

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

LAC QUI PARLE COUNTY
MADISON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011



**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
2011**

Office	Name	Term Expires
Commissioners		
1st District	Todd Patzer*	January 2013
2nd District	DeRon Brehmer**	January 2013
3rd District	Graylen Carlson	January 2013
4th District	Terrence Overlander	January 2015
5th District	Harold Solem	January 2013
Officers		
Elected		
Attorney	Richard Stulz	January 2015
Coroner	Ralph Gerbig, M.D.	January 2012
Sheriff	Rick Halvorson	January 2015
Appointed		
Auditor-Treasurer	Jacob Sieg	Indefinite
Assessor	Lori Schwendemann	Indefinite
Environmental Officer	Jennifer Breberg	Indefinite
Highway Engineer	Steven Kubista	Indefinite
Recorder	Josh Amland	Indefinite
Veterans' Service Officer	Josh Beninga	Indefinite
Welfare Board		
Commissioner	Todd Patzer	January 2013
Commissioner	DeRon Brehmer	January 2013
Commissioner	Graylen Carlson	January 2013
Commissioner	Terrence Overlander	January 2015
Commissioner	Harold Solem	January 2013
Member	Ann Jenson	July 2013
Member	Mary Wodrich	July 2014
Director	Joel Churness	Indefinite

*Chair 2011

**Chair 2012

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**ORGANIZATION SCHEDULE
LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
BOARD OF SUPERVISORS
2011**

<u>Position</u>	<u>Name</u>	<u>Term Expires</u>
Supervisor		
Chair	Willis Beecher	March 2012
Vice Chair	Darrel Ellefson	March 2012
Treasurer	David Ludvigson	March 2014
Secretary	David Craigmile	March 2013
Publicity Chair	Daniel Christianson	March 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, as of and for the year ended December 31, 2011, 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, 4 percent, and 32 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, 2011, 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, 2011, 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.

As discussed in Note 1.D.9. to the financial statements, during the year ended December 31, 2011, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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 GASB, 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, 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, 2012, 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. It does not include the Lac qui Parle County Economic Development Authority, which was audited by other auditors.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2012

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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, 2011
(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, 2011. 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 \$52,438,770, of which \$42,115,552 is invested in capital assets and \$2,651,229 is restricted to specific purposes. The \$7,671,989 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

The County's net assets increased by \$999,571 for the year ended December 31, 2011. A large part of the increase is attributable to the increases in capital assets and a buildup of fund balance in the Family Services Fund due to greater than expected revenues.

The net cost of governmental activities for the current fiscal year was \$3,532,343. The net cost was funded by general revenues and other items totaling \$4,531,914.

The fund balances of the governmental funds decreased by \$244,074. Most of the decrease was due to budgeted deficit spending in the General Fund and unbudgeted capital expenditures, including purchase of ARMER radio equipment for the Sheriff's Office and initial planning costs associated with a new courthouse mechanical system.

For the year ended December 31, 2011, the unassigned, assigned, and committed fund balance of the General Fund was \$1,308,995, or 36.1 percent of the total General Fund expenditures for the year. The assigned and committed fund balance of the Road and Bridge Special Revenue Fund was \$2,381,814, or 38.3 percent of the total Road and Bridge Special Revenue Fund expenditures for the year. The assigned and committed fund balance of the Family Services Special Revenue Fund was \$3,955,850, or 190.4 percent of the total Family Services Special Revenue 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 nonfinancial factors, such as changes in the County's property tax base and the condition of County roads and other capital assets, to assess the overall health of the County.

The statement of activities presents the County's governmental activities. Most of the basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities. The County has no business-type activities 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. 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 \$52,438,770 at the close of 2011. The largest portion of the net assets (80.3 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure, such as roads and bridges).

**Table 1
Net Assets**

	2011	2010
Assets		
Current and other assets	\$ 11,344,766	\$ 12,506,228
Capital assets	42,115,552	39,980,717
Total Assets	\$ 53,460,318	\$ 52,486,945
Liabilities		
Long-term liabilities	\$ 330,823	\$ 348,046
Other liabilities	690,725	699,700
Total Liabilities	\$ 1,021,548	\$ 1,047,746
Net Assets		
Invested in capital assets	\$ 42,115,552	\$ 39,980,717
Restricted	2,651,229	2,514,277
Unrestricted	7,671,989	8,944,205
Total Net Assets	\$ 52,438,770	\$ 51,439,199

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 14.6 percent of the net assets.

Governmental Activities

The County's activities increased net assets by 1.9 percent (\$52,438,770 for 2011 compared to \$51,439,199 for 2010). Key elements in this increase in net assets are as follows:

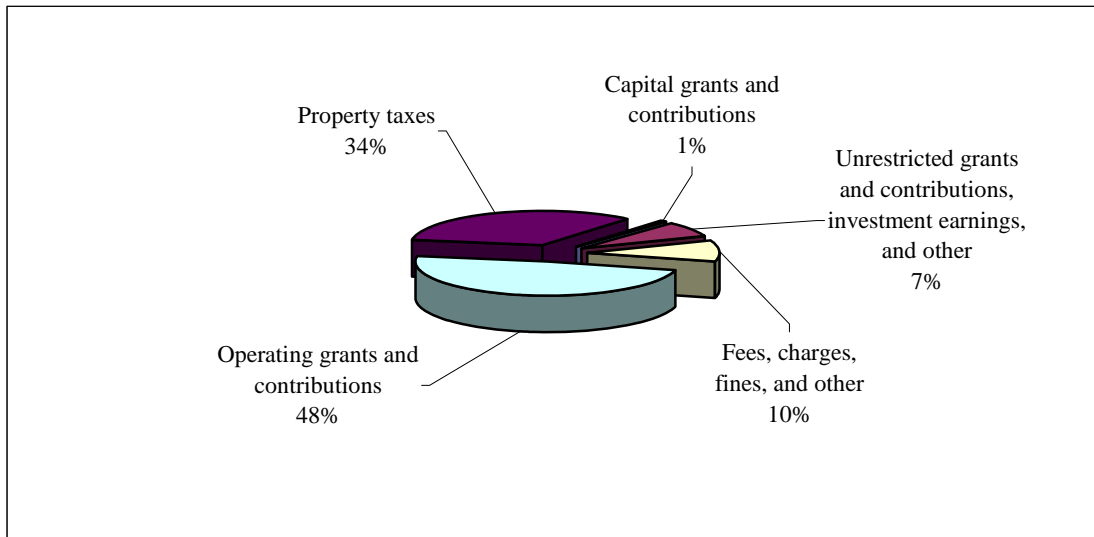
**Table 2
Changes in Net Assets**

	2011	2010
Revenues		
Program revenues		
Charges for services	\$ 1,112,340	\$ 1,035,716
Operating grants and contributions	5,337,527	4,922,074
Capital grants and contributions	81,574	428,020
General revenues		
Property taxes	3,713,511	3,261,050
Other	818,403	992,145
Total Revenues	\$ 11,063,355	\$ 10,639,005

	2011	2010
Expenses		
General government	\$ 1,684,696	\$ 1,715,753
Public safety	1,066,178	976,802
Highways and streets	4,062,154	3,729,464
Sanitation	181,382	171,387
Human services	2,061,951	2,145,707
Health	64,539	64,539
Culture and recreation	139,854	142,056
Conservation of natural resources	555,738	411,713
Economic development	247,292	84,056
Total Expenses	<u>\$ 10,063,784</u>	<u>\$ 9,441,477</u>
Increase in Net Assets	\$ 995,571	\$ 1,197,528
Net Assets - January 1	<u>51,439,199</u>	<u>50,241,671</u>
Net Assets - December 31	<u>\$ 52,438,770</u>	<u>\$ 51,439,199</u>

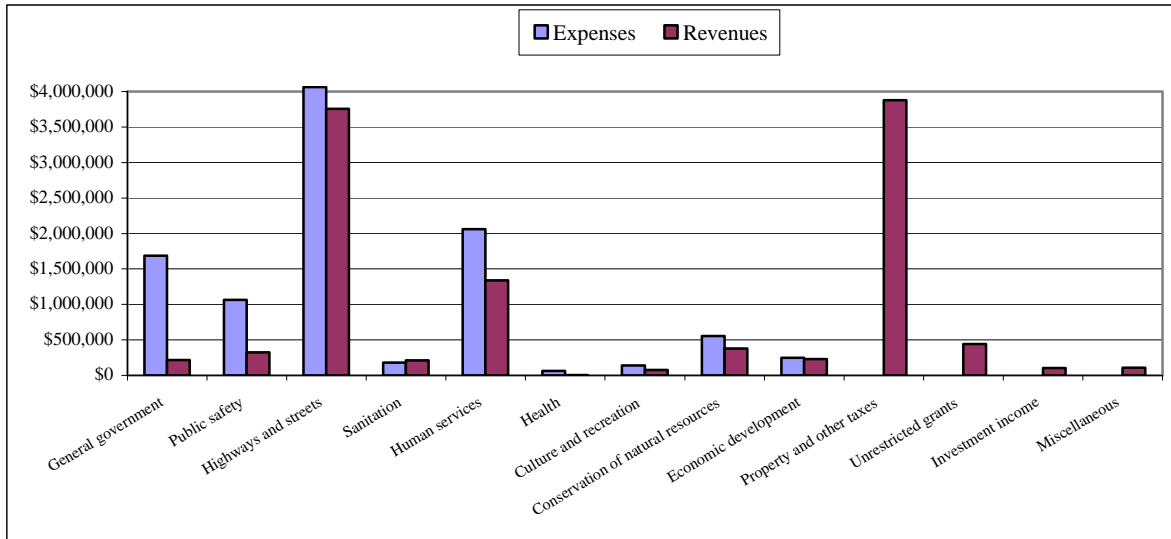
The County's total revenues were \$11,063,355. Table 3 presents the percent of total County revenues by source for the year ended December 31, 2011.

Table 3
County Revenues



Total expenses were \$10,063,784 while total revenues were \$11,063,355. This reflects a \$999,571 increase in net assets for the year ended December 31, 2011. 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 \$10,063,784. 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 \$3,713,511 because some of the cost was paid by those who directly benefited from the programs (\$1,112,340) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,419,101). The County paid for the remaining “public benefit” portion of governmental activities with \$818,403 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.

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

	Total Cost of Services 2011	Net Cost of Services 2011
Highways and streets	\$ 4,062	\$ 306
Human services	2,062	724
General government	1,685	1,470
Public safety	1,066	742
All others	1,189	290
Totals	\$ 10,064	\$ 3,532

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, unrestricted fund balance may serve as a useful measure of net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$9,335,891, a decrease of \$244,074 in comparison with the prior year. Of the combined ending fund balances, \$7,646,659 represents unrestricted fund balance, which is available for spending at the County’s discretion. The remainder of the fund balance is classified as either nonspendable or restricted to indicate that it is not available for new spending because it has already been committed for various reasons, including 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 unrestricted fund balance of \$1,308,995. As a measure of the General Fund’s liquidity, it may be useful to compare unrestricted fund balance to total expenditures. The General Fund’s unrestricted fund balance represents 36.1 percent of total General Fund expenditures. During 2011, the ending fund balance decreased by \$466,999. The primary reason for this decrease was budgeted deficit spending paid for with General Fund unrestricted 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 Special Revenue Funds. Other reasons for this decrease included unbudgeted capital outlays in the Sheriff's Office related to the ARMER 800 MHz radio system upgrades.

The Road and Bridge Special Revenue Fund had an unrestricted fund balance of \$2,381,814 at fiscal year-end, representing 38.3 percent of its annual expenditures. The ending fund balance decreased \$39,697 during 2011, primarily due to budgeted spending of fund balances for construction and maintenance projects and greater than expected snow removal expenditures in early 2011.

The Family Services Special Revenue Fund had an unrestricted fund balance of \$3,955,850 at fiscal year-end, representing 190 percent of its annual expenditures. The ending fund balance increased \$207,445 during 2011, primarily due to greater than expected program revenues.

The Ditch Special Revenue Fund had a restricted fund balance of \$830,390 at fiscal year-end. The ending fund balance increased \$55,177 during 2011, primarily due to the 101 ditches needing less maintenance than was anticipated.

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) were \$469,080 higher than the final budget amounts. The most significant departmental variances occurred in the category of "Economic Development" and in the public safety departments.

In Economic Development, the County incurred unbudgeted costs of \$228,722 related to Community Development Block Grant funds received from the Minnesota Department of Employment and Economic Development and passed through to the Southwest Minnesota Housing Partnership.

In the area of Public Safety, the County incurred significant unbudgeted expenses of approximately \$57,000 due to medical treatment provided to jail prisoners. Furthermore, the County incurred expenses of over \$55,000 for the purchase and setup of equipment and \$12,000 for training, both related to the ARMER 800 MHz radio upgrade project. Some of these costs either have been or will be reimbursed by grants and payments from other governmental units.

Resources available for appropriation were \$527,711 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-through funds relating to a Small Cities Development Program.

CAPITAL ASSETS

The County's capital assets at December 31, 2011, totaled \$42,115,552 (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	51,844	788,976	426,442
Total capital assets not depreciated	\$ 1,798,675	\$ 51,844	\$ 788,976	\$ 1,061,543
Capital assets depreciated				
Buildings	\$ 2,215,647	\$ -	\$ -	\$ 2,215,647
Improvements other than building	81,405	-	-	81,405
Machinery, furniture, and equipment	4,393,782	580,379	199,740	4,774,421
Infrastructure	47,991,109	3,726,408	-	51,717,517
Total capital assets depreciated	\$ 54,681,943	\$ 4,306,787	\$ 199,740	\$ 58,788,990
Less: accumulated depreciation for				
Buildings	\$ 590,406	\$ 52,032	\$ -	\$ 642,438
Improvements other than building	581	2,326	-	2,907
Machinery, furniture, and equipment	2,872,917	337,164	190,658	3,019,423
Infrastructure	13,035,997	1,034,216	-	14,070,213
Total accumulated depreciation	\$ 16,499,901	\$ 1,425,738	\$ 190,658	\$ 17,734,981
Total capital assets depreciated, net	\$ 38,182,042	\$ 2,881,049	\$ 9,082	\$ 41,054,009
Capital Assets, Net	\$ 39,980,717	\$ 2,932,893	\$ 798,058	\$ 42,115,552

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 2011 was 4.6 percent. This is comparable with the state unemployment rate of 5.8 percent and shows a 1.2 percent decrease from the County's 5.8 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. 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.
- The County General Fund, Road and Bridge Special Revenue Fund, and Family Services Special Revenue Fund expenditures for 2012 are budgeted to increase 13.3 percent (\$1,507,153) over the 2011 final budget. The 2012 anticipated revenues for the same funds are budgeted to increase 10.0 percent (\$1,091,896) over the 2010 final budget.
- The 2012 property tax levy for the County increased 9.8 percent from 2011, which followed an increase of 12.8 percent in 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 reduce the budget deficit carried forward from the previous years. 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 \$5,801,555, of which \$5,160,742 is invested in capital assets, \$187,896 is restricted, and \$452,917 is unrestricted. The District's net assets decreased by \$22,414 for the year ended December 31, 2011.

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 \$5,801,555 at the close of 2011. The largest portion of the net assets (89.0 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure, such as water retention structures).

Table 7
Net Assets

	2011	2010
Assets		
Current and other assets	\$ 1,234,659	\$ 1,137,730
Capital assets	5,160,742	5,225,991
Total Assets	\$ 6,395,401	\$ 6,363,721
Liabilities		
Long-term liabilities	\$ 202,091	\$ 359,625
Other liabilities	391,755	180,127
Total Liabilities	\$ 593,846	\$ 539,752
Net Assets		
Invested in capital assets	\$ 5,160,742	\$ 5,225,991
Restricted	187,896	89,242
Unrestricted	452,917	508,736
Total Net Assets	\$ 5,801,555	\$ 5,823,969

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, 2011**

	<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	\$ 4,380,153	\$ 912,874	\$ 194,471
Investments	4,450,000	-	-
Receivables - net	2,451,773	321,785	19,490
Inventories	62,228	-	-
Prepaid items	612	-	-
Capital assets			
Non-depreciable	1,061,543	628,458	-
Depreciable - net of accumulated depreciation	41,054,009	4,532,284	13,398
Total Assets	\$ 53,460,318	\$ 6,395,401	\$ 227,359
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 628,094	\$ 15,316	\$ 10,196
Unearned revenue	62,631	186,775	-
Long-term liabilities			
Due within one year	-	29,844	-
Due in more than one year	330,823	361,911	5,653
Total Liabilities	\$ 1,021,548	\$ 593,846	\$ 15,849
<u>Net Assets</u>			
Invested in capital assets	\$ 42,115,552	\$ 5,160,742	\$ 13,398
Restricted for			
General government	80,700	-	-
Public safety	360,821	-	-
Highways and streets	1,024,837	-	-
Conservation of natural resources	830,390	187,896	-
Economic development	347,884	-	-
Other purposes	6,597	-	-
Unrestricted	7,671,989	452,917	198,112
Total Net Assets	\$ 52,438,770	\$ 5,801,555	\$ 211,510

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, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Primary government		
Governmental activities		
General government	\$ 1,684,696	\$ 152,881
Public safety	1,066,178	81,305
Highways and streets	4,062,154	167,242
Sanitation	181,382	153,908
Human services	2,061,951	292,972
Health	64,539	-
Culture and recreation	139,854	3,379
Conservation of natural resources	555,738	260,653
Economic development	247,292	-
Total Primary Government	\$ 10,063,784	\$ 1,112,340
Component units		
Lac qui Parle-Yellow Bank Watershed District	\$ 534,181	\$ 187,232
Lac qui Parle County Economic Development Authority	227,825	-
Total Component Units	\$ 762,006	\$ 187,232

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

		Net (Expense) Revenue and Changes in Net Assets		
		Discretely Presented Component Units		
Program Revenues		Primary Governmental Activities	Lac qui Parle-Yellow Bank Watershed District	Lac qui Parle County Economic Development Authority
Operating Grants and Contributions	Capital Grants and Contributions			
\$ 57,127	\$ 4,789	\$ (1,469,899)		
230,859	12,000	(742,014)		
3,524,616	64,785	(305,511)		
55,950	-	28,476		
1,044,823	-	(724,156)		
4,101	-	(60,438)		
72,671	-	(63,804)		
118,658	-	(176,427)		
228,722	-	(18,570)		
\$ 5,337,527	\$ 81,574	\$ (3,532,343)		
\$ 66,287	\$ -		\$ (280,662)	\$ -
71,717	-		-	(156,108)
\$ 138,004	\$ -		\$ (280,662)	\$ (156,108)
		\$ 3,713,511	\$ 207,026	\$ 124,279
		3,660	-	-
		159,840	1,889	-
		441,712	19,363	43,708
		105,971	10,164	2,346
		107,220	19,806	1,078
		\$ 4,531,914	\$ 258,248	\$ 171,411
		\$ 999,571	\$ (22,414)	\$ 15,303
		51,439,199	5,823,969	196,207
		\$ 52,438,770	\$ 5,801,555	\$ 211,510

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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, 2011**

	<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	\$ 1,563,544	\$ 302,841	\$ 1,437,993	\$ 839,911	\$ 4,144,289
Undistributed cash in agency funds	99,482	79,589	47,724	4,819	231,614
Petty cash and change funds	4,150	-	100	-	4,250
Investments	325,000	1,700,000	2,425,000	-	4,450,000
Taxes receivable					
Prior	28,012	23,376	14,543	-	65,931
Special assessments receivable					
Prior	9,361	-	-	2,817	12,178
Noncurrent	-	-	-	206,822	206,822
Accounts receivable	7,685	3,054	38,447	-	49,186
Accrued interest receivable	6,638	10,004	-	-	16,642
Due from other funds	44,477	40,708	-	-	85,185
Due from other governments	169,762	1,517,373	127,926	84,295	1,899,356
Loans receivable	201,658	-	-	-	201,658
Inventories	-	62,228	-	-	62,228
Prepaid items	612	-	-	-	612
Total Assets	<u>\$ 2,460,381</u>	<u>\$ 3,739,173</u>	<u>\$ 4,091,733</u>	<u>\$ 1,138,664</u>	<u>\$ 11,429,951</u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	<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	\$ 149,261	\$ 51,380	\$ 59,630	\$ 39,948	\$ 300,219
Salaries payable	41,431	33,710	47,046	-	122,187
Contracts payable	-	87,136	-	-	87,136
Due to other funds	40,708	44,477	-	-	85,185
Due to other governments	23,368	21,833	14,664	58,687	118,552
Deferred revenue - unavailable	37,373	1,056,595	14,543	209,639	1,318,150
Deferred revenue - unearned	62,631	-	-	-	62,631
Total Liabilities	\$ 354,772	\$ 1,295,131	\$ 135,883	\$ 308,274	\$ 2,094,060
Fund Balances					
Nonspendable					
Inventories	\$ -	\$ 62,228	\$ -	\$ -	\$ 62,228
Prepaid items	612	-	-	-	612
Restricted for					
Recorder's technology equipment	37,243	-	-	-	37,243
Missing heirs	5,589	-	-	-	5,589
E-911	360,821	-	-	-	360,821
Recorder's compliance	35,736	-	-	-	35,736
Forfeitures	7,729	-	-	-	7,729
Cemetery	1,000	-	-	-	1,000
Loans receivable	201,658	-	-	-	201,658
EDA loans	146,226	-	-	-	146,226
Ditch repairs and maintenance	-	-	-	830,390	830,390
Committed to					
Solid waste assessments	358,398	-	-	-	358,398
Buildings and grounds	-	35,100	-	-	35,100
Capital equipment	-	673,300	-	-	673,300
Assigned to					
Poor relief	-	-	300,000	-	300,000
Road and bridge	-	1,196,995	-	-	1,196,995
Human services	-	-	3,255,850	-	3,255,850
Administration	-	-	150,000	-	150,000
Flex account	593	-	-	-	593
Out-of-home placements	-	-	250,000	-	250,000
Recorder enhancement	2,831	-	-	-	2,831
Contracts issued	40,000	476,419	-	-	516,419
GIS	1,259	-	-	-	1,259
Unassigned	905,914	-	-	-	905,914
Total Fund Balances	\$ 2,105,609	\$ 2,444,042	\$ 3,955,850	\$ 830,390	\$ 9,335,891
Total Liabilities and Fund Balances	\$ 2,460,381	\$ 3,739,173	\$ 4,091,733	\$ 1,138,664	\$ 11,429,951

**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, 2011**

Fund balance - total governmental funds (Exhibit 3)	\$ 9,335,891
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.	42,115,552
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	1,318,150
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	<u>(330,823)</u>
Net Assets of Governmental Activities (Exhibit 1)	<u>\$ 52,438,770</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, 2011**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total</u>
Revenues					
Property taxes	\$ 1,588,463	\$ 1,315,927	\$ 798,042	\$ -	\$ 3,702,432
Other taxes	3,660	-	-	-	3,660
Special assessments	98,267	-	-	281,338	379,605
Licenses and permits	15,864	-	-	-	15,864
Intergovernmental	993,701	4,685,410	1,173,679	62,243	6,915,033
Charges for services	206,989	16,437	209,604	-	433,030
Fines and forfeits	27,177	-	-	-	27,177
Gifts and contributions	3,379	-	-	-	3,379
Investment earnings	70,861	14,335	20,775	-	105,971
Miscellaneous	150,724	129,773	83,368	720	364,585
Total Revenues	\$ 3,159,085	\$ 6,161,882	\$ 2,285,468	\$ 344,301	\$ 11,950,736
Expenditures					
Current					
General government	\$ 1,629,884	\$ -	\$ -	\$ -	\$ 1,629,884
Public safety	973,548	-	-	-	973,548
Highways and streets	-	5,846,587	-	-	5,846,587
Sanitation	157,559	-	-	-	157,559
Human services	-	-	2,078,023	-	2,078,023
Culture and recreation	139,854	-	-	-	139,854
Conservation of natural resources	261,754	-	-	292,924	554,678
Economic development	247,292	-	-	-	247,292
Intergovernmental	212,393	371,150	-	-	583,543
Total Expenditures	\$ 3,622,284	\$ 6,217,737	\$ 2,078,023	\$ 292,924	\$ 12,210,968
Excess of Revenues Over (Under)					
Expenditures	\$ (463,199)	\$ (55,855)	\$ 207,445	\$ 51,377	\$ (260,232)
Other Financing Sources (Uses)					
Transfers in	\$ 5,000	\$ -	\$ -	\$ 8,800	\$ 13,800
Transfers out	(8,800)	-	-	(5,000)	(13,800)
Proceeds from sale of capital assets	-	21,032	-	-	21,032
Total Other Financing Sources (Uses)	\$ (3,800)	\$ 21,032	\$ -	\$ 3,800	\$ 21,032
Net Change in Fund Balance	\$ (466,999)	\$ (34,823)	\$ 207,445	\$ 55,177	\$ (239,200)
Fund Balance - January 1	2,572,608	2,483,739	3,748,405	775,213	9,579,965
Increase (decrease) in inventories	-	(4,874)	-	-	(4,874)
Fund Balance - December 31	\$ 2,105,609	\$ 2,444,042	\$ 3,955,850	\$ 830,390	\$ 9,335,891

**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, 2011**

Net change in fund balance - total governmental funds (Exhibit 5) \$ (239,200)

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	\$ 1,318,150	
Deferred revenue - January 1	<u>(2,226,563)</u>	(908,413)

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	\$ 3,569,655	
Net book value of assets disposed of	(9,082)	
Current year depreciation	<u>(1,425,738)</u>	2,134,835

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

Change in compensated absences	\$ 17,223	
Change in inventories	<u>(4,874)</u>	<u>12,349</u>

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 999,571

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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, 2011

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ <u>414,635</u>
<u>Liabilities</u>	
Due to other governments	\$ <u>414,635</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, 2011

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, 2011. 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.B. The County also participates in jointly-governed organizations described in Note 6.C.

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 and blended component units. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. The County reports all of its governmental funds as major funds.

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Human Services Special Revenue Fund accounts for restricted revenue resources from the federal, state, and other oversight agencies, as well as committed property tax revenues used for economic assistance and community social services programs.

The Ditch Special Revenue Fund accounts for special assessment revenues levied against benefitted property to finance the cost of constructing and maintaining an agricultural drainage ditch system.

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 Auditor-Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2011, 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 2011 were \$59,654.

**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 nonspendable fund balance account in applicable governmental funds to indicate that they are not in spendable form.

All receivables, including those of the discretely presented component units, 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, 2011, 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. Classification of Net Assets

Net assets in the government-wide and proprietary fund financial statements are classified in the following categories:

Invested in capital assets, net of related debt - the amount of net assets representing capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets. At December 31, 2011, Lac qui Parle County reported no debt related to acquisition, construction, or improvement of capital assets.

Restricted net assets - the amount of net assets for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets - the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Classification of Fund Balances

In 2011, the County implemented the requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement requires retroactive restatement of fund balance for the reclassifications made to conform to this statement. Total fund balance did not change. Fund balance is divided into five classifications based primarily on the extent to which Lac qui Parle County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - the nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed - the committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts.

Assigned - amounts in the assigned fund balance classification the County intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Auditor-Treasurer, who has been delegated that authority by Board resolution.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

9. Classification of Fund Balances (Continued)

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

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

10. Minimum Fund Balance

Lac qui Parle County has adopted a minimum fund balance policy for the General Fund. The General Fund is heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined it needs to maintain a minimum unrestricted fund balance (committed, assigned, and unassigned) of no less than five months of operating expenditures. The fund balance policy was adopted by the County Board on December 20, 2011. At December 31, 2011, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

11. Use of Estimates

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

12. Reclassifications

Several account balances were reclassified as of and for the year ended December 31, 2010, as previously reported due to implementation of GASB 54. These reclassifications were required for comparability to the financial statements as of and for the year ended December 31, 2011. Although comparative statements for 2010 are not presented here, these reclassifications must be considered when comparing the financial statements of this report with those of prior reports.

E. Potential Impact of New Accounting Standards on Current Period Financial Statements

The GASB has approved GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Application of GASB Statement 63 may restate portions of these financial statements.

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

<u>Fund</u>	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General	\$ 3,622,284	\$ 3,153,204	\$ 469,080
Ditch Special Revenue	292,924	289,000	3,924

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 4,380,153
Investments	4,450,000
Statement of fiduciary net assets	
Cash and pooled investments	<u>414,635</u>
Total Cash and Investments	<u>\$ 9,244,788</u>
Petty cash and change funds	\$ 4,250
Checking	161,948
Money market savings	8,028,590
Certificates of deposit	<u>1,050,000</u>
Total Deposits and Investments	<u>\$ 9,244,788</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. 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.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has adopted a policy for custodial credit risk of obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2011, 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;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At December 31, 2011, the County had no investments; therefore, no investment custodial credit risk.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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

2. Receivables

Receivables as of December 31, 2011, for the County's governmental activities follow:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 65,931	\$ -
Special assessments	219,000	-
Accounts receivable	49,186	-
Accrued interest receivable	16,642	-
Due from other governments	1,899,356	-
Loans receivable	201,658	149,757
Total Governmental Activities	\$ 2,451,773	\$ 149,757

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, 2011, the County has a loan receivable from Noah's Ark Holding, LLC, with a balance remaining of \$201,658, which is to be repaid in monthly installments of \$4,770.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2011, 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	51,844	788,976	426,442
Total capital assets not depreciated	\$ 1,798,675	\$ 51,844	\$ 788,976	\$ 1,061,543
Capital assets depreciated				
Buildings	\$ 2,215,647	\$ -	\$ -	\$ 2,215,647
Improvements other than building	81,405	-	-	81,405
Machinery, furniture, and equipment	4,393,782	580,379	199,740	4,774,421
Infrastructure	47,991,109	3,726,408	-	51,717,517
Total capital assets depreciated	\$ 54,681,943	\$ 4,306,787	\$ 199,740	\$ 58,788,990
Less: accumulated depreciation for				
Buildings	\$ 590,406	\$ 52,032	\$ -	\$ 642,438
Improvements other than building	581	2,326	-	2,907
Machinery, furniture, and equipment	2,872,917	337,164	190,658	3,019,423
Infrastructure	13,035,997	1,034,216	-	14,070,213
Total accumulated depreciation	\$ 16,499,901	\$ 1,425,738	\$ 190,658	\$ 17,734,981
Total capital assets depreciated, net	\$ 38,182,042	\$ 2,881,049	\$ 9,082	\$ 41,054,009
Capital Assets, Net	\$ 39,980,717	\$ 2,932,893	\$ 798,058	\$ 42,115,552

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

Governmental Activities	
General government	\$ 49,574
Public safety	40,872
Highways and streets, including infrastructure assets	1,332,467
Human services	1,765
Conservation	1,060
Total Depreciation Expense - Governmental Activities	\$ 1,425,738

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2011, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Special Revenue Fund	\$ 44,477
Road and Bridge Special Revenue Fund	General Fund	40,708
Total Due To/From Other Funds		\$ 85,185

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 was liquidated during 2012.

2. Interfund Transfers

During 2011, the General Fund transferred \$8,800 to the Ditch Special Revenue Fund for its share of interest earnings.

During 2011, the Ditch Special Revenue Fund transferred \$5,000 to the General Fund for county ditch administrative and accounting services provided.

C. Liabilities

1. Payables

Payables at December 31, 2011, were as follows:

	Governmental Activities
Accounts payable	\$ 300,219
Salaries payable	122,187
Contracts payable	87,136
Due to other governments	118,552
Total Payables	\$ 628,094

**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, 2011. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Road and bridge projects	\$ 796,571	\$ 84,062

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 2011.

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, 2011, the County has two eligible participants. The County finances the plan on a pay-as-you-go basis and, during 2011, the County expended \$1,367 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, 2011, was as follows:

	<u>Compensated Absences</u>
Payable - January 1	\$ 348,046
Net changes	<u>(17,223)</u>
Payable - December 31	<u>\$ 330,823</u>
Amount Due Within One Year	<u>\$ -</u>

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. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive 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 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 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 2011:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40
Public Employees Correctional Fund	8.75

Lac qui Parle County's contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
General Employees Retirement Fund	\$ 163,770	\$ 165,784	\$ 161,487
Public Employees Police and Fire Fund	52,016	52,145	48,521
Public Employees Correctional Fund	9,326	7,932	7,571

Lac qui Parle-Yellow Bank Watershed District's contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund were:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
General Employees Retirement Fund	\$ 9,220	\$ 8,744	\$ 7,948

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

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.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

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

Total contributions by dollar amount and percentage of covered payroll made by the Lac qui Parle County during the year ended December 31, 2011, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 3,960	\$ 3,960
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 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.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

5. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$450,000 per claim in 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. Contingent Liabilities

Farmer's Mutual Telephone Cooperative

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 \$2,413,239 through the Lac qui Parle County Economic Development Authority to assist with cash flows of the project. No amounts have been requested through September 14, 2012.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities (Continued)

Lincoln-Pipestone Rural Water System

At December 31, 2011, the Lincoln-Pipestone Rural Water System had \$36,595,000 of general obligation bonds outstanding through 2052. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

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

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

In 2012, Lincoln County issued a General Obligation Water System Refunding Bond for \$1,050,000 on behalf of the Lincoln-Pipestone Rural Water System to crossover advance refund the General Obligation Water System Refunding Bonds, Series 2003.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

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

B. 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 Southwest Health and 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

B. 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, 2011, 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, 2011, was \$124,031.

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

B. Joint Ventures

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

Control of the PLYP is vested in a joint board 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

B. 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, 2011, were \$36,595,000.

The Lincoln-Pipestone Rural Water System's 2011 financial report shows total net assets of \$48,544,818, including unrestricted net assets of \$19,843,138. The increase in net assets for the year ended December 31, 2011, was \$6,120,627.

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 2011, Lac qui Parle County contributed \$2,529 to the Joint Powers Board.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. 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, 2010 (the most recent information available), was:

Total assets	\$ 1,527,727
Total liabilities	349,605
Total net assets	1,178,122
Total revenues	2,984,785
Total expenses	2,591,311
Change in net assets	393,474

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

B. 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 2011, 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.

C. 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

C. 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 2011, 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, 2011, 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	\$ 470,013	\$ 320,075	\$ 149,938
Ditch Special Revenue	29,768	5,000	24,768

**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	\$	912,874
Checking	\$	300,633
Money market savings		242,241
Certificates of deposit		370,000
Total Deposits and Investments	\$	912,874

Minnesota statutes require that all public entity deposits be covered by insurance, surety bond, or collateral, a requirement for which the District was not in compliance at December 31, 2011. As of December 31, 2011, the District had \$2,549 of uncollateralized deposits.

Receivables

Receivables as of December 31, 2011, for the Lac qui Parle-Yellow Bank Watershed District follow:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes	\$ 2,505	\$ -
Special assessments	283,799	241,025
Accrued interest	4,389	-
Due from other governments	31,092	-
Total Receivables	\$ 321,785	\$ 241,025

**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, 2011, 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	\$ 224,200	\$ 5,685	\$ -	\$ 229,885
Machinery, furniture, and equipment	53,967	-	3,573	50,394
Land improvements	261,549	-	-	261,549
Infrastructure	5,334,207	-	-	5,334,207
Total capital assets depreciated	<u>\$ 5,873,923</u>	<u>\$ 5,685</u>	<u>\$ 3,573</u>	<u>\$ 5,876,035</u>
Less: accumulated depreciation for				
Buildings	\$ 43,797	\$ 5,151	\$ -	\$ 48,948
Machinery, furniture, and equipment	45,668	2,445	2,352	45,761
Land improvements	95,012	8,775	-	103,787
Infrastructure	1,091,913	53,342	-	1,145,255
Total accumulated depreciation	<u>\$ 1,276,390</u>	<u>\$ 69,713</u>	<u>\$ 2,352</u>	<u>\$ 1,343,751</u>
Total capital assets depreciated, net	<u>\$ 4,597,533</u>	<u>\$ (64,028)</u>	<u>\$ 1,221</u>	<u>\$ 4,532,284</u>
Capital Assets, Net	<u>\$ 5,225,991</u>	<u>\$ (64,028)</u>	<u>\$ 1,221</u>	<u>\$ 5,160,742</u>

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

Conservation of natural resources	\$ 58,493
Culture and recreation	<u>11,220</u>
Total Depreciation Expense	<u>\$ 69,713</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. Interfund Receivables and Payables

Due To/From Other Funds

The composition of interfund balances as of December 31, 2011, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Ditch Fund	General Fund	<u>\$ 3,000</u>

3. Liabilities

Payables

Payables at December 31, 2011, were as follows:

Accounts payable	\$ 8,023
Salaries payable	<u>7,293</u>
Total Payables	<u>\$ 15,316</u>

Construction Commitments

The Lac qui Parle-Yellow Bank Watershed District did not have any active construction projects as of December 31, 2011.

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

3. Liabilities

Long-Term Debt (Continued)

Long-term debt outstanding at December 31, 2011, 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	\$ 239,410
Lac qui Parle River Water Mainstem Quality Enhancement Project	Not finalized	Not finalized	Not finalized	143,998	143,998
Total Loans Payable				<u>\$ 437,538</u>	<u>\$ 383,408</u>

Debt service requirements at December 21, 2011, were as follows:

Year Ending December 31	Loans Payable	
	Principal	Interest
2012	\$ 27,884	\$ 4,649
2013	28,444	4,089
2014	29,016	3,517
2015	29,599	2,934
2016	30,194	2,339
2017 - 2019	94,273	3,327
Total	<u>\$ 239,410</u>	<u>\$ 20,855</u>

Clean water loans of \$143,998 for the Water Quality Enhancement Project were not included in the debt service requirements because fixed repayment schedules are not available.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

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

C. Detailed Notes on All Funds

3. Liabilities (Continued)

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, 2011, were:

	Balance January 1	Additions	Deductions	Balance December 31	Amount Due Within One Year
Loans payable	\$ 353,763	\$ 56,979	\$ 27,334	\$ 383,408	\$ 27,884
Compensated absences	5,862	2,485	-	8,347	1,960
Total	<u>\$ 359,625</u>	<u>\$ 59,464</u>	<u>\$ 27,334</u>	<u>\$ 391,755</u>	<u>\$ 29,844</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 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.

**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)

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, 2011, for the Lac qui Parle County Economic Development Authority follow:

Governmental Activities	
Taxes	\$ 6,240
Accrued interest	281
Accounts receivable	<u>12,969</u>
Total Governmental Activities	<u>\$ 19,490</u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

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

B. Detailed Notes

1. Assets (Continued)

Capital Assets

The Lac qui Parle Economic Development Authority capital asset activity for the year ended December 31, 2011, 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>253</u>	<u>1,517</u>	<u>-</u>	<u>1,770</u>
Capital Assets, Net	<u>\$ 14,915</u>	<u>\$ 1,517</u>	<u>\$ -</u>	<u>\$ 13,398</u>

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

Economic Development	<u>\$ 1,517</u>
----------------------	-----------------

2. Liabilities

Payables

Payables at December 31, 2011, were as follows:

Accounts payable	\$ 1,126
Salaries payable	5,596
Due to other governments	<u>3,474</u>
Total Payables	<u>\$ 10,196</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, 2011, was as follows:

	<u>Compensated Absences</u>
Payable - January 1	\$ 4,593
Net changes	<u>1,060</u>
Payable - December 31	<u>\$ 5,653</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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 1,772,433	\$ 1,772,433	\$ 1,588,463	\$ (183,970)
Other taxes	3,900	3,900	3,660	(240)
Special assessments	101,200	101,200	98,267	(2,933)
Licenses and permits	11,150	11,150	15,864	4,714
Intergovernmental	413,105	413,105	993,701	580,596
Charges for services	205,950	205,950	206,989	1,039
Fines and forfeits	-	-	27,177	27,177
Gifts and contributions	-	-	3,379	3,379
Investment earnings	69,000	69,000	70,861	1,861
Miscellaneous	123,830	54,636	150,724	96,088
Total Revenues	\$ 2,700,568	\$ 2,631,374	\$ 3,159,085	\$ 527,711
Expenditures				
Current				
General government				
Commissioners	\$ 213,841	\$ 213,841	\$ 201,226	\$ 12,615
Courts	7,000	7,000	7,402	(402)
Jury manager	-	-	34	(34)
Auditor-Treasurer	353,543	353,543	348,218	5,325
Assessor	151,920	151,920	141,949	9,971
Elections	550	550	1,615	(1,065)
Data processing	143,328	143,328	156,006	(12,678)
Attorney	170,807	170,807	172,948	(2,141)
Recorder	170,047	170,047	178,688	(8,641)
Planning and zoning	33,307	33,307	33,600	(293)
Buildings and plant	126,506	126,506	124,402	2,104
Veterans service officer	78,081	78,081	84,158	(6,077)
County car	1,030	1,030	539	491
Geothermal project	-	-	30,504	(30,504)
GIS	-	-	18,992	(18,992)
Employee wellness	-	-	2,289	(2,289)
Other general government	95,088	95,088	127,314	(32,226)
Total general government	\$ 1,545,048	\$ 1,545,048	\$ 1,629,884	\$ (84,836)
Public safety				
Sheriff	\$ 684,824	\$ 684,824	\$ 744,407	\$ (59,583)
Safety/AWAIR	8,500	8,500	7,136	1,364
Sheriff's forfeiture activity	-	-	444	(444)
County sheriff (city)	-	-	179	(179)
Boat and water safety	3,150	3,150	2,991	159

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

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current				
Public Safety (Continued)				
Snowmobile safety	1,875	1,875	739	1,136
Coroner	7,100	7,100	7,579	(479)
Fed safe and sober	-	-	2,307	(2,307)
E-911 system	22,550	22,550	21,393	1,157
County jail	49,275	49,275	102,930	(53,655)
Civil defense	61,651	61,651	78,029	(16,378)
Ambulance	3,000	3,000	3,000	-
Other	2,500	2,500	2,414	86
Total public safety	\$ 844,425	\$ 844,425	\$ 973,548	\$ (129,123)
Sanitation				
Solid waste	\$ 54,886	\$ 54,886	\$ 48,947	\$ 5,939
Recycling	107,266	107,266	108,612	(1,346)
Total sanitation	\$ 162,152	\$ 162,152	\$ 157,559	\$ 4,593
Culture and recreation				
Historical society	\$ 10,300	\$ 10,300	\$ 10,300	\$ -
Parks	1,074	1,074	1,441	(367)
Senior citizens	500	500	500	-
County/regional library	75,697	75,697	75,697	-
Other	20,000	20,000	51,916	(31,916)
Total culture and recreation	\$ 107,571	\$ 107,571	\$ 139,854	\$ (32,283)
Conservation of natural resources				
Extension	\$ 91,215	\$ 91,215	\$ 84,471	\$ 6,744
Soil and water conservation	101,337	101,337	102,338	(1,001)
Agricultural society/County fair	9,550	9,550	9,550	-
E-waste	-	-	9,003	(9,003)
River basin	1,088	1,088	1,088	-
Environmental officer	27,457	27,457	26,639	818
Resource, conservation, and development	1,000	1,000	1,000	-
Feedlot administration	28,101	28,101	27,044	1,057
Other	1,000	1,000	621	379
Total conservation of natural resources	\$ 260,748	\$ 260,748	\$ 261,754	\$ (1,006)

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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Airport	\$ 7,000	\$ 7,000	\$ 7,000	\$ -
Economic development	-	-	228,722	(228,722)
Area II	11,570	11,570	11,570	-
Total economic development	\$ 18,570	\$ 18,570	\$ 247,292	\$ (228,722)
Intergovernmental				
Public safety	\$ 126,328	\$ 126,328	\$ 124,031	\$ 2,297
Health	64,539	64,539	64,539	-
Conservation of natural resources	23,823	23,823	23,823	-
Total intergovernmental	\$ 214,690	\$ 214,690	\$ 212,393	\$ 2,297
Total Expenditures	\$ 3,153,204	\$ 3,153,204	\$ 3,622,284	\$ (469,080)
Excess of Revenues Over (Under)				
Expenditures	\$ (452,636)	\$ (521,830)	\$ (463,199)	\$ 58,631
Other Financing Sources (Uses)				
Transfers in	\$ 5,000	\$ 5,000	\$ 5,000	\$ -
Transfers out	-	-	(8,800)	(8,800)
Total Other Financing Sources (Uses)	\$ 5,000	\$ 5,000	\$ (3,800)	\$ (8,800)
Net Change in Fund Balance	\$ (447,636)	\$ (516,830)	\$ (466,999)	\$ 49,831
Fund Balance - January 1	2,572,608	2,572,608	2,572,608	-
Fund Balance - December 31	\$ 2,124,972	\$ 2,055,778	\$ 2,105,609	\$ 49,831

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 1,508,300	\$ 1,508,300	\$ 1,315,927	\$ (192,373)
Intergovernmental	4,316,000	4,316,000	4,685,410	369,410
Charges for services	-	-	16,437	16,437
Investment earnings	45,000	45,000	14,335	(30,665)
Miscellaneous	123,000	123,000	129,773	6,773
Total Revenues	\$ 5,992,300	\$ 5,992,300	\$ 6,161,882	\$ 169,582
Expenditures				
Current				
Highways and streets				
Administration	\$ 175,850	\$ 175,850	\$ 161,563	\$ 14,287
Maintenance	2,041,000	2,269,000	2,179,101	89,899
Construction	3,174,150	3,238,150	3,303,294	(65,144)
Equipment and maintenance shops	228,000	228,000	202,629	25,371
Total highways and streets	\$ 5,619,000	\$ 5,911,000	\$ 5,846,587	\$ 64,413
Intergovernmental				
Highways and streets	359,000	359,000	371,150	(12,150)
Total Expenditures	\$ 5,978,000	\$ 6,270,000	\$ 6,217,737	\$ 52,263
Excess of Revenues Over (Under) Expenditures	\$ 14,300	\$ (277,700)	\$ (55,855)	\$ 221,845
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	21,032	21,032
Net Change in Fund Balance	\$ 14,300	\$ (277,700)	\$ (34,823)	\$ 242,877
Fund Balance - January 1	2,483,739	2,483,739	2,483,739	-
Increase (decrease) in inventories	-	-	(4,874)	(4,874)
Fund Balance - December 31	\$ 2,498,039	\$ 2,206,039	\$ 2,444,042	\$ 238,003

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 914,501	\$ 914,501	\$ 798,042	\$ (116,459)
Intergovernmental	967,280	967,280	1,173,679	206,399
Charges for services	172,146	172,146	209,604	37,458
Investment earnings	30,000	30,000	20,775	(9,225)
Miscellaneous	41,500	41,500	83,368	41,868
Total Revenues	\$ 2,125,427	\$ 2,125,427	\$ 2,285,468	\$ 160,041
Expenditures				
Current				
Human services				
Income maintenance	\$ 611,000	\$ 611,000	\$ 596,258	\$ 14,742
Social services	1,514,427	1,514,427	1,481,765	32,662
Total Expenditures	\$ 2,125,427	\$ 2,125,427	\$ 2,078,023	\$ 47,404
Net Change in Fund Balance	\$ -	\$ -	\$ 207,445	\$ 207,445
Fund Balance - January 1	3,748,405	3,748,405	3,748,405	-
Fund Balance - December 31	\$ 3,748,405	\$ 3,748,405	\$ 3,955,850	\$ 207,445

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 279,000	\$ 279,000	\$ 281,338	\$ 2,338
Intergovernmental	-	-	62,243	62,243
Investment earnings	10,000	10,000	-	(10,000)
Miscellaneous	-	-	720	720
Total Revenues	\$ 289,000	\$ 289,000	\$ 344,301	\$ 55,301
Expenditures				
Current				
Conservation of natural resources				
Other	289,000	289,000	292,924	(3,924)
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ 51,377	\$ 51,377
Other Financing Sources (Uses)				
Transfers in	-	-	8,800	8,800
Transfers out	-	-	(5,000)	(5,000)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 3,800	\$ 3,800
Net Change in Fund Balance	\$ -	\$ -	\$ 55,177	\$ 55,177
Fund Balance - January 1	775,213	775,213	775,213	-
Fund Balance - December 31	\$ 775,213	\$ 775,213	\$ 830,390	\$ 55,177

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011**

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 fund:

	Original Budget	Increase (Decrease)	Final Budget
Road and Bridge Special Revenue Fund	\$ 5,978,000	\$ 292,000	\$ 6,270,000

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	\$ 3,622,284	\$ 3,153,204	\$ 469,080
Ditch Special Revenue	292,924	289,000	3,924

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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, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CHILDREN'S MENTAL HEALTH COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 165,288	\$ 118,438	\$ 62,027	\$ 221,699
<u>Liabilities</u>				
Due to other governments	\$ 165,288	\$ 118,438	\$ 62,027	\$ 221,699
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 30,019	\$ 1,031,431	\$ 1,050,865	\$ 10,585
<u>Liabilities</u>				
Due to other governments	\$ 30,019	\$ 1,031,431	\$ 1,050,865	\$ 10,585
 <u>FORFEITED TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 2,393	\$ 2,500	\$ 1,850	\$ 3,043
<u>Liabilities</u>				
Due to other governments	\$ 2,393	\$ 2,500	\$ 1,850	\$ 3,043

**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, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 160,013</u>	<u>\$ 10,186,515</u>	<u>\$ 10,167,220</u>	<u>\$ 179,308</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 160,013</u>	<u>\$ 10,186,515</u>	<u>\$ 10,167,220</u>	<u>\$ 179,308</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 357,713</u>	<u>\$ 11,338,884</u>	<u>\$ 11,281,962</u>	<u>\$ 414,635</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 357,713</u>	<u>\$ 11,338,884</u>	<u>\$ 11,281,962</u>	<u>\$ 414,635</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, 2011**

	<u>Primary Government</u>	<u>Discretely Presented Component Unit Lac qui Parle- Yellow Bank Watershed District</u>
Shared Revenue		
State		
Highway users tax	\$ 4,301,963	\$ -
Market value credit	252,590	19,297
PERA rate reimbursement	12,441	66
Disparity reduction aid	51,119	-
County program aid	125,562	-
Police aid	46,565	-
E-911	79,523	-
	<u>4,869,763</u>	<u>19,363</u>
Total shared revenue	\$ 4,869,763	\$ 19,363
Reimbursement for Services		
State		
Minnesota Department of Human Services	\$ 237,766	\$ -
	<u>237,766</u>	<u>-</u>
Total reimbursement for services	\$ 237,766	\$ -
Payments		
Local		
Local contributions	\$ -	\$ 6,500
Payments in lieu of taxes	159,840	1,889
	<u>159,840</u>	<u>8,389</u>
Total payments	\$ 159,840	\$ 8,389
Grants		
State		
Minnesota Department/Board of		
Human Services	\$ 371,193	\$ -
Health	4,101	-
Natural Resources	92,862	-
Public Safety	47,935	-
Transportation	64,785	-
Water and Soil Resources	56,415	-
Peace Officer Standards and Training Board	2,272	-
Pollution Control Agency	64,470	59,787
	<u>704,033</u>	<u>59,787</u>
Total state	\$ 704,033	\$ 59,787

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**EXHIBIT C-1
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Primary Government</u>	<u>Discretely Presented Component Unit Lac qui Parle- Yellow Bank Watershed District</u>
Grants (Continued)		
Federal		
Department of		
Agriculture	\$ 60,674	\$ -
Commerce	28,929	-
Housing and Urban Development	228,722	-
Transportation	6,783	-
Energy	8,948	-
Health and Human Services	413,232	-
Homeland Security	196,343	-
	<hr/>	<hr/>
Total federal	\$ 943,631	\$ -
	<hr/>	<hr/>
Total state and federal grants	\$ 1,647,664	\$ 59,787
	<hr/>	<hr/>
Total Intergovernmental Revenue	\$ 6,915,033	\$ 87,539
	<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, 2011**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ <u>60,674</u>
U.S. Department of Commerce		
Passed Through Southwest Minnesota Regional Radio Board Public Safety Interoperable Communications Grant Program	11.555	\$ 761
Passed Through Minnesota Department of Public Safety Public Safety Interoperable Communications Grant Program	11.555	<u>9,441</u>
Total U.S. Department of Commerce		\$ <u>10,202</u>
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	\$ <u>228,722</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Public Safety Highway Safety Cluster		
State and Community Highway Safety	20.600	\$ 3,248
Occupant Protection Incentive Grants	20.602	642
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>2,893</u>
Total U.S. Department of Transportation		\$ <u>6,783</u>
U.S. Department of Energy		
Passed Through Minnesota Department of Commerce State Energy Program - ARRA	81.041	\$ 4,159
Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA	81.128	<u>4,789</u>
Total U.S. Department of Energy		\$ <u>8,948</u>
U.S. Election Assistance Commission		
Passed Through Minnesota Office of the Secretary of State Help America Vote Act Requirements Payments	90.401	\$ <u>8,700</u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**EXHIBIT C-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	\$ 6,500
Temporary Assistance for Needy Families	93.558	40,792
Child Support Enforcement	93.563	71,271
Child Care Mandatory Matching Funds of the Child Care and Development Fund	93.596	1,601
Foster Care Title IV-E	93.658	20,722
Social Services Block Grant	93.667	73,427
Children's Health Insurance Program	93.767	40
Medical Assistance Program	93.778	196,073
Block Grants for Community Mental Health Services	93.958	2,806
		<hr/>
Total U.S. Department of Health and Human Services		\$ 413,232
U.S. Department of Homeland Security		
Passed Through United Way		
Emergency Food and Shelter National Board Program	97.024	\$ 1,456
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	124,154
Emergency Management Performance Grants	97.042	12,276
Passed Through Southwest Minnesota Regional Radio Board		
Interoperable Emergency Communications	97.055	1,736
Homeland Security Grant Program	97.067	44,721
Passed Through Murray County		
Homeland Security Grant Program	97.067	12,000
		<hr/>
Total U.S. Department of Homeland Security		\$ 196,343
		<hr/>
Total Federal Awards		\$ 933,604

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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, 2011. 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. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Highway Safety Cluster	\$	3,890
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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 943,631
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 in 2010 but expended in 2011 (CFDA #90.401)	<u>8,700</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u><u>\$ 933,604</u></u>

6. Passed Through to Subrecipients

Of the expenditures presented in the schedule, Lac qui Parle County provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	\$ 228,722

7. 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, 2011**

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and pooled investments	\$ 912,874
Taxes receivable	
Prior	2,505
Special assessments receivable	
Noncurrent	283,799
Accrued interest receivable	4,389
Due from other governments	31,092
Capital assets	
Non-depreciable	628,458
Depreciable - net of accumulated depreciation	<u>4,532,284</u>
Total Assets	<u>\$ 6,395,401</u>
<u>Liabilities</u>	
Accounts payable	\$ 8,023
Salaries payable	7,293
Unearned revenue	186,775
ISTS loans	
Due in one year	27,884
Due in more than one year	355,524
Compensated absences	
Due within one year	1,960
Due in more than one year	<u>6,387</u>
Total Liabilities	<u>\$ 593,846</u>
<u>Net Assets</u>	
Invested in capital assets	\$ 5,160,742
Restricted for conservation	187,896
Unrestricted	<u>452,917</u>
Total Net Assets	<u>\$ 5,801,555</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, 2011**

	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	\$ 119,491	\$ 83,297	\$ 3,500	\$ -	\$ (32,694)
Conservation of natural resources	409,071	103,935	62,787	-	(242,349)
Interest	5,619	-	-	-	(5,619)
Total Governmental Activities	<u>\$ 534,181</u>	<u>\$ 187,232</u>	<u>\$ 66,287</u>	<u>\$ -</u>	<u>\$ (280,662)</u>
 General Revenues					
Property taxes				\$ 207,026	
Payments in lieu of tax				1,889	
Grants and contributions not restricted to specific programs				19,363	
Unrestricted investment earnings				10,164	
Miscellaneous				19,806	
Total general revenues				<u>\$ 258,248</u>	
Change in net assets				\$ (22,414)	
Net Assets - Beginning				<u>5,823,969</u>	
Net Assets - Ending				<u>\$ 5,801,555</u>	

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT D-3

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2011**

	General	Ditch Special Revenue	Total
<u>Assets</u>			
Cash and pooled investments	\$ 827,623	\$ 85,251	\$ 912,874
Taxes receivable			
Prior	2,505	-	2,505
Special assessments receivable			
Noncurrent	281,962	1,837	283,799
Accrued interest receivable	3,566	823	4,389
Due from other funds	-	3,000	3,000
Due from other governments	31,092	-	31,092
	\$ 1,146,748	\$ 90,911	\$ 1,237,659
<u>Liabilities and Fund Balance</u>			
Liabilities			
Accounts payable	\$ 5,398	\$ 2,625	\$ 8,023
Salaries payable	7,293	-	7,293
Due to other funds	3,000	-	3,000
Deferred revenue - unavailable	284,467	1,837	286,304
Deferred revenue - unearned	186,775	-	186,775
	\$ 486,933	\$ 4,462	\$ 491,395
Fund Balance			
Restricted for			
Septic/sewer loans	\$ 101,447	\$ -	\$ 101,447
Ditch repairs and maintenance	-	86,449	86,449
Assigned to			
Flood control	445,981	-	445,981
Unassigned	112,387	-	112,387
	\$ 659,815	\$ 86,449	\$ 746,264
Total Fund Balance	\$ 659,815	\$ 86,449	\$ 746,264
Total Liabilities and Fund Balance	\$ 1,146,748	\$ 90,911	\$ 1,237,659

**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, 2011**

Fund balance - total governmental funds	\$ 746,264
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.	5,160,742
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	286,304
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Loans payable	(383,408)
Compensated absences	<u>(8,347)</u>
Net Assets of Governmental Activities	<u><u>\$ 5,801,555</u></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, 2011**

	General	Ditch Special Revenue	Total
Revenues			
Taxes	\$ 206,674	\$ -	\$ 206,674
Special assessments	47,803	9,962	57,765
Intergovernmental	87,539	-	87,539
Charges for services	109,536	4,325	113,861
Interest earnings	8,579	1,585	10,164
Miscellaneous	20,965	-	20,965
	\$ 481,096	\$ 15,872	\$ 496,968
Expenditures			
Current			
Culture and recreation	\$ 112,990	\$ -	\$ 112,990
Conservation of natural resources	324,490	23,348	347,838
Debt service			
Principal	27,334	6,000	33,334
Interest	5,199	420	5,619
	\$ 470,013	\$ 29,768	\$ 499,781
Excess of Revenues Over (Under)			
Expenditures	\$ 11,083	\$ (13,896)	\$ (2,813)
Other Financing Sources (Uses)			
Loans issued	56,979	-	56,979
	\$ 68,062	\$ (13,896)	\$ 54,166
Net Change in Fund Balance			
Fund Balance - January 1	591,753	100,345	692,098
Fund Balance - December 31	\$ 659,815	\$ 86,449	\$ 746,264

**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, 2011**

Net change in fund balance - total governmental funds (Exhibit D-5) \$ 54,166

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	\$ 286,304	
Deferred revenue - January 1	<u>(271,505)</u>	14,799

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	\$ 5,685	
Net book value of assets disposed of	(1,221)	
Current year depreciation	<u>(69,713)</u>	(65,249)

Governmental funds report loans issued as other financing sources. However, in the statement of activities, the loans are reported as a liability. (56,979)

Payments on long-term debt are reported as expenditures in the governmental funds, but reduce the liabilities at the government-wide level. 33,334

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>(2,485)</u>
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Change in Net Assets of Governmental Activities (Exhibit D-2) \$ (22,414)

**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, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ -	\$ -	\$ 206,674	\$ 206,674
Special assessments	-	-	47,803	47,803
Intergovernmental	-	-	87,539	87,539
Charges for services	92,500	92,500	109,536	17,036
Investment earnings	-	-	8,579	8,579
Miscellaneous	-	-	20,965	20,965
Total Revenues	\$ 92,500	\$ 92,500	\$ 481,096	\$ 388,596
Expenditures				
Current				
Culture and recreation				
Parks	\$ 95,075	\$ 95,075	\$ 112,990	\$ (17,915)
Conservation of natural resources				
Watershed	225,000	225,000	324,490	(99,490)
Debt service				
Principal	-	-	27,334	(27,334)
Interest	-	-	5,199	(5,199)
Total Expenditures	\$ 320,075	\$ 320,075	\$ 470,013	\$ (149,938)
Excess of Revenues Over (Under)				
Expenditures	\$ (227,575)	\$ (227,575)	\$ 11,083	\$ 238,658
Other Financing Sources (Uses)				
Loans issued	-	-	56,979	56,979
Net Change in Fund Balance	\$ (227,575)	\$ (227,575)	\$ 68,062	\$ 295,637
Fund Balance - January 1	591,753	591,753	591,753	-
Fund Balance - December 31	\$ 364,178	\$ 364,178	\$ 659,815	\$ 295,637

**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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 6,203	\$ 6,203	\$ 9,962	\$ 3,759
Charges for services	-	-	4,325	4,325
Investment earnings	-	-	1,585	1,585
Total Revenues	<u>\$ 6,203</u>	<u>\$ 6,203</u>	<u>\$ 15,872</u>	<u>\$ 9,669</u>
Expenditures				
Current				
Conservation of natural resources				
Conservation - other	\$ 5,000	\$ 5,000	\$ 23,348	\$ (18,348)
Debt service				
Principal	-	-	6,000	(6,000)
Interest	-	-	420	(420)
Total Expenditures	<u>\$ 5,000</u>	<u>\$ 5,000</u>	<u>\$ 29,768</u>	<u>\$ (24,768)</u>
Net Change in Fund Balance	<u>\$ 1,203</u>	<u>\$ 1,203</u>	<u>\$ (13,896)</u>	<u>\$ (15,099)</u>
Fund Balance - January 1	<u>-</u>	<u>-</u>	<u>100,345</u>	<u>100,345</u>
Fund Balance - December 31	<u><u>\$ 1,203</u></u>	<u><u>\$ 1,203</u></u>	<u><u>\$ 86,449</u></u>	<u><u>\$ 85,246</u></u>

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

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

Federal Awards

Internal control over major programs:

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

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

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

The major programs are:

Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	CFDA #14.228
Medical Assistance Program	CFDA #93.778
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	CFDA #97.036

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

County qualified as low-risk auditee? **No**

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

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: Several of the County's departments that collect fees lack proper segregation of duties. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Context: Due to the limited number of office personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not 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 accounting point of view.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The County does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

Recommendation: We recommend that the County's elected officials and management be aware of the lack of segregation of duties of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are implemented by staff to the extent possible.

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

Criteria: 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 County's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit, we identified material adjustments that resulted in significant changes to the County's financial statements.

Context: The inability to make accrual adjustments or to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: Audit adjustments were necessary to materially state receivables recorded twice by the County and adjust the related deferred revenue-unavailable liability and applicable revenues; to increase deferred revenue-unavailable liability and reduce applicable revenues for noncurrent special assessments not received in revenue recognition period; to reclassify intergovernmental revenues to proper revenue accounts; and to make reclassification entries as necessary.

Cause: The adjustments resulted from: controls over calculating the proper amounts of balances and transactions not detecting a number of errors; the County not considering the need for controls over the recording of certain accounting transactions; and County staff did not have the time to prepare all of the information necessary to provide accurate financial statements.

Recommendation: We recommend that the County staff review the trial balances and journal entries in detail to ensure they have an understanding of all audit adjustments made so that, in future audits, this information can be prepared by the County.

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 and accounting staff and adjust those responsibilities as it feels necessary to address this finding.

09-4 Assessing and Monitoring Internal Controls

Criteria: The County's management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition: A risk assessment of existing controls over significant functions of the accounting system used to produce financial information has not been completed.

Context: 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, updates to information systems, or changes to services being provided.

Effect: Weaknesses in internal control could go undetected, which could affect the County's ability to detect material misstatements in the financial statements.

Cause: The County has not had the staffing resources available to complete the risk assessment process.

Recommendation: We recommend that County management implement procedures to document the significant internal controls in its accounting system. We also recommend a formal plan be developed that calls for assessing and monitoring significant internal controls on a regular basis, no less than annually. The assessment of risks should be documented and procedures implemented to address those risks found. Monitoring procedures 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.

10-1 Other Postemployment Benefits (OPEB)

Criteria: 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.

Condition: For 2009, 2010, and 2011, 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.

Context: 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.

Cause: Lac qui Parle County has determined the cost of hiring an actuary to determine annual costs and liabilities associated with reporting its OPEB liability is not worth the necessary investment to become compliant with GASB 43 and 45.

Effect: 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.

Recommendation: 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 has decided to consider hiring an actuarial service to assist in gathering data and performing computations necessary to evaluate the County's OPEB liabilities. The Board will re-assess the costs and benefits of GASB 43/45 compliance before making a decision.

ITEMS ARISING THIS YEAR

11-1 Network/Application Password Controls

Criteria: County management is responsible for the County's internal controls over its information systems. This requires establishing security policies and performing assessments of existing controls to determine if the internal controls established are still effective or if changes are needed to ensure County data is protected as prescribed by management.

Condition: Lac qui Parle County recently updated to a new version of the Integrated Financial System (IFS) application software. This application was written as a web-based application and may be run on a server or a mainframe system. Lac qui Parle County contracts with another government for use of space on a mainframe IBM I Series system. For an employee of Lac qui Parle County to access the new IFS application, the user must be signed on to the County network and have a current sign-on for the IFS application. The sign-on differs from the sign-on for the IBM I Series system, so the mainframe security settings do not apply to the application. Lac qui Parle County has not reviewed the network controls or assessed risks from the change to a web-based application to ensure password controls are working as intended.

Context: The IFS application is the general ledger for Lac qui Parle County. Detailed receipt and disbursement transactions as well as budget information are maintained on the IFS application throughout the year. This information is used by management to monitor the resources available and make decisions based on the available resources. At or near year-end, certain accrual information is also recorded in the application. The information maintained within the IFS application is the key source of information used for the preparation of the County's annual financial statements.

Effect: Normal password controls in place in the IBM I Series system are not effective for the IFS application, so a review of the IFS application controls and County network controls is imperative to ensure passwords are working as intended.

Cause: Lac qui Parle County recently updated to a new web-based version of the IFS application software. County management was not aware of some of the password implications of this change.

Recommendation: We recommend Lac qui Parle County management review password controls in place that limit access to the IFS application to ensure they are appropriate to protect the County data as prescribed by management.

Client's Response:

The County Auditor-Treasurer will work with IT staff to review current password controls and implement new controls to appropriately limit access to IFS.

11-2 Timeliness of Preparation of Financial Statements

Criteria: Management is responsible for preparing the County's financial statements in accordance with generally accepted accounting principles (GAAP) and U.S. Office of Management and Budget (OMB) Circular A-133. The financial statement preparation in accordance with GAAP and OMB Circular A-133 requires internal control over both (1) recording, processing, and summarizing accounting data (that is, 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.

Condition: The information that was to be included in the County financial statements submitted to the Office of the State Auditor required numerous revisions affecting both the financial statements and related notes. Certain financial information for a component unit was not provided to the Office of the State Auditor until September 13, 2012. In addition, Office of the State Auditor staff were required to complete the financial statement process including converting the modified accrual to full accrual in order to complete the government-wide financial statements for that component unit.

Context: Preparation of information included in the County's financial statements is performed by the County Auditor-Treasurer's Office. That information is to be provided to the Office of the State Auditor in the time, form, and manner to finalize the audit in order to meet the County's September 30 single audit deadline.

Effect: Additional audit hours resulted from delays in completing the County's financial statements within a reasonable amount of time. Also, errors were discovered which resulted in adjustments to the financial statements.

Cause: Certain financial information necessary for the County's financial statements was not completed in the time, form and manner indicated in the audit preparation checklist completed by County staff. The County's staff is capable of preparing the financial statements but has historically had difficulties meeting the financial statement deadline required.

Recommendation: The County Board of Commissioners and management should take responsibility for their financial statements by reviewing internal controls currently in place over the preparation of its financial statements. Procedures should be implemented to ensure that the necessary financial information be prepared in a manner that allows staff from the Office of the State Auditor an adequate amount of time to complete the audit by the County's reporting deadline.

Client's Response:

2011 was the first audit year the County attempted to prepare financial statements internally instead of relying on audit staff to complete this process. This required significant time to allow County staff to become familiar with these procedures. Unfortunately, the only current County employee with the experience and training necessary to properly prepare financial statements in the form and manner prescribed by the auditors is the County Auditor-Treasurer. Competing pressures from other duties of this staff person are not conducive to completing financial statement preparation in a timely manner. The Auditor-Treasurer will communicate to the County Board the need to have an adequate amount of staff time and expertise available to meet financial statement reporting deadline.

PREVIOUSLY REPORTED ITEMS RESOLVED

Preparation of Financial Statements (09-3)

In 2010, Lac qui Parle County 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.

Resolution

The County has improved its understanding and preparation of underlying accounting data used in the preparation of the financial statements. Also, for the 2011 audit, the County prepared government-wide and fund financial statements, including the related notes to the financial statements.

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

In 2010, Lac qui Parle County did not prepare a Schedule of Expenditures of Federal Awards, nor did 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 A-133.

Resolution

The County has improved its system of identifying federal award information and was able to provide a Schedule of Expenditures of Federal Awards which identified federal programs by amount received and expended, federal grantor agency, pass-through agency, and CFDA title and number as required under OMB A-133.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

11-3 Reporting

Program: Medical Assistance Program (CFDA No. 93.778)

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

Condition: The County receives medical assistance funding for reimbursement of direct costs related to the access transportation program. Reimbursements are based on monthly requests submitted by the County to the Minnesota Department of Human Services (DHS) on the state's system.

We reviewed six monthly requests for reimbursement and noted two that included expenditures that did not agree with the County's general ledger. In addition, we noted one monthly request that was denied by DHS and not resubmitted by the County until our audit brought it to their attention.

Questioned Costs: None

Context: The amount of federal reimbursements received by the County through DHS for the medical assistance access transportation program is based on the reporting done through the monthly requests submitted to DHS.

Effect: Reporting errors on monthly reimbursement requests and the lack of reimbursement of federal funding for qualifying expenditures.

Cause: The lack of monitoring of monthly reimbursement requests related to the medical assistance access transportation program.

Recommendation: We recommend the County establish and implement policies and procedures to ensure that detailed reviews of monthly requests for reimbursements are performed prior to submission of the reports. We further recommend that the receipt of federal funds be monitored to ensure all requests have been received in a timely manner.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Valerie Halvorson, Fiscal Officer

Corrective Action Planned:

A new MA access reimbursement form was created in August 2012 to eliminate confusion of MA Access qualifying payments. A system is now in place for more accurate MA Access billing via IFS and MNITS, which eliminates triplicate entry and better provides record keeping for tracking of billing.

Anticipated Completion Date:

August 2012

11-4 Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Approval of Disbursements

Program: Medical Assistance Program (CFDA No. 93.778)

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

Condition: Based on our testing of internal control over disbursements, we found 8 out of 11 Human Services Disbursements that did not include evidence to indicate they are being reviewed and approved by a supervisor or the Director.

Questioned Costs: None

Context: The approval of disbursements by a supervisor or the Director is an important function ensuring that amounts charged to federal programs are accurate and proper.

Effect: As a result of this condition the Human Services department lacks proper internal controls over the disbursements process, increasing the risk of fraudulent disbursements and incorrect charges to federal programs.

Cause: The County did not have a policy in place requiring written evidence of review and approval of each invoice.

Recommendation: We recommend that internal controls be implemented to assure all disbursements are reviewed and that the review is documented by a Human Services supervisor or the Director.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Valerie Halvorson, Fiscal Officer

Corrective Action Planned:

A policy was updated August 31, 2012, to allow accounting personnel authority to approve bills prior to payment.

Anticipated Completion Date:

August 2012

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 **Ditch Fund Cash Deficits**

Criteria: 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.

Condition: Ten of the 103 individual ditch systems had deficit cash balances totaling \$68,395 at December 31, 2011. This amount increased from the prior year when we reported that eight of the 103 individual ditch systems had deficit cash balances totaling \$39,424.

Context: 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. 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.

Effect: 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.

Cause: Ditch expenditures were necessary; the ditch levies were not sufficient, and no loans were formally made between ditches.

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

Client's Response:

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

PREVIOUSLY REPORTED ITEMS RESOLVED

Commissioner Per Diems (09-7)

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.” The County Board did not set 2010 per diem payments until the January 5, 2010, meeting.

Resolution

At the December 8, 2011, Commissioner meeting, the County Board set the per diem rate for 2012.

Publishing Board Minutes and Claims Paid (09-8)

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.

Resolution

The County has made progress publishing Board minutes more timely. During 2011, the County started publishing an individualized, itemized list of County Board-approved payments over \$2,000. A statement showing the total number and amount of claims that does not exceed the \$2,000 threshold is also disclosed.

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REBECCA OTTO
STATE AUDITOR

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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, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 2012. 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

Management of Lac qui Parle County is responsible for establishing and maintaining effective 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, 09-4, 11-1, and 11-2 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 item 96-1.

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, 2012

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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, 2011. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

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 the 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 11-3 and 11-4. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charges with governance.

Lac qui Parle County's corrective action plans to the federal award findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plans 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 and 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, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR