 43,903	\$ -	\$ 43,903
Salaries payable	8,501	-	8,501
Deferred revenue - unavailable	265,708	5,797	271,505
Deferred revenue - unearned	121,723	-	121,723
	\$ 439,835	\$ 5,797	\$ 445,632
Fund Balance			
Reserved for prepaid items	\$ 276	\$ -	\$ 276
Reserved for sewer/septic loans	89,242	-	89,242
Unreserved			
Designated for flood control	444,850	-	444,850
Undesignated	57,385	100,345	157,730
	\$ 591,753	\$ 100,345	\$ 692,098
Total Fund Balance	\$ 591,753	\$ 100,345	\$ 692,098
Total Liabilities and Fund Balance	\$ 1,031,588	\$ 106,142	\$ 1,137,730

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT D-4

**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, 2010**

Fund balance - total governmental funds	\$ 692,098
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.	5,225,991
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	271,505
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	(6,000)
Loans payable	(353,763)
Compensated absences	(5,862)
Net Assets of Governmental Activities	<u>\$ 5,823,969</u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT D-5

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2010**

	General	Ditch Special Revenue	Total
Revenues			
Taxes	\$ 170,770	\$ -	\$ 170,770
Special assessments	38,725	25,926	64,651
Intergovernmental	186,340	-	186,340
Charges for services	107,425	-	107,425
Interest earnings	14,723	951	15,674
Miscellaneous	21,671	-	21,671
	\$ 539,654	\$ 26,877	\$ 566,531
Expenditures			
Current			
Culture and recreation	\$ 197,017	\$ -	\$ 197,017
Conservation of natural resources	555,968	760	556,728
Debt service			
Principal	26,796	6,000	32,796
Interest	5,737	840	6,577
	\$ 785,518	\$ 7,600	\$ 793,118
Excess of Revenues Over (Under)			
Expenditures	\$ (245,864)	\$ 19,277	\$ (226,587)
Other Financing Sources (Uses)			
Loans issued	51,539	-	51,539
Net Change in Fund Balance	\$ (194,325)	\$ 19,277	\$ (175,048)
Fund Balance - January 1	786,078	81,068	867,146
Fund Balance - December 31	\$ 591,753	\$ 100,345	\$ 692,098

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT D-6

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN GOVERNMENTAL FUND BALANCE TO
CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

Net change in fund balance - total governmental funds (Exhibit D-5) \$ (175,048)

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

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

Deferred revenue - December 31	\$ 271,505	
Deferred revenue - January 1	<u>(281,091)</u>	(9,586)

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

Expenditures for capital assets	\$ 146,062	
Current year depreciation	<u>(69,615)</u>	76,447

Governmental funds report loans issued as other financing sources. However, in the statement of activities, the loans are reported as a liability. (51,539)

Payments on long-term debt are reported as expenditures in the governmental funds, but reduce the liabilities at the government-wide level. 32,796

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		<u>(260)</u>
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Change in Net Assets of Governmental Activities (Exhibit D-2) \$ (127,190)

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT D-7

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 190,000	\$ 190,000	\$ 170,770	\$ (19,230)
Special assessments	-	-	38,725	38,725
Intergovernmental	-	-	186,340	186,340
Charges for services	84,000	84,000	107,425	23,425
Investment earnings	-	-	14,723	14,723
Miscellaneous	-	-	21,671	21,671
Total Revenues	\$ 274,000	\$ 274,000	\$ 539,654	\$ 265,654
Expenditures				
Current				
Culture and recreation				
Parks	\$ 83,675	\$ 83,675	\$ 197,017	\$ (113,342)
Conservation of natural resources				
Watershed	190,000	190,000	555,968	(365,968)
Debt service				
Principal	-	-	26,796	(26,796)
Interest	-	-	5,737	(5,737)
Total Expenditures	\$ 273,675	\$ 273,675	\$ 785,518	\$ (511,843)
Excess of Revenues Over (Under) Expenditures	\$ 325	\$ 325	\$ (245,864)	\$ (246,189)
Other Financing Sources (Uses)				
Loans issued	-	-	51,539	51,539
Net Change in Fund Balance	\$ 325	\$ 325	\$ (194,325)	\$ (194,650)
Fund Balance - January 1	786,078	786,078	786,078	-
Fund Balance - December 31	\$ 786,403	\$ 786,403	\$ 591,753	\$ (194,650)

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT D-8

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
BUDGETARY COMPARISON SCHEDULE
DITCH FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 25,927	\$ 25,927	\$ 25,926	\$ (1)
Investment earnings	-	-	951	951
Total Revenues	<u>\$ 25,927</u>	<u>\$ 25,927</u>	<u>\$ 26,877</u>	<u>\$ 950</u>
Expenditures				
Current				
Conservation of natural resources				
Conservation - other	\$ 5,000	\$ 5,000	\$ 760	\$ 4,240
Debt Service				
Principal	-	-	6,000	(6,000)
Interest	-	-	840	(840)
Total Expenditures	<u>\$ 5,000</u>	<u>\$ 5,000</u>	<u>\$ 7,600</u>	<u>\$ (2,600)</u>
Excess of Revenues Over (Under)				
Expenditures	\$ 20,927	\$ 20,927	\$ 19,277	\$ (1,650)
Fund Balance - January 1	<u>-</u>	<u>-</u>	<u>81,068</u>	<u>81,068</u>
Fund Balance - December 31	<u>\$ 20,927</u>	<u>\$ 20,927</u>	<u>\$ 100,345</u>	<u>\$ 79,418</u>

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses a qualified opinion on the governmental activities of Lac qui Parle County. The opinions on the financial statements of the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information are unqualified.
- 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. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Lac qui Parle County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Community Development Block Grant	CFDA #14.228
Child Support Enforcement Cluster	
Child Support Enforcement	CFDA #93.563
Child Support Enforcement - ARRA	CFDA #93.563

Medical Assistance Program
Disaster Grants - Public Assistance (Presidentially
Declared Disasters)

CFDA #93.778

CFDA #97.036

- 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.

06-7 Audit Adjustments

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

During our audit, we proposed numerous adjustments that resulted in significant changes to the County's financial statements. The adjustments resulted from: errors made in recording transactions and 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 and liabilities and overstating fund balance, revenues, and expenditures; and the County did not consider the need for controls over the recording of certain accounting transactions. The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements 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. In addition, we recommend the County include a final review process to trace items on the financial statements back to the supporting detail to detect errors, including mapping issues and other necessary adjustments that can be made by the County prior to the audit.

Client's Response:

The County believes that the accounting staff has put forth significant effort to reduce the quantity and magnitude of audit adjustments necessary. However, it appears that increased management oversight of accounting transactions would further reduce the necessary audit adjustments in future years. The County Auditor-Treasurer will request that the County Board of Commissioners review responsibilities of current management staff and adjust those responsibilities as it feels necessary to address this finding.

09-3 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.

The County has established controls and procedures for recording, processing, and summarizing its accounting data used in the preparation of its 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. As a result of this condition, the County lacks internal controls over the preparation of financial statements in accordance with GAAP.

We recommend Lac qui Parle County obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If Lac qui Parle County still intends to have staff from the Office of the State Auditor assist in preparation then, at a minimum, it must identify and train individuals to obtain the expertise that can sufficiently review, understand, and approve the County's financial statements, including notes.

Client's Response:

The County intends to have staff from the Office of the State Auditor assist in preparation of the County's annual financial statements for the foreseeable future. Staff has been identified to review, understand, and approve the County's financial statements and the notes to the financial statements.

09-4 Monitoring Internal Controls

County management is responsible for monitoring its internal controls. Monitoring involves assessing the quality of performance over time. Monitoring should occur during normal operations and includes reviews, comparisons, reconciliations, and other actions employees take in performing their duties.

An essential element of monitoring controls also includes performing a risk assessment of existing controls over significant functions of the accounting system used to produce financial information for members of the County Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls established by 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, staffing vacancies, updates to information systems, or changes to services being provided.

Our audit procedures detected areas and responsibilities performed by County staff with little or no documentation of the monitoring taking place by management or other staff members. Some areas with minimal or no monitoring include:

- processing journal entries;
- calculating and reviewing capital asset balances; and
- reviewing departmental budget to actual results.

We recommend that a formal plan be developed that calls for assessing and monitoring the significant internal controls on a regular basis, no less than annually. The monitoring should be documented to show the results of the review, changes required, and who performed the work.

Client's Response:

Lac qui Parle County recognizes the need for internal monitoring of controls and the lacking management oversight in the internal control processes. The County Auditor-Treasurer will request that the County Board of Commissioners review responsibilities of current management staff and adjust those responsibilities as it feels necessary to address this finding.

09-5 Preparation of the Schedule of Expenditures of Federal Awards

The Office of Management and Budget's (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Auditee Responsibilities*, subpart C § .300 requires, "The auditee shall (a) identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity; and (d) prepare appropriate financial statements, including the schedule of expenditures of federal awards in accordance with subpart C § .310."

Lac qui Parle County does not prepare a Schedule of Expenditures of Federal Awards (SEFA), nor does it adequately identify federal programs by amount received and expended, federal grantor agency, pass-through agency, and Catalog of Federal Domestic Assistance (CFDA) title and number as required under OMB Circular A-133.

This condition results in a deficiency in internal control over financial statement preparation and the reporting of federal financial assistance by the County. Since the County has not developed procedures for properly identifying all federal financial assistance, the County relies on its auditors for assistance with preparing the SEFA. Independent auditors cannot be considered part of the County's internal control over financial reporting.

We recommend that Lac qui Parle County management develop a process, including written procedures that will allow staff to adequately identify federal revenues and accumulate the information needed to prepare in the SEFA. Specific measures could include having departments informing accounting/finance when they have received a grant award, holding in suspense accounts until properly identified as to nature and source any intergovernmental revenue receipts, properly classifying the receipts into appropriate federal revenue accounts in the general ledger system, and comparison of the prior year SEFA to the current year. For each federal award identified, the County should determine the correct program CFDA title and number, award number and year, federal grantor agency, pass-through agency, amount received and expended, and whether American Recovery and Reinvestment Act funding is involved. The federal CFDA website is available to assist in this process. Those responsible for compiling the SEFA should obtain the training necessary (through courses or reference materials) to understand the components of the SEFA and properly gather the correct information and maintain supporting documentation. The County should also reconcile the SEFA amounts to the general ledger and financial statements.

Client's Response:

The County Auditor-Treasurer's Office is in the process of developing and implementing documentation and accounting procedures that will allow staff to prepare the Schedule of Expenditures of Federal Awards internally.

ITEM ARISING THIS YEAR

10-1 Other Postemployment Benefits (OPEB)

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was effective for Lac qui Parle County for the year ended December 31, 2009, and governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for government employee pension benefits and plans, provides the accounting and reporting standards for the various OPEB 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.

For 2009 and 2010, Lac qui Parle County has not reported its OPEB liability in the governmental activities and, accordingly, has not reported the change to the net OPEB obligation. Accounting principles generally accepted in the United States of America require that OPEB obligations and the annual OPEB cost be accrued as liabilities and expenses as the employees earn the right to the benefits. Accruing OPEB costs would increase liabilities, reduce net assets, and change the expenses of the governmental activities. The amount by which this departure would affect the liabilities, net assets, and expenses of the governmental activities is not reasonably determinable. However, it is likely that the liabilities are understated, and we have accordingly qualified our opinion on the County's financial statements.

We recommend the County comply with the requirements of GASB Statement 45. Some of the issues the County Board needs to address in order to comply with this statement 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 legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;

- if an OPEB trust will be established, the County Board will have to decide whether to establish a revocable or an irrevocable trust, and report that trust appropriately in the financial statements; and
- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

Client's Response:

The County Board of Commissioners has directed County management to remain out of compliance with GASB 45 and therefore accepts the consequences of this decision, including this finding and the qualified opinion issued on these financial statements. Based on review of existing County policy which highly restricts post-retirement benefits, the Board believes that the County's OPEB liability is inconsequential to the financial statements. Therefore, the County Board has decided that the investment of resources to measure that liability is unnecessary at this time. The County will continue to consider the impact of non-compliance with GASB 45 and allocate resources to address this finding accordingly.

PREVIOUSLY REPORTED ITEMS RESOLVED

Payroll Encryption (09-1)

As part of the payroll process, a disk was brought to United Prairie Bank without first encrypting the information on the disk. The disk contained private data taken off the payroll system which needed to be communicated to the bank in order to process direct deposit information for the County employees.

Resolution

In January 2011, the County began using the bank's website, protected with personal usernames and passwords, to transfer private payroll data for County employees receiving payroll through direct deposit.

Timesheet Approval (09-2)

During our audit, we noted that certain time sheets of Family Service employees were approved by the Fiscal Officer instead of the employees' direct supervisor. The Fiscal Officer is not responsible for supervising employees; however, the Fiscal Officer indicated she signed time sheets in order to process payroll when time sheets were not submitted timely.

Resolution

During the audit, we noted the County implemented procedures beginning in December 2010 to include the Director signing all salaried staff timesheets. In addition, the Fiscal Officer signs and dates all timesheets before processing payroll.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM RESOLVED

Community Development Block Grant (CFDA No. 14.228) (08-3)

Lac qui Parle County applied for and received federal funding through the State of Minnesota under the Community Development Block Grant. The County used the grant to make a loan to Noah's Ark Processors Corporation for the purchase of machinery and equipment. The loan agreement with Noah's Ark included a number of special conditions, which were to have been met before releasing funds to the developer. One condition specified in the loan agreement was not met at the time of the prior audit even though funds were loaned to the developer in March 2008.

Resolution

Lac qui Parle County has not made any additional loans to Noah's Ark Processors Corporation under the Community Development Block Grant. A majority of the terms and conditions of the loan agreement have been met by Noah's Ark.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 Ditch Fund Cash and Fund Deficits

Eight of the 103 individual ditch systems had deficit cash balances totaling \$39,424 at December 31, 2010. This amount is up from the prior year when we reported that 3 of the 102 individual ditch systems had deficit cash balances totaling \$24,821. As stated in Minn. Stat. § 385.04, in part, "... every warrant shall be paid only from the cash on hand in the fund from which it may be properly payable." As allowed by Minn. Stat. § 103E.655, subd. 2, loans may 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.

A fund balance to be used for repairs may be established under Minn. Stat. § 103E.735, subd. 1, for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, 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.

09-7

Commissioner Per Diems

At the January 5, 2010, Commissioner meeting, the County Board set per diem payments for 2010. As provided in Minn. Stat. § 375.055, subd. 1, County Commissioners shall receive compensation “as set by resolution of the county board. The salary and schedule of per diem payments shall not be effective until January 1 of the next year.”

We recommend the County Board set per diem payments before January 1 of the year in which the salary becomes effective in order to comply with Minn. Stat. § 375.055.

Client's Response:

In the future, per diem amounts will be approved for each coming year by January 1 of that year.

09-8

Publishing Board Minutes and Claims Paid

According to Minn. Stat. § 375.12, County Board minutes are to be published within 30 days of the meeting, and this publication is to include an individualized, itemized list of County Board-approved payments over \$2,000. A statement showing the total number of claims that do not exceed the threshold amount and their dollar amounts must be stated. The County can publish summaries as allowed by Minn. Stat. § 331A.01. This section does not change the requirement that payments be published monthly as discussed in Minn. Stat. § 375.12. Also, this section requires that the full data be available at a specified County location or by standard or electronic mail.

In November 2010, the County began publishing minutes including an itemized list of County Board-approved claims over \$2,000, and a total number of claims under \$2,000 in aggregate with the dollar amount stated. However, the County Board minutes are not always published within 30 days.

We recommend the County Board comply with the above-noted statutes and publish the County Board minutes within 30 days of the meeting.

Client's Response:

The County Auditor-Treasurer will recommend to the County Board that official Board minutes for the previous meeting be approved at each Board meeting, as opposed to current practice where minutes are approved monthly.

PREVIOUSLY REPORTED ITEM RESOLVED

Tax Levy and Budget Approval (09-6)

The tax levy and budget for 2009 were approved by the County Board on January 6, 2009. According to Minn. Stat. § 275.07, subd. 1, the tax levy approved by the County “shall be certified by the proper authorities to the county auditor on or before five working days after December 20 in each year.” The adopted budget should be approved and documented in the Board minutes in December of the preceding year. Minn. Stat. § 275.07.

Resolution

The tax levy and budget for 2010 were approved by the County Board on December 15, 2009. The County was in compliance with Minn. Stat. § 275.07 for the 2010 audit.

B. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for Lac qui Parle County for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance are reserved, unreserved - designated, and unreserved - undesignated. Statement 54 replaces these components with nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

The County should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The County can start with the following steps:

- review the requirements of GASB Statement 54;
- review current fund balances and compare to the new classifications;
- reclassify January 1, 2011, fund balance using the new classifications;
- review/update/prepare a comprehensive fund balance policy;
- prepare appropriate Board resolutions to commit fund balance; and
- if the Board of County Commissioners intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in the new standard. The new definition for a special revenue fund could have significant impact on the County's current fund classifications.

GASB Statement 54 provides a new and clearer description of when it is appropriate to account for an activity using a special revenue fund. Special revenue funds are used to report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects, where the restricted or committed revenue sources comprise a substantial portion of the fund's resources, and are expected to continue to do so in the future. The standard does not define substantial portion; however, most recommendations are generally that the restricted or committed revenues should comprise at least 35 to 50 percent of total fund revenues. Under this definition, it is possible that some current special revenue funds will no longer meet the requirements for special revenue fund treatment. The County's management should review the County's special revenue funds to ensure these funds continue to warrant treatment as special revenue funds.

The County's management should perform the following steps prior to December 31, 2011:

- prepare a list of the County's special revenue funds;
- determine the sources of revenues for each of those funds;
- identify whether any of those revenues are restricted or committed;
- determine if these restricted or committed revenues represent a substantial portion of the fund's revenues and are expected to continue to be a substantial source of revenues;
 - if yes, the fund may continue to be classified as a special revenue fund;
 - if not, determine whether the County will combine that fund with the general fund or with a similar purpose special revenue fund that meets the new definition;

- code revenues in the general ledger by source constraints--restricted, committed, assigned, or unassigned; and
- determine if there needs to be a restatement of beginning fund balances.

Additional implementation steps could include: informing any component units that they also will need to meet the requirements; deciding on how fund balance will be presented in the financials, such as detailed vs. aggregate methods; and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at:

http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf.



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

Board of County Commissioners
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, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 2011. The report on governmental activities was qualified because Lac qui Parle County has not reported its other postemployment benefits (OPEB) obligation in the Statement of Net Assets and has not reported the related net OPEB obligation change in the Statement of Activities, as required by generally accepted accounting principles. Our report includes a reference to other auditors. 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. Other auditors audited the financial statements of the Lac qui Parle County Economic Development Authority, as described in our report on Lac qui Parle County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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 and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 06-7 and 10-1 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 99-1, 09-3, 09-4, and 09-5 to be significant deficiencies.

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 Political Subdivisions*, 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 Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because the County does not have any tax increment financing districts of its own.

The results of our tests indicate that, for the items tested, Lac qui Parle County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 96-1, 09-7, and 09-8.

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

Lac qui Parle County's written responses to the internal control 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 Lac qui Parle County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2011

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Lac qui Parle County

Compliance

We have audited Lac qui Parle County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. 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.

Lac qui Parle County's basic financial statements include the operations of the Lac qui Parle County Economic Development Authority component unit, whose federal awards, if any, are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Lac qui Parle County Economic Development Authority, because the Authority was audited by other auditors.

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 could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

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

September 27, 2011

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR