

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

LINCOLN COUNTY
IVANHOE, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

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

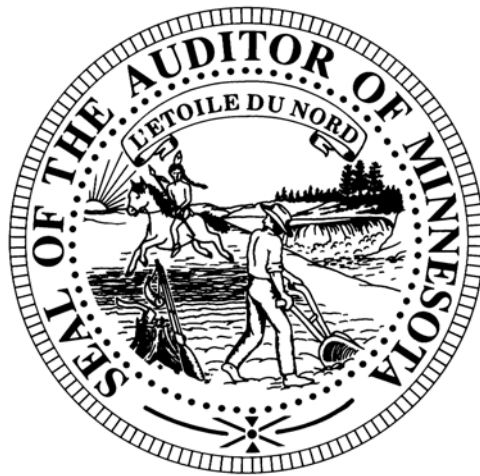
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

Year Ended December 31, 2004



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

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

ORGANIZATION
2004

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1st District	Jim Nichols ²	January 2005
2nd District	Larry Hansen	January 2007
3rd District	Deane Sagmoe ¹	January 2005
4th District	Curtis Blumeyer	January 2007
5th District	David D. Norgaard	January 2005
Officers		
Elected		
Attorney	Glen Petersen	January 2007
Auditor	Kathy Schreurs	January 2007
District Judges	George I. Harrelson	January 2009
	Lee Bush	January 2005
	David W. Peterson	January 2005
County Recorder	Loretta Lundberg	January 2007
Registrar of Titles	Loretta Lundberg	January 2007
Sheriff	Jack Vizecky	January 2007
Treasurer	Mark R. Leibfried	January 2007
Appointed		
Acting Assessor	Bruce Nielsen	Indefinite
Coroner	Richard D. Mulder, M.D.	Indefinite
Environmental Officer	Robert Olsen	Indefinite
Highway Engineer	Ronald Gregg	January 2005
Veterans Service Officer	Gary Serie	Indefinite
Emergency Management	Norm VanOverbeke	Indefinite

¹Chair 2005

²Chair 2004

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STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Lincoln County

We have audited the basic financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lincoln County as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lincoln County as of December 31, 2004, 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.

As discussed in Note 1 to the financial statements, Lincoln County adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended, and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2004. These statements result in a change in the format and content of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2005, on our consideration of the Lincoln County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: April 29, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

(Unaudited)

As management of Lincoln County, Minnesota, we offer the readers of the Lincoln County financial statements this narrative overview and analysis of its financial activities for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the basic financial statements that follow this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- The assets of Lincoln County exceeded its liabilities on December 31, 2004, by \$32,476,280 (net assets). Of this amount, \$5,971,027 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- Lincoln County's total net assets increased by \$2,565,102 in 2004. This is attributable primarily to the County's investment in capital assets net of accumulated depreciation.
- As of the close of 2004, Lincoln County's governmental funds reported combined ending fund balances of \$8,504,414, an increase of \$2,287,862 in comparison with 2003, as restated. Of this balance amount, \$4,661,340 was unreserved and undesignated by Lincoln County, and thus available for spending at the government's discretion.
- At the end of 2004, unreserved fund balance for the General Fund was \$2,071,334, or 69 percent of the total General Fund expenditures for that year.
- Lincoln County's total debt increased by \$1,667,304, or 52 percent during 2004. The key factor in this increase was the issuance of \$1,790,000 General Obligation Crossover Refunding Bonds of 2004 to advance crossover refund the G.O. Detention Facility Bonds, Series 2000, maturing after February 1, 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

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

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

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

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the *government-wide* and *fund* financial statements. The notes to the financial statements can be found on pages 25 through 54 of this report.

Other information is provided as supplementary information regarding Lincoln County's intergovernmental revenues.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. Lincoln County's assets exceeded liabilities by \$32,476,280 at the close of 2004. The largest portion of Lincoln County's net assets (76 percent) reflects the County's investment in capital assets (for example, land, buildings, equipment, and infrastructure such as roads and bridges), less any related debt used to acquire those assets (that is still outstanding). However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

	Governmental Activities <u>2004</u>
Assets	
Current and other assets	\$ 11,109,134
Capital assets	<u>26,690,759</u>
Total Assets	<u>\$ 37,799,893</u>
Liabilities	
Long-term liabilities	\$ 4,531,675
Other liabilities	<u>791,938</u>
Total Liabilities	<u>\$ 5,323,613</u>
Net Assets	
Invested in capital assets, net of related debt	\$ 24,789,924
Restricted	1,715,329
Unrestricted	<u>5,971,027</u>
Total Net Assets	<u>\$ 32,476,280</u>

The unrestricted net assets amount of \$5,971,027 as of December 31, 2004, may be used to meet the County's ongoing obligations to citizens and creditors.

Lincoln County Net Assets

Governmental Activities

Lincoln County's activities increased Lincoln County's Net Assets during 2004 by \$2,565,102 representing an 8.6 percent increase, primarily because of the County's investment in capital assets. Key elements in this increase in net assets are as follows:

Lincoln County Changes in Net Assets

	<u>Governmental Activities 2004</u>
Revenues	
Program revenues	
Charges for services	\$ 458,268
Operating grants and contributions	1,812,001
Capital grants and contributions	2,221,749
General revenues	
Property taxes	2,900,418
Other	<u>1,202,335</u>
Total Revenues	<u>\$ 8,594,771</u>
Expenses	
General government	\$ 1,086,789
Public safety	923,638
Highways	1,801,564
Sanitation	89,147
Human services	925,505
Health	38,149
Culture and recreation	195,039
Conservation	611,741
Economic development	209,147
Interest	<u>148,950</u>
Total Expenses	<u>\$ 6,029,669</u>
Increase in Net Assets	\$ 2,565,102
Net Assets - January 1	<u>29,911,178</u>
Net Assets - December 31	<u><u>\$ 32,476,280</u></u>

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, Lincoln County's governmental funds reported combined ending fund balances of \$8,504,414, an increase of \$2,287,862 in comparison with the prior year, as restated. Of the ending fund balance, \$4,661,340 represents unreserved fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons.

The General Fund is the chief operating fund for Lincoln County. At the end of the current fiscal year, it had an unreserved fund balance of \$2,071,334. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. General Fund unreserved fund balance represents 69 percent of total General Fund expenditures. In 2004, ending fund balance in the General Fund decreased by \$145,671. The primary reason for this decrease was due to less than expected Homestead Ag Credit Aid (HACA) from the State of Minnesota.

The road and bridge unreserved fund balance of \$2,339,294 at year-end represents 71 percent of the fund's annual expenditures. Unreserved fund balance increased \$696,720 during 2004, primarily due to the reduction of road projects and costs associated with those projects.

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

The Ditch Special Revenue Fund had an unreserved ending balance of \$250,712. This ending balance represents a \$59,738 decrease in fund balance from the prior year. The decrease is attributed to less than expected revenues for the various county ditches.

General Fund Budgetary Highlights

No differences between the original General Fund expenditure budget and the final amended budget were experienced in 2004.

Budgeted General Fund revenues exceeded actual revenues by \$55,786, primarily due to less pass-through intergovernmental receipts and less than expected charges for services receipts.

Actual expenditures exceeded budgeted expenditures by \$34,063. The more than expected expenditures reflect higher than anticipated operating costs. Lincoln County purchased and installed E-911 rural residence and intersection signage in 2004. This expenditure was not included in the 2004 budget. Special assessments have been included with the 2005 property taxes to offset costs of E-911 signage from 2004.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. Lincoln County's depreciable capital assets for its governmental activities at December 31, 2004, totaled \$24,753,849 (net of accumulated depreciation). This investment in capital assets includes land improvements, buildings, equipment, and infrastructure. The County's investment in capital assets increased \$1,982,011 or 6.0 percent from the previous year. The major capital asset event was Road and Bridge projects of \$1.8 million.

Lincoln County's Governmental Capital Assets

	<u>2003</u>	<u>2004</u>
Capital assets depreciated		
Land improvements	\$ 194,878	\$ 194,878
Buildings	2,607,027	2,607,027
Machinery and equipment	2,947,337	3,146,503
Infrastructure	<u>26,902,934</u>	<u>27,286,346</u>
Total capital assets depreciated	<u>\$ 32,652,176</u>	<u>\$ 33,234,754</u>
Less: accumulated depreciation for		
Land improvements	\$ 77,549	\$ 83,078
Buildings	625,858	684,389
Machinery and equipment	2,086,994	2,140,405
Infrastructure	<u>5,034,335</u>	<u>5,573,033</u>
Total accumulated depreciations	<u>\$ 7,824,736</u>	<u>\$ 8,480,905</u>
Total Capital Assets, Depreciated, Net	<u>\$ 24,827,440</u>	<u>\$ 24,753,849</u>

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

Long-Term Debt. At the end of the current fiscal year, the County had a total outstanding debt of \$4,854,446 for governmental activities, which was backed by the full faith and credit of the government. Other liabilities and contingencies are described in the notes to the financial statements.

Lincoln County's Outstanding Debt

	<u>2003</u>	<u>2004</u>
Special assessment debt	\$ 348,000	\$ 211,000
General obligation bonds	1,920,000	3,635,000
Leases payable	81,051	55,835
Loans payable	693,580	824,508
Compensated absences	<u>144,511</u>	<u>128,103</u>
Total	<u>\$ 3,187,142</u>	<u>\$ 4,854,446</u>

The County's debt related to special assessment obligation bonds and notes decreased by \$137,000 (39 percent) during the fiscal year due to repayment of principal. General obligation bonded debt increased by \$1,715,000 (89 percent) during the fiscal year due to the Advance Crossover Refunding of Debt of the General Obligation Detention Facility Bonds, Series 2000, maturing after February 1, 2006.

Minnesota statutes limit the amount of debt a county may levy to two percent of its total market value of \$468,506,200. At the end of 2004, Lincoln County's debt was 1.0 percent of its total market value.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The unemployment rate for Lincoln County at the end of 2004 was 3.9 percent. This compares favorably with the state unemployment rate of 4.3 percent and shows a decrease from the 5.9 percent rate of one year ago.

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

By the end of 2003, Lincoln County approved its balanced 2004 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

<u>Assets</u>	
Cash and pooled investments	\$ 8,303,368
Receivables - net	2,610,929
Inventories	165,388
Prepaid items	3,569
Deferred charges	25,880
Capital assets	
Non-depreciable capital assets	1,936,910
Depreciable capital assets - net of accumulated depreciation	<u>24,753,849</u>
Total Assets	<u>\$ 37,799,893</u>
<u>Liabilities</u>	
Accounts payable and other current liabilities	\$ 351,395
Accrued interest payable	73,718
Unearned revenue	75,286
Long-term liabilities	
Due within one year	291,539
Due in more than one year	<u>4,531,675</u>
Total Liabilities	<u>\$ 5,323,613</u>
<u>Net Assets</u>	
Invested in capital assets net of related debt	\$ 24,789,924
Restricted for	
Highways and streets	1,398,853
Public safety	55,088
Debt service	253,246
Other purposes	8,142
Unrestricted	<u>5,971,027</u>
Total Net Assets	<u>\$ 32,476,280</u>

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
Expenses	Fees, Charges, Fines and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Functions/Programs					
Governmental activities					
General government	\$ 1,086,789	\$ 133,013	\$ 4,553	\$ -	\$ (949,223)
Public safety	923,638	105,413	89,434	15,203	(713,588)
Highways and streets	1,801,564	44,487	1,222,037	2,206,546	1,671,506
Sanitation	89,147	8,402	107,292	-	26,547
Human services	925,505	-	-	-	(925,505)
Health	38,149	-	-	-	(38,149)
Culture and recreation	195,039	44,871	25,000	-	(125,168)
Conservation of natural resources	611,741	74,370	239,903	-	(297,468)
Economic development	209,147	47,712	123,782	-	(37,653)
Interest	148,950	-	-	-	(148,950)
Total governmental activities	\$ 6,029,669	\$ 458,268	\$ 1,812,001	\$ 2,221,749	\$ (1,537,651)
 General Revenues					
Property taxes					\$ 2,900,418
Payments in lieu of tax					31,591
Grants and contributions not restricted to specific programs					882,608
Unrestricted investment earnings					128,637
Miscellaneous					114,364
Gain on sale of capital assets					45,135
Total general revenues and other items					\$ 4,102,753
Change in net assets					\$ 2,565,102
Net Assets - Beginning					29,911,178
Net Assets - Ending					\$ 32,476,280

FUND FINANCIAL STATEMENTS

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	General	Road and Bridge	Human Services	Ditch	Jail Facility Debt Service	Total Governmental Funds
<u>Assets</u>						
Cash and pooled investments	\$ 2,113,051	\$ 3,719,958	\$ 57,067	\$ 367,793	\$ 237,462	\$ 6,495,331
Undistributed cash in agency funds	20,337	13,769	12,994	2,136	2,951	52,187
Petty cash and change funds	1,790	-	-	-	-	1,790
Departmental cash	19,714	-	-	-	-	19,714
Cash with escrow agent	-	-	-	-	1,734,346	1,734,346
Taxes receivable						
Prior	20,143	14,308	13,414	-	2,958	50,823
Special assessments receivable						
Prior	2,151	-	-	4,405	-	6,556
Noncurrent	-	-	-	180,384	-	180,384
Accounts receivable	2,744	1,458	-	1,111	-	5,313
Accrued interest receivable	29,214	-	-	-	-	29,214
Loans receivable	755,422	-	-	-	-	755,422
Due from other funds	335	-	-	-	-	335
Due from other governments	366,010	1,147,995	56,379	-	12,833	1,583,217
Inventories	-	165,388	-	-	-	165,388
Prepaid items	3,569	-	-	-	-	3,569
Total Assets	<u>\$ 3,334,480</u>	<u>\$ 5,062,876</u>	<u>\$ 139,854</u>	<u>\$ 555,829</u>	<u>\$ 1,990,550</u>	<u>\$ 11,083,589</u>

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Jail Facility Debt Service</u>	<u>Total Governmental Funds</u>
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 42,625	\$ 9,012	\$ -	\$ 1,352	\$ -	\$ 52,989
Salaries payable	50,361	24,185	-	-	-	74,546
Contracts payable	-	54,501	-	-	-	54,501
Due to other funds	-	335	-	-	-	335
Due to other governments	862,490	160	126,440	4,777	-	993,867
Deferred revenue - unavailable	25,744	1,100,746	13,414	184,789	2,958	1,327,651
Deferred revenue - unearned	75,286	-	-	-	-	75,286
Total Liabilities	\$ 1,056,506	\$ 1,188,939	\$ 139,854	\$ 190,918	\$ 2,958	\$ 2,579,175
Fund Balances						
Reserved for						
Debt service	\$ -	\$ -	\$ -	\$ -	\$ 253,246	\$ 253,246
Inventories	-	165,388	-	-	-	165,388
Loans receivable	10,000	-	-	-	-	10,000
Prepaid items	3,569	-	-	-	-	3,569
Missing heirs	267	-	-	-	-	267
Recorder's equipment purchases	7,875	-	-	-	-	7,875
Enhanced 911	42,186	-	-	-	-	42,186
Investments with escrow agent	-	-	-	-	1,734,346	1,734,346
Sheriff's contingency	12,902	-	-	-	-	12,902
Transportation	20,805	-	-	-	-	20,805
Gun permit fees	1,492	-	-	-	-	1,492
Highway allotments	-	619,255	-	-	-	619,255
Unreserved						
Designated for future expenditures	48,775	-	-	-	-	48,775
Designated for recycling	58,769	-	-	-	-	58,769
Designated for debt service	-	-	-	114,199	-	114,199
Designated for buildings and grounds	-	750,000	-	-	-	750,000
Undesignated	2,071,334	2,339,294	-	250,712	-	4,661,340
Total Fund Balances	\$ 2,277,974	\$ 3,873,937	\$ -	\$ 364,911	\$ 1,987,592	\$ 8,504,414
Total Liabilities and Fund Balances	\$ 3,334,480	\$ 5,062,876	\$ 139,854	\$ 555,829	\$ 1,990,550	\$ 11,083,589

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Fund balances - total governmental funds (Exhibit 3)	\$	8,504,414
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.		26,690,759
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		1,327,651
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (3,846,000)	
Capital leases	(55,835)	
Compensated absences	(128,102)	
Accrued interest payable	(73,718)	
Unamortized discount on G.O. bonds	31,231	
Deferred debt issuance charges	25,880	(4,046,544)
Net assets of governmental activities (Exhibit 1)	\$	<u>32,476,280</u>

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General	Road and Bridge	Human Services	Ditch	Jail Facility Debt Service	Total Governmental Funds
Revenues						
Taxes	\$ 1,034,092	\$ 860,590	\$ 811,149	\$ -	\$ 185,392	\$ 2,891,223
Special assessments	45,612	-	-	132,266	-	177,878
Licenses and permits	15,777	-	-	-	-	15,777
Intergovernmental	1,204,018	3,025,456	114,356	-	26,030	4,369,860
Charges for services	198,589	28,391	-	-	-	226,980
Fines and forfeits	5,820	-	-	-	-	5,820
Gifts and contributions	7,000	-	-	-	-	7,000
Investment earnings	124,322	-	-	-	4,315	128,637
Miscellaneous	243,108	22,858	-	3,854	374	270,194
Total Revenues	\$ 2,878,338	\$ 3,937,295	\$ 925,505	\$ 136,120	\$ 216,111	\$ 8,093,369
Expenditures						
Current						
General government	\$ 1,055,622	\$ -	\$ -	\$ -	\$ -	\$ 1,055,622
Public safety	848,986	-	-	-	-	848,986
Highways and streets	-	3,084,208	-	-	-	3,084,208
Sanitation	79,627	-	-	-	-	79,627
Health	1,588	-	-	-	-	1,588
Culture and recreation	181,510	-	-	-	-	181,510
Conservation	576,182	-	-	47,623	-	623,805
Economic development	208,565	-	-	-	-	208,565
Intergovernmental	36,561	207,636	925,505	-	-	1,169,702
Debt service						
Principal	25,216	-	-	137,000	75,000	237,216
Interest	-	-	-	13,584	107,776	121,360
Bond issuance costs	-	-	-	-	25,880	25,880
Administrative (fiscal) fees	-	-	-	1,669	316	1,985
Total Expenditures	\$ 3,013,857	\$ 3,291,844	\$ 925,505	\$ 199,876	\$ 208,972	\$ 7,640,054
Excess of Revenues Over (Under) Expenditures	\$ (135,519)	\$ 645,451	\$ -	\$ (63,756)	\$ 7,139	\$ 453,315

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Jail Facility Debt Service</u>	<u>Total Governmental Funds</u>
Other Financing Sources (Uses)						
Transfers in	\$ -	\$ 6,134	\$ -	\$ 4,018	\$ -	\$ 10,152
Transfers out	(10,152)	-	-	-	-	(10,152)
Proceeds from sale of assets	-	45,135	-	-	-	45,135
Refunding bonds issued	-	-	-	-	1,790,000	1,790,000
Discount on bonds issued	-	-	-	-	(31,231)	(31,231)
Total Other Financing Sources (Uses)	\$ (10,152)	\$ 51,269	\$ -	\$ 4,018	\$ 1,758,769	\$ 1,803,904
Net Change in Fund Balances	\$ (145,671)	\$ 696,720	\$ -	\$ (59,738)	\$ 1,765,908	\$ 2,257,219
Fund Balance - January 1	2,423,645	3,146,574	-	424,649	221,684	6,216,552
Increase (decrease) in reserved for inventories	-	30,643	-	-	-	30,643
Fund Balance - December 31	\$ 2,277,974	\$ 3,873,937	\$ -	\$ 364,911	\$ 1,987,592	\$ 8,504,414

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 2,257,219

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

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

Expenditures for general capital assets, infrastructure, and other related capital assets adjustment	\$ 2,187,495	
Current year depreciation	(861,653)	1,325,842

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		456,267
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The net proceeds for debt issuance are:		(1,732,889)
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal repayments:		
General obligation bonds	\$ 212,000	
Capital leases	25,216	237,216

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

Change in accrued interest payable	\$ (25,605)	
Change in compensated absences	16,409	
Change in inventories	30,643	21,447

Change in net assets of governmental activities (Exhibit 2) **\$ 2,565,102**

LINCOLN COUNTY
IVANHOE, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2004

Assets

Cash and pooled investments	<u>\$ 189,167</u>
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Liabilities

Due to other governments	<u>\$ 189,167</u>
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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. Summary of Significant Accounting Policies

Lincoln County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. 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 (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. More significant accounting policies established in GAAP and used by the County are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The significant changes in the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the County's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the County's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

Certain fund reclassifications were made as of January 1, 2004.

- The Expendable Trust Funds, Forfeited Tax Sale and U.S. Fish and Wildlife, were eliminated because of the new fund definitions in GASB Statement 34. Forfeited Tax Sale cash and an offsetting amount payable were combined with the Taxes and Penalties Agency Fund, and the U.S. Fish and Wildlife cash is accounted for in the General Fund.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The County has elected to implement all provisions of the statement in the current year.

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity

Lincoln County was established March 6, 1873, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Lincoln County (primary government). The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Auditor, elected on a County-wide basis, serves as the clerk of the Board of Commissioners, but has no vote.

The County participates in several joint ventures which are described in Note 5.C. The County also participates in jointly-governed organizations which are described in Note 5.D.

B. Basic Financial Statements

1. Government-Wide Statements

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

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

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

The County reports the following major governmental funds:

- The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.
- The Human Services Special Revenue Fund is used to account for economic assistance and community social services programs.
- The Ditch Special Revenue Fund is used to account for the cost of constructing and maintaining an agricultural drainage ditch system. Financing is provided by special assessments levied against benefited property.

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

- The Jail Facility Debt Service Fund is used to account for the accumulation of resources for, and the payment of, bond principal, interest, and related costs of general obligation bonds.

The County reports no proprietary funds.

Additionally, the County reports the following fund types:

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

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.

C. Measurement Focus and Basis of Accounting

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

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2004, 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 2004 were \$57,982.

Lincoln County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

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

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

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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

2. Receivables and Payables

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

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

All receivables are shown net of an allowance for uncollectibles.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due October 15.

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

3. Special Assessments Receivable

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

4. Inventories and Prepaid Items

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

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

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Capital Assets (Continued)

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

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

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

6. Compensated Absences

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

7. Deferred Revenue

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

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Long-Term Obligations

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

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

9. Fund Equity

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

10. Use of Estimates

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

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

<u>Fund</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General	\$ 3,013,857	\$ 2,979,794	\$ 34,063
Human Services	925,505	833,516	91,989
Jail Facility	208,972	189,700	19,272

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments are reported as follows:

Cash and pooled investments	\$ 6,569,022
Cash with escrow agent	1,734,346
Fiduciary funds	
Agency funds	<u>189,167</u>
Total Cash and Investments	<u>\$ 8,492,535</u>

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$1,704,922. The bank balance deposit amount was \$1,692,135. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 1,041,101
Collateralized with securities held by the pledging financial institution's agent in the County's name	<u>651,034</u>
Total covered deposits	\$ 1,692,135
Uncollateralized	<u>-</u>
Total	<u>\$ 1,692,135</u>

Three levels of custodial credit risk for securities are defined by generally accepted accounting principles:

- (1) securities that are insured or registered, or for which the securities are held by the County or its agent in the County's name;
- (2) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the County's name; and
- (3) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the County's name.

Following is a summary of the fair values of the County's investments, categorized into the aforementioned levels of risk, at December 31, 2004:

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

	Category			Fair Value
	1	2	3	
Investments				
Federal home loan bank	\$ 343,139	\$ -	\$ 549,313	\$ 892,452
Government securities	3,151	-	10,112	13,263
Certificates of deposits with brokers	557,406	-	1,044,872	1,602,278
Cash with escrow agent	-	-	1,734,346	1,734,346
	<u>\$ 903,696</u>	<u>\$ -</u>	<u>\$ 3,338,643</u>	<u>\$ 4,242,339</u>
Petty cash and change funds				1,790
Departmental cash				19,714
Checking				455,312
Money market savings				195,203
Certificates of deposit				1,054,407
MAGIC fund				2,523,770
				<u>8,492,535</u>
Total				<u>\$ 8,492,535</u>

2. Receivables

Receivables as of December 31, 2004, year-end for the County's governmental activities and business-type activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 50,823	\$ -
Special assessments	186,940	126,807
Accounts	5,313	-
Interest	29,214	-
Loans	755,422	682,101
Due from other governments	1,583,217	-
	<u>\$ 2,610,929</u>	<u>\$ 808,908</u>
Total Governmental Activities		

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Details on Loans Receivable

In 2002, the County agreed to act as loan and project sponsor for a project loan agreement made under the Clean Water Partnership Law with the State of Minnesota through its Pollution Control Agency. The loans are to be interest-free with repayment terms from 5 to 20 years and are used for a variety of groundwater improvement projects. In the fund financial statements, these loans receivable are offset by a liability of due to other governments because the County is required to repay all funds to the Minnesota Pollution Control Agency. In the government-wide statements, the payable is shown as a long-term loan payable (see Note 3.C.6.).

Project loan agreements		
Beginning balance	\$	661,716
Loans made in 2004		162,927
Loan repayments		<u>(69,221)</u>
Ending Balance	<u>\$</u>	<u>755,422</u>

4. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 267,120	\$ -	\$ -	\$ 267,120
Right-of-way	270,357	381	-	270,738
Construction in progress	<u>-</u>	<u>1,399,052</u>	<u>-</u>	<u>1,399,052</u>
Total capital assets not depreciated	<u>\$ 537,477</u>	<u>\$ 1,399,433</u>	<u>\$ -</u>	<u>\$ 1,936,910</u>
Capital assets depreciated				
Land improvements	\$ 194,878	\$ -	\$ -	\$ 194,878
Buildings	2,607,027	-	-	2,607,027
Machinery and equipment	2,947,337	404,650	205,484	3,146,503
Infrastructure	<u>26,902,934</u>	<u>383,412</u>	<u>-</u>	<u>27,286,346</u>
Total capital assets depreciated	<u>\$ 32,652,176</u>	<u>\$ 788,062</u>	<u>\$ 205,484</u>	<u>\$ 33,234,754</u>

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

4. Capital Assets

Governmental Activities (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Land improvements	\$ 77,549	\$ 5,529	\$ -	\$ 83,078
Buildings	625,858	58,531	-	684,389
Machinery and equipment	2,086,994	258,895	205,484	2,140,405
Infrastructure	<u>5,034,335</u>	<u>538,698</u>	<u>-</u>	<u>5,573,033</u>
 Total accumulated depreciation	 <u>\$ 7,824,736</u>	 <u>\$ 861,653</u>	 <u>\$ 205,484</u>	 <u>\$ 8,480,905</u>
 Total capital assets depreciated, net	 <u>\$ 24,827,440</u>	 <u>\$ (73,591)</u>	 <u>\$ -</u>	 <u>\$ 24,753,849</u>
 Governmental Activities Capital Assets, Net	 <u>\$ 25,364,917</u>	 <u>\$ 1,325,842</u>	 <u>\$ -</u>	 <u>\$ 26,690,759</u>

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

Governmental Activities	
General government	\$ 38,567
Public safety	83,363
Highways and streets, including depreciation of infrastructure assets	716,674
Culture and recreation	13,529
Sanitation	<u>9,520</u>
 Total Depreciation Expense - Governmental Activities	 <u>\$ 861,653</u>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2004, is as follows:

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Road and Bridge	\$ 335

Due To/From Other Funds represents amounts due for reimbursement for services.

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2004, consisted of the following:

Transfers from General Fund to			
Road and Bridge	\$	6,134	Provide funds for operations
Ditch		4,018	Provide funds for operations
Total Interfund Transfers	\$	10,152	

C. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

		Governmental Activities
Accounts	\$	52,989
Salaries		74,546
Contracts		54,501
Due to other governments		169,359
Total Payables	\$	351,395

2. Construction Commitments

The government has active construction projects as of December 31, 2004. The projects include the following:

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Construction Commitments (Continued)

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Roads and bridges	\$ 1,035,518	\$ 814,867

3. Capital Leases

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

This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. They consist of the following at December 31, 2004:

Capital Lease	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
E-911 equipment	2008	\$ 1,214	None stated	\$ 81,520	\$ 55,835

Payments on the capital lease are made from the General Fund. The future lease obligations and the net present value of these minimum lease payments as of December 31, 2004, were as follows:

Year Ending December 31	Governmental Activities
2005	\$ 14,566
2006	14,565
2007	14,566
2008	12,138
Total minimum lease payments	\$ 55,835
Less: amount representing interest	-
Present Value of Minimum Lease Payments	\$ 55,835

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Long-Term Debt

Governmental Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
General Obligation Bonds					
2004 G.O. refunding bonds	2020	\$105,000 - \$160,000	3.00 to 4.45	\$ 1,790,000	\$ 1,790,000
2000 detention facility bonds	2020	\$45,000 - \$165,000	5.60 to 5.90	<u>2,100,000</u>	<u>1,845,000</u>
Total General Obligation Bonds				<u>\$ 3,890,000</u>	\$ 3,635,000
Less: unamortized discount					<u>(31,231)</u>
Total General Obligation Bonds, Net					<u>\$ 3,603,769</u>
Special Assessment Bonds with Government Commitment					
1997 G.O. refunding drainage bonds	2005	\$60,000 - \$75,000	4.10 to 5.40	\$ 615,000	\$ 75,000
1997 G.O. drainage bonds	2007	\$12,000	5.75	120,000	36,000
1999 G.O. refunding drainage bonds	2015	\$50,000 - \$170,000	3.40 to 4.20	<u>515,000</u>	<u>100,000</u>
Total Special Assessment Bonds with Government Commitment				<u>\$ 1,250,000</u>	\$ 211,000
Less: unamortized discount					<u>-</u>
Total Special Assessment Bonds with Government Commitment, Net					<u>\$ 211,000</u>

5. Debt Service Requirements

Payments on the Special Assessment Bonds are made in the Ditch Fund. Debt service requirements at December 31, 2004, were as follows:

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Debt Service Requirements (Continued)

Governmental Activities

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2005	\$ 75,000	\$ 171,104	\$ 137,000	\$ 6,875
2006	80,000	166,735	62,000	2,085
2007	190,000	160,499	12,000	345
2008	200,000	152,330	-	-
2009	205,000	143,804	-	-
2010-2014	1,150,000	571,409	-	-
2015-2019	1,410,000	267,571	-	-
2020	325,000	8,427	-	-
Total	<u>\$ 3,635,000</u>	<u>\$ 1,641,879</u>	<u>\$ 211,000</u>	<u>\$ 9,305</u>

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Special assessment debt with government commitment	\$ 348,000	\$ -	\$ 137,000	\$ 211,000	\$ 137,000
General obligation bonds	1,920,000	1,790,000	75,000	3,635,000	75,000
Leases payable	81,051	-	25,216	55,835	14,566
Loans payable	693,580	152,926	21,998	824,508	55,159
Compensated absences	144,511	-	16,408	128,103	9,814
Governmental Activity Long-Term Liabilities	<u>\$ 3,187,142</u>	<u>\$ 1,942,926</u>	<u>\$ 275,622</u>	<u>\$ 4,854,446</u>	<u>\$ 291,539</u>

The loans payable to Minnesota Pollution Control Agency of \$824,508 do not have fixed amortization schedules at December 31, 2004.

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Advance Crossover Refunding of Debt

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

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

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

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

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

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All 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 jailers/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.

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

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

For Public Employees Police and Fire Fund members, the annuity accrual rate is three percent for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent for each year of service.

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

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

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the web at 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.

B. Funding Policy

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

The County is required to contribute the following percentages of annual covered payroll:

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

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

The County's contributions for the years ending December 31, 2004, 2003, and 2002, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2004	\$ 83,024	\$ 13,999	\$ 2,824
2003	81,768	16,899	2,963
2002	83,433	14,904	752

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

5. Summary of Significant Contingencies and Other Items

A. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

with coverage at \$720,000 per claim in 2004 and \$760,000 per claim in 2005. 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. The MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

B. Contingent Liabilities

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

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

C. Joint Ventures

Lincoln, Lyon, & Murray Human Services

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

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln, Lyon, & Murray Human Services (Continued)

Lincoln County	20.90%
Lyon County	54.77
Murray County	24.33

Lincoln, Lyon, & Murray Human Services is governed by two County Commissioners from each of the participating counties, who are chosen by their respective County Boards, and one lay person from each participating County. At least one lay board member is to be a woman. Financing is provided by state grants and appropriations from member Counties. Lincoln County's contribution in 2004 was \$925,505.

At December 31, 2004, Lincoln, Lyon, & Murray Human Services reported a total fund balance of \$5,797,784. In addition, under the new reporting model, the Board reported total net assets of \$5,544,165. The Human Services Board's long-term debt at December 31, 2004, is composed of \$404,365 of compensated absences payable. The debt will be funded by intergovernmental revenue and revenue from computer services. Complete financial statements of Lincoln, Lyon, & Murray Human Services can be obtained at 607 West Main, Marshall, Minnesota 56258.

Lincoln, Lyon, Murray, Pipestone Public Health Services

Lincoln County has joined with surrounding Counties to form a community health service agency under the authority of Minn. Stat. ch. 145A and Minn. Stat. § 471.59. This agency is known as the Lincoln, Lyon, Murray, Pipestone Public Health Services and was established August 1, 1978. The governing Board is composed of nine members: two Commissioners representing Lincoln County, one Board member from each of the other participating counties, and four lay members. Financing is provided by state grants, appropriations from member counties, and charges for services. Lincoln County's contribution in 2004 was \$36,561.

At December 31, 2003, the Health Services had retained earnings of \$718,969 and long-term liabilities of \$77,259. Complete financial statements of the Public Health Services can be obtained at 607 West Main, Marshall, Minnesota 56258.

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Lincoln-Pipestone Rural Water System

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

The Lincoln-Pipestone Rural Water System's 2003 financial report (the latest information available) shows total fund equity of \$35,691,114, including retained earnings of \$5,578,145. The increase in retained earnings for the year ended December 31, 2004, was \$403,935. Outstanding obligations at December 31, 2004, were \$21,954,104.

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.

D. Jointly-Governed Organizations

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

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

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

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

E. Related Organization

Housing and Redevelopment Authority of Lincoln County

The five-member governing body of the Housing and Redevelopment Authority of Lincoln County is appointed by Lincoln County. Lincoln County is not financially responsible for the Authority. During 2004, there were no related-party transactions between Lincoln County and the Housing and Redevelopment Authority of Lincoln County.

F. Agriculture Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and local lending institutions to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source water pollution. While the County is not liable for repayment of the loans in any manner, it does have certain responsibilities under the agreement.

REQUIRED SUPPLEMENTARY INFORMATION

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,442,529	\$ 1,442,529	\$ 1,034,092	\$ (408,437)
Special assessments	46,220	46,220	45,612	(608)
Licenses and permits	10,050	10,050	15,777	5,727
Intergovernmental	884,800	884,800	1,204,018	319,218
Charges for services	380,526	380,526	198,589	(181,937)
Fines and forfeits	-	-	5,820	5,820
Gifts and contributions	-	-	7,000	7,000
Investment earnings	110,000	110,000	124,322	14,322
Miscellaneous	59,999	59,999	243,108	183,109
Total Revenues	\$ 2,934,124	\$ 2,934,124	\$ 2,878,338	\$ (55,786)
Expenditures				
Current				
General government				
Commissioners	\$ 115,780	\$ 115,780	\$ 113,832	\$ 1,948
Courts	9,600	9,600	6,782	2,818
Law library	9,081	9,081	8,769	312
County administration	77,300	77,300	39,206	38,094
Auditor	140,331	140,331	138,897	1,434
Treasurer	93,179	93,179	92,294	885
Assessor	90,024	90,024	89,589	435
Elections	12,000	12,000	12,469	(469)
Accounting and auditing	-	-	13,612	(13,612)
Data processing	62,500	62,500	53,032	9,468
Attorney	91,541	91,541	90,326	1,215
Recorder	147,000	147,000	133,385	13,615
Planning and zoning	11,154	11,154	5,376	5,778
Buildings and plant	163,750	163,750	196,501	(32,751)
Veterans service officer	16,586	16,586	16,691	(105)
Safety officer	10,880	10,880	8,727	2,153
Other general government	95,187	95,187	36,134	59,053
Total general government	\$ 1,145,893	\$ 1,145,893	\$ 1,055,622	\$ 90,271
Public safety				
Sheriff	\$ 727,875	\$ 727,875	\$ 614,249	\$ 113,626
Boat and water safety	5,780	5,780	24,053	(18,273)
Coroner	2,500	2,500	2,595	(95)
E-911 system	35,000	35,000	131,995	(96,995)
Probation and parole	32,000	32,000	36,752	(4,752)
Civil defense	18,367	18,367	39,342	(20,975)
Total public safety	\$ 821,522	\$ 821,522	\$ 848,986	\$ (27,464)

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	\$ 106,931	\$ 106,931	\$ 34,653	\$ 72,278
Recycling	-	-	44,974	(44,974)
Total sanitation	\$ 106,931	\$ 106,931	\$ 79,627	\$ 27,304
Health				
Nursing service	\$ -	\$ -	\$ 1,588	\$ (1,588)
Culture and recreation				
Historical society	\$ 7,000	\$ 7,000	\$ 7,000	\$ -
Minnesota trails	18,000	18,000	18,000	-
Parks	91,758	91,758	119,626	(27,868)
Senior citizens	6,300	6,300	7,800	(1,500)
Library	27,971	27,971	28,534	(563)
Other	7,230	7,230	550	6,680
Total culture and recreation	\$ 158,259	\$ 158,259	\$ 181,510	\$ (23,251)
Conservation of natural resources				
Extension	\$ 139,050	\$ 139,050	\$ 86,969	\$ 52,081
Soil and water conservation	115,110	115,110	80,000	35,110
Agricultural inspection	5,937	5,937	1,022	4,915
Agricultural society	20,000	20,000	20,000	-
Water quality loan program	14,562	14,562	158,361	(143,799)
Geographic information	-	-	12,555	(12,555)
Flood control	-	-	8,337	(8,337)
Water planning	31,068	31,068	39,510	(8,442)
Environmental officer	124,706	124,706	130,471	(5,765)
Wetland challenge	-	-	20,000	(20,000)
Feedlot administration	71,000	71,000	17,169	53,831
Other	2,000	2,000	1,788	212
Total conservation of natural resources	\$ 523,433	\$ 523,433	\$ 576,182	\$ (52,749)
Economic development				
Community development	\$ 23,500	\$ 23,500	\$ 23,500	\$ -
SWRDC	-	-	2,000	(2,000)
Transportation	152,645	152,645	173,434	(20,789)
Tourism	6,395	6,395	5,753	642
SW MN Foundation	-	-	1,930	(1,930)
Other	550	550	1,948	(1,398)
Total economic development	\$ 183,090	\$ 183,090	\$ 208,565	\$ (25,475)

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
Intergovernmental				
Health	\$ 40,666	\$ 40,666	\$ 36,561	\$ 4,105
Debt service				
Principal	\$ -	\$ -	\$ 25,216	\$ (25,216)
Total Expenditures	\$ 2,979,794	\$ 2,979,794	\$ 3,013,857	\$ (34,063)
Excess of Revenues Over (Under)				
Expenditures	\$ (45,670)	\$ (45,670)	\$ (135,519)	\$ (89,849)
Other Financing Sources (Uses)				
Transfers out	-	-	(10,152)	(10,152)
Net Change in Fund Balance	\$ (45,670)	\$ (45,670)	\$ (145,671)	\$ (100,001)
Fund Balance - January 1	2,423,645	2,423,645	2,423,645	-
Fund Balance - December 31	\$ 2,377,975	\$ 2,377,975	\$ 2,277,974	\$ (100,001)

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 763,797	\$ 763,797	\$ 860,590	\$ 96,793
Intergovernmental	3,906,253	3,906,253	3,025,456	(880,797)
Charges for services	-	-	28,391	28,391
Miscellaneous	17,550	17,550	22,858	5,308
Total Revenues	\$ 4,687,600	\$ 4,687,600	\$ 3,937,295	\$ (750,305)
Expenditures				
Current				
Highways and streets				
Administration	\$ 302,393	\$ 302,393	\$ 218,035	\$ 84,358
Maintenance	941,536	941,536	831,736	109,800
Construction	2,804,154	2,804,154	1,329,264	1,474,890
Equipment and maintenance shops	355,651	355,651	705,173	(349,522)
Total highways and streets	\$ 4,403,734	\$ 4,403,734	\$ 3,084,208	\$ 1,319,526
Intergovernmental				
Highways and streets	207,636	207,636	207,636	-
Total Expenditures	\$ 4,611,370	\$ 4,611,370	\$ 3,291,844	\$ 1,319,526
Excess of Revenues Over (Under) Expenditures	\$ 76,230	\$ 76,230	\$ 645,451	\$ 569,221
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 6,134	\$ 6,134
Proceeds from sale of assets	-	-	45,135	45,135
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 51,269	\$ 51,269
Net Change in Fund Balance	\$ 76,230	\$ 76,230	\$ 696,720	\$ 620,490
Fund Balance - January 1	3,146,574	3,146,574	3,146,574	-
Increase (decrease) in reserved for inventories	-	-	30,643	30,643
Fund Balance - December 31	\$ 3,222,804	\$ 3,222,804	\$ 3,873,937	\$ 651,133

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 833,516	\$ 833,516	\$ 811,149	\$ (22,367)
Intergovernmental	-	-	114,356	114,356
Total Revenues	\$ 833,516	\$ 833,516	\$ 925,505	\$ 91,989
Expenditures				
Intergovernmental				
Human services	833,516	833,516	925,505	(91,989)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ -	\$ -
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 191,900	\$ 191,900	\$ 132,266	\$ (59,634)
Charges for services	6,000	6,000	-	(6,000)
Miscellaneous	-	-	3,854	3,854
Total Revenues	\$ 197,900	\$ 197,900	\$ 136,120	\$ (61,780)
Expenditures				
Current				
Conservation of natural resources				
Other	\$ 50,371	\$ 50,371	\$ 47,623	\$ 2,748
Debt service				
Principal	137,000	137,000	137,000	-
Interest	14,029	14,029	13,584	445
Administrative (fiscal) fees	-	-	1,669	(1,669)
Total Expenditures	\$ 201,400	\$ 201,400	\$ 199,876	\$ 1,524
Excess of Revenues Over (Under) Expenditures	\$ (3,500)	\$ (3,500)	\$ (63,756)	\$ (60,256)
Other Financing Sources (Uses)				
Transfers in	3,500	3,500	4,018	518
Net Change in Fund Balance	\$ -	\$ -	\$ (59,738)	\$ (59,738)
Fund Balance - January 1	424,649	424,649	424,649	-
Fund Balance - December 31	\$ 424,649	\$ 424,649	\$ 364,911	\$ (59,738)

**LINCOLN COUNTY
IVANHOE, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
JAIL FACILITY DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 189,700	\$ 189,700	\$ 185,392	\$ (4,308)
Intergovernmental	-	-	26,030	26,030
Investment earnings	-	-	4,315	4,315
Miscellaneous	-	-	374	374
Total Revenues	\$ 189,700	\$ 189,700	\$ 216,111	\$ 26,411
Expenditures				
Debt service				
Principal	\$ 82,346	\$ 82,346	\$ 75,000	\$ 7,346
Interest	107,354	107,354	107,776	(422)
Bond issuance costs	-	-	25,880	(25,880)
Administrative (fiscal) fees	-	-	316	(316)
Total Expenditures	\$ 189,700	\$ 189,700	\$ 208,972	\$ (19,272)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 7,139	\$ 7,139
Other Financing Sources (Uses)				
Refunding bonds issued	\$ -	\$ -	\$ 1,790,000	\$ 1,790,000
Discount on bonds issued	-	-	(31,231)	(31,231)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 1,758,769	\$ 1,758,769
Net Change in Fund Balance	\$ -	\$ -	\$ 1,765,908	\$ 1,765,908
Fund Balance - January 1	221,684	221,684	221,684	-
Fund Balance - December 31	\$ 221,684	\$ 221,684	\$ 1,987,592	\$ 1,765,908

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

1. General Budget Policies

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

The budgets may be amended or modified at any time by the County Board. In 2004, the County Board did not amend the budgets.

2. Budget Basis of Accounting

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

3. Excess of Expenditures Over Budget

<u>Fund</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General	\$ 3,013,857	\$ 2,979,794	\$ 34,063
Human Services	925,505	833,516	91,989
Jail Facility	208,972	189,700	19,272

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SUPPLEMENTARY INFORMATION

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

Statement 1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>SOUTHWEST REGIONAL SOLID WASTE COMMISSION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 368	\$ 4,400	\$ 3,325	\$ 1,443
<u>Liabilities</u>				
Due to other governments	\$ 368	\$ 4,400	\$ 3,325	\$ 1,443
 <u>LAKE BENTON LAKE IMPROVEMENT DISTRICT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 10,000	\$ 3,829	\$ 6,171
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 10,000	\$ 3,829	\$ 6,171
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 58,055	\$ 8,462,565	\$ 8,339,067	\$ 181,553
<u>Liabilities</u>				
Due to other governments	\$ 58,055	\$ 8,462,565	\$ 8,339,067	\$ 181,553
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 58,423	\$ 8,476,965	\$ 8,346,221	\$ 189,167
<u>Liabilities</u>				
Due to other governments	\$ 58,423	\$ 8,476,965	\$ 8,346,221	\$ 189,167

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OTHER SCHEDULE

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

Schedule 6

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Shared Revenue

State

Highway users tax	\$	2,076,843
County program aid		477,716
PERA rate reimbursement		9,428
Disparity reduction aid		38,398
Police aid		16,899
Enhanced 911		47,138
Market value credit		357,066
		357,066

Total Shared Revenue **\$ 3,023,488**

Payments

Payments in lieu of taxes	\$	31,591
Household hazardous waste		10,430
		10,430

Total Payments **\$ 42,021**

Grants

State

Minnesota Department/Board of Agriculture	\$	38,991
Corrections		6,182
Natural Resources		23,509
Public Safety		3,466
Transportation		94,683
Veteran Affairs		1,400
Board of Water and Soil Resources		84,368
Office of Environmental Assistance		49,099
Peace Officers Board		1,074
Pollution Control Agency		119,697
		119,697

Total State **\$ 422,469**

Federal

Department of Transportation	\$	857,834
Homeland Security		24,048
		24,048

Total Federal **\$ 881,882**

Total State and Federal Grants **\$ 1,304,351**

Total Intergovernmental Revenue **\$ 4,369,860**

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MANAGEMENT AND COMPLIANCE SECTION

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

Schedule 7

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2004

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the financial statements of Lincoln County.
- B. Reportable conditions in internal control were disclosed by the audit of financial statements of Lincoln County and are reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Lincoln County were disclosed during the audit.
- D. A reportable condition involving internal control over compliance relating to the audit of the major federal award program is reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133." It is not a material weakness.
- E. The Auditor's Report on Compliance for the major federal award program for Lincoln County expresses an unqualified opinion.
- F. A finding relative to the major federal award program for Lincoln County is reported as required by Section 510(a) of OMB Circular A-133.
- G. The major program is:
 - Highway Planning and Construction
 - CFDA #20.205
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Lincoln County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

98-1 Departmental Internal Accounting Controls

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

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

Client's Response:

The Lincoln County Board of Commissioners has been informed and is aware of the lack of segregation of the accounting functions. All reasonable management procedures are being used despite the limited staff.

ITEMS ARISING THIS YEAR

04-1 Cash Account Off the Books

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

We recommend that the County make the necessary entry to correct the general ledger and properly track all of the County's assets.

Client's Response:

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

04-2 Untimely Transaction Recording

Personnel in the County Auditor's Office were late in recording various transactions in the general ledger. After notifying the County in November, the state, on December 6, 2004, used an electronic debit to transfer the general tax that the County had collected for the state from the County's checking account. The County did not record this transaction until January 12, 2005. Additionally, in late December 2004, the County was notified that the state would deposit the second half of the state aid payments totaling \$442,455.78 into the County's MAGIC fund account. The deposit was made on December 27, 2004, and the County recorded it on January 7 and January 10 of 2005.

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

Client's Response:

Every effort will be made to process transactions in a timely manner.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

ITEM ARISING THIS YEAR

04-3 Highway Planning and Construction (Davis-Bacon Requirements, CFDA #20.205)

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

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

The County received the payroll reports from the contractors on the project to show compliance; however, in reviewing the payrolls, it was noted that there were several employees listed for labor code 304 that were not paid the appropriate rate. Also, after notifying another subcontractor that five landscape laborers were not paid the correct wages, it was noted that three of the five employees still did not get the required wage. There was nothing in the file to indicate that these errors have been corrected.

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

Corrective Action Plan:

A system has been implemented to monitor compliance with the Davis-Bacon Act.

Contact Person Responsible for Corrective Action:

Ronald Gregg, Highway Engineer

Action Planned:

Corrective action has been implemented and completed.

Completion Date:

The completion date for the corrective action was in 2004.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 Ditch Fund Deficit

Three of the 52 individual ditch systems had a deficit cash balance at December 31, 2004, totaling \$71,170. Minn. Stat. § 385.04 states, in part, “. . . every warrant shall be paid only from the cash on hand in the fund from

which it may be properly payable.” If insufficient funds are available when a warrant is presented, Minn. Stat. § 85.31 permits warrants to be registered and paid when funds become available.

Minn. Stat. § 103E.655, subd. 2, allows for loans to be made from ditch systems with surplus funds or from the General Fund to a ditch system with insufficient cash to pay expenditures. If the County Board transfers money from another account or fund to a ditch system account, this statute requires that the money, plus interest, be reimbursed from the proceeds of the ditch system that received the transfer.

Allowing a ditch system to maintain a deficit cash balance, in effect, constitutes an interest-free loan from other County funds and, as such, is in noncompliance with Minnesota law. Minn. Stat. § 103E.735, subd. 1, provides that a fund balance to be used for repairs may be established for any ditch system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

We recommend that the County eliminate the individual ditch system cash and fund balance deficits by borrowing from an eligible fund with a surplus cash balance or 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 to eliminate deficit borrowing and bring all ditches to a positive balance.

02-2

Certificates of Deposit

The County purchased two \$100,000 certificates of deposit through two different investment firms. The certificates of deposit were issued by two different banks, Indymac Bank and Capital One. Federal deposit insurance provides protection to depositors up to \$100,000 for each bank. This leaves any earned interest not yet paid to the County uninsured.

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

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

Client's Response:

The County Board has elected to keep the Certificates invested through the due dates, and understand that any interest earned will not be protected through any FDIC insurance. Procedures are now in place to prevent this from occurring in the future.

ITEM ARISING THIS YEAR

04-4

Assignment of Collateral

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

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

Minn. Stat. § 118A.03, subd. 5, states, "A financial institution may withdraw excess collateral or substitute other collateral after giving written notice to the governmental entity and receiving confirmation. The authority to return any delivered and assigned collateral rests with the governmental entity."

We recommend that the County Treasurer obtain the necessary safekeeping agreement and comply with Minnesota statutes.

Client's Response:

The County Treasurer is currently working with the First Security Bank - Hendricks to correct collateralization issues in order to comply with Minnesota statutes.

PREVIOUSLY REPORTED ITEMS RESOLVED

Unrecorded Transactions (96-2)

The County Treasurer was not receipting all funds received by the County. The Treasurer accounted for principal returns as cash book adjustments. Because the funds were not receipted, the Treasurer's receipts did not match deposits for every month during the year.

Resolution

There are no more unrecorded transactions as the County sold the mutual funds.

Mutual Fund Investment (98-2)

In 1986 and 1987, the County purchased 154,840.892 shares in the Lord Abbett U.S. Government Securities Fund with an original total purchase price of \$501,000. At December 31, 2002, the fund was worth \$414,974, and at December 31, 2003, the shares were worth \$405,683. These investments are mutual funds and do not have a set maturity date. Minn. Stat. § 118A.05, subd. 4(4), prohibits investment in shares of a mutual fund invested in financial instruments with a final maturity longer than 13 months.

Resolution

The County sold the mutual funds.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

00-3 Budgeting Procedures

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

The Board-approved budget does not agree with the Revenue and Expenditure Budget Report on the County's general ledger system. Additionally, changes were made to the adopted budget without approval from the County Board.

Generally accepted accounting principles and the County Financial Accounting and Reporting Standards recommend that expenditure estimates and the annual budget be appropriated to the various operational entities within the County and

that line-item budget detail by fund be available. The appropriations constitute maximum expenditure authorizations during the fiscal year and cannot legally be exceeded unless subsequently amended by the County Board. Good budget accounting requires: (1) an annual budget be adopted by every governmental unit; (2) the accounting system provide the basis for appropriate budgetary control; and (3) a common terminology and classification that can be used consistently throughout the budgets, accounts, and financial reports of each fund. The County Board should adopt an accurate budget, and it should be followed by the County. The adopted budget should be designed so that comparisons can be made between current year and budget year. Any amendments to the budget should be Board-approved and documented in the Board minutes.

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

Client's Response:

Steps have been taken to improve our budget process by hiring an accountant who will oversee that process, and to bring budget changes before the Board for formal approval.

PREVIOUSLY REPORTED ITEMS RESOLVED

Capital Asset Accounting System (00-4)

We recommended that the County establish accounting policies for capital assets including capitalization thresholds, useful lives, and the designation of specific general ledger accounting codes to record the purchases and construction costs of capital assets.

Resolution

During 2004, the County established accounting policies for capital assets including capitalization thresholds, useful lives, and the designation of specific general ledger accounting codes to record the purchases and construction costs of capital assets.

Preparation of the Annual Financial Statements (02-3)

The annual financial report consists of County fund financial statements prepared in accordance with generally accepted accounting principles for governments, related notes to the financial statements, and schedules. We recommended that summary schedules and worksheets be prepared by County staff to demonstrate how the accounts in the financial records are classified/summarized for the financial report. Also, the draft financial report and the schedule of federal awards should be completed in a timely manner and be available for audit by the Office of the State Auditor (OSA) on the date mutually agreed upon.

Resolution

The County prepares the summary schedules of receivables and payables, classifies its accounts for the financial statements, prepares the trial balances for audit, and makes all policy decisions.

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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Lincoln County

We have audited the financial statements of Lincoln County as of and for the year ended December 31, 2004, and have issued our report thereon dated April 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal

control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions indicated above is a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Lincoln County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 96-1, 02-2, and 04-4.

This report is intended for the information of the Board of County Commissioners, management, 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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: April 29, 2005



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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Lincoln County

Compliance

We have audited the compliance of Lincoln County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2004. Lincoln County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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, Lincoln County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

Internal Control Over Compliance

The management of Lincoln County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Lincoln County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 04-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Lincoln County as of and for the year ended December 31, 2004, and have issued our report thereon dated April 29, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended for the information of the Board of County Commissioners, management, 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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: April 29, 2005

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**LINCOLN COUNTY
IVANHOE, MINNESOTA**

Schedule 8

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 828,414
Public Transportation for Non-Urbanized Areas	20.509	29,099
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	321
Total U.S. Department of Transportation		\$ 857,834
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Program	97.004	\$ 15,203
Emergency Management Performance Grants	97.042	8,845
Total U.S. Department of Homeland Security		\$ 24,048
Total Federal Awards		\$ 881,882

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Lincoln County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. During 2004, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.