

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

LAC QUI PARLE COUNTY
MADISON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2005

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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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

For the Year Ended December 31, 2005



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

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

ORGANIZATION SCHEDULE
LAC QUI PARLE COUNTY
2005

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

*Chair 2006
**Chair 2005

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**ORGANIZATION SCHEDULE
LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
BOARD OF SUPERVISORS
2005**

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

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STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Lac qui Parle County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lac qui Parle County as of and for the year ended December 31, 2005, 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 Lac qui Parle County as of December 31, 2005, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2006, on our consideration of Lac qui Parle County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: April 3, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005
(Unaudited)**

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of the County's financial activities for the fiscal year ended December 31, 2005. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

Governmental activities' total net assets are \$41,939,030, of which \$32,066,048 is invested in capital assets and \$783,040 is restricted to specific purposes. The \$9,089,942 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

The County's net assets increased by \$2,434,380 for the year ended December 31, 2005. A large part of the increase is attributable to the increase in highway infrastructure assets.

The net cost of governmental activities for the current fiscal year was \$1,777,807. The net cost was funded by general revenues and other items totaling \$4,212,187.

The fund balances of the governmental funds increased by \$1,089,958. Most of the increase was due to department cuts due to a shortfall of levy credits from the state and lower than anticipated highway expenditures.

For the year ended December 31, 2005, the unreserved fund balance of the General Fund was \$3,858,130, or 152 percent of the total General Fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$41,939,030 at the close of 2005. The largest portion of the net assets (76.5 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure, such as roads and bridges).

Lac qui Parle County Net Assets

	<u>2005</u>	<u>2004</u>
Assets		
Current and other assets	\$ 10,614,547	\$ 9,649,113
Capital assets	<u>32,066,048</u>	<u>30,689,809</u>
Total Assets	<u>\$ 42,680,595</u>	<u>\$ 40,338,922</u>
Liabilities		
Long-term liabilities	\$ 288,622	\$ 266,996
Other liabilities	<u>452,943</u>	<u>567,276</u>
Total Liabilities	<u>\$ 741,565</u>	<u>\$ 834,272</u>
Net Assets		
Invested in capital assets	\$ 32,066,048	\$ 30,689,809
Restricted	783,040	579,289
Unrestricted	<u>9,089,942</u>	<u>8,235,552</u>
Total Net Assets	<u>\$ 41,939,030</u>	<u>\$ 39,504,650</u>

Unrestricted net assets--the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements is 21.7 percent of the net assets.

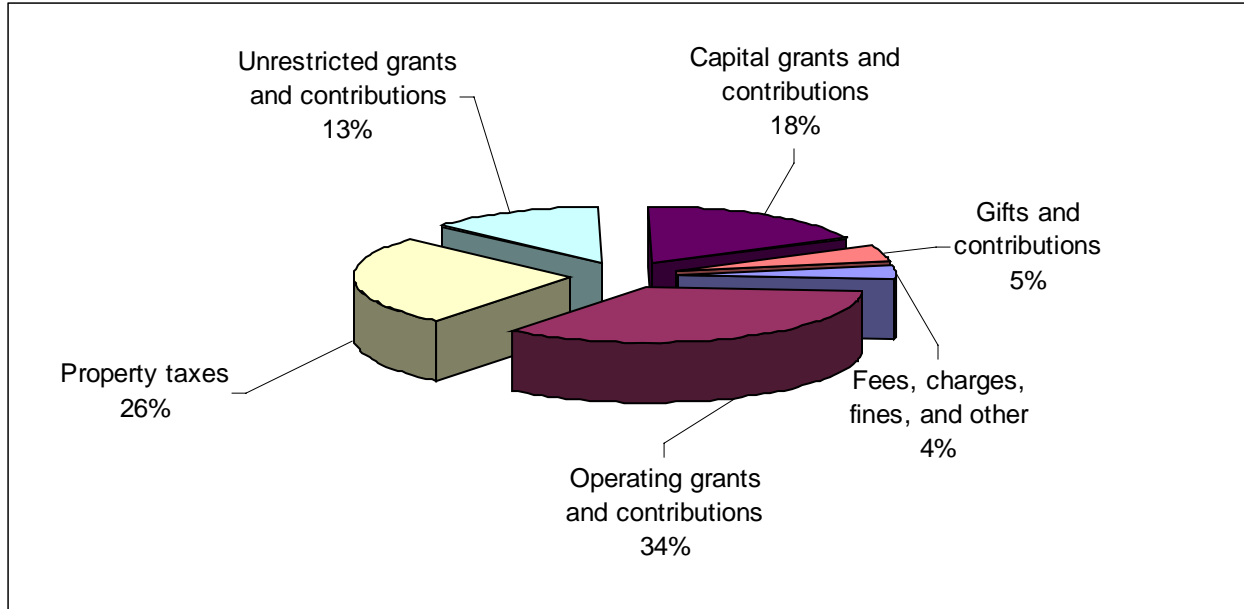
Governmental Activities

The County's activities increased net assets by 6.2 percent (\$41,939,030 for 2005 compared to \$39,504,650 for 2004). Key elements in this increase in net assets are as follows:

	Lac qui Parle County	
	Changes in Net Assets	
	2005	2004
Revenues		
Program revenues		
Charges for services	\$ 404,448	\$ 433,513
Operating grants and contributions	3,299,206	5,421,879
Capital grants and contributions	1,722,051	592,164
General revenues		
Property taxes	2,494,343	2,355,611
Other	1,717,844	1,293,561
Total Revenues	<u>\$ 9,637,892</u>	<u>\$ 10,096,728</u>
Expenses		
General government	\$ 1,164,965	\$ 1,105,332
Public safety	711,839	672,519
Highways and streets	2,712,749	2,736,886
Sanitation	389,489	98,568
Human services	1,673,752	1,708,736
Health	67,995	67,083
Culture and recreation	122,045	106,381
Conservation of natural resources	350,058	437,496
Economic development	10,620	41,025
Total Expenses	<u>\$ 7,203,512</u>	<u>\$ 6,974,026</u>
Increase in Net Assets	\$ 2,434,380	\$ 3,122,702
Net Assets - January 1	<u>39,504,650</u>	<u>36,381,948</u>
Net Assets - December 31	<u>\$ 41,939,030</u>	<u>\$ 39,504,650</u>

The County's total revenues were \$9,637,892. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2005.

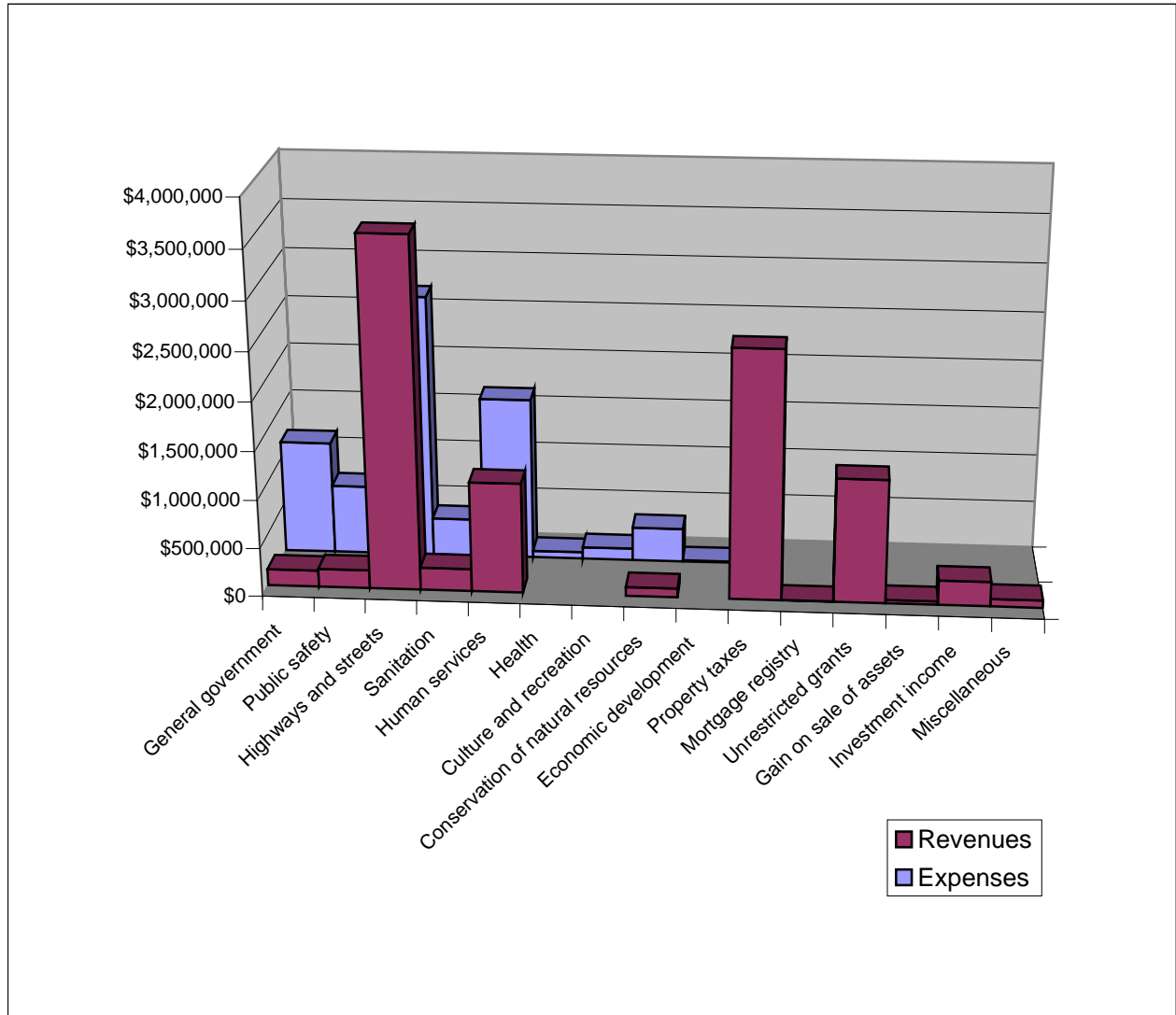
Table 1
County Revenues



Total expenses were \$7,203,512, while total revenues were \$9,637,892. This reflects a \$2,434,380 increase in net assets for the year ended December 31, 2005.

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

Table 2
Revenues and Expenses



The cost of all governmental activities this year was \$7,203,512. However, as shown on the Statement of Activities on Exhibit 2, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$2,494,343, because some of the cost was paid by those who directly benefited from the programs (\$404,448) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,021,257). The County paid for the remaining “public benefit” portion of governmental activities with \$1,717,844 in general revenues such as grants and contributions not restricted to specific programs, interest, and gains on sale of capital assets.

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

Table 3
Governmental Activities
(in thousands)

	Total Cost of Services 2005	Net Cost of Services 2005
Highways and streets	\$ 2,713	\$ (890)
Human services	1,674	534
General government	1,165	994
Public safety	712	523
All others	940	617
Totals	\$ 7,204	\$ 1,778

FINANCIAL ANALYSIS OF THE GOVERNMENT’S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$9,417,383, an increase of \$1,089,958 in comparison with the prior year. Of the combined ending fund balances, \$8,887,153 represents unreserved fund balance, which is available for spending at the County’s discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons either by state law, grant agreements, or bond covenants.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unreserved fund balance of \$3,858,130. As a measure of the General Fund’s liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund unreserved fund balance represents 152 percent of total General Fund expenditures. During 2005, the ending fund balance increased by \$233,927. The primary reason for this increase was higher than anticipated intergovernmental revenues and fees for services.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$1,883,527 at fiscal year-end, representing 44.6 percent of its annual expenditures. The ending fund balance increased \$583,799 during 2005, primarily due to an increase in highway user taxes and sale of assets.

The Family Services Special Revenue Fund had an unreserved fund balance of \$2,600,849 at fiscal year-end, representing 156.7 percent of its annual expenditures. The ending fund balance increased \$305,179 during 2005, due to reductions in spending and higher than anticipated revenues.

The Ditch Special Revenue Fund had an unreserved fund balance of \$544,647 at fiscal year-end. The ending fund balance decreased \$32,947 during 2004, primarily due to the 107 ditches needing more maintenance than was anticipated.

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) were \$57,610 below the final budget amounts. The most significant positive variance, \$162,839, occurred in the County's Other General Government Department. Reasons for other significant variances of actual expenditures from final budget include a higher than anticipated cost to operate the public safety programs.

Resources available for appropriation were \$347,570 above the final budgeted amount. This was the result of greater than expected collections for certain fees and operating grants.

CAPITAL ASSETS

The County's capital assets at December 31, 2005, totaled \$32,066,048 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure.

Capital Assets at Year-End (Net of Depreciation)

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 146,903	\$ -	\$ -	\$ 146,903
Right-of-way	470,198	-	-	470,198
Total capital assets not depreciated	<u>\$ 617,101</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 617,101</u>
Capital assets depreciated				
Buildings	\$ 1,009,136	\$ 66,400	\$ -	\$ 1,075,536
Machinery, furniture, and equipment	3,206,917	445,099	161,812	3,490,204
Infrastructure	36,390,778	1,859,296	-	38,250,074
Total capital assets depreciated	<u>\$ 40,606,831</u>	<u>\$ 2,370,795</u>	<u>\$ 161,812</u>	<u>\$ 42,815,814</u>

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 675,855	\$ 24,169	\$ 42,541	\$ 657,483
Machinery, furniture, and equipment	2,199,462	225,847	139,733	2,285,576
Infrastructure	7,658,806	765,002	-	8,423,808
	<u>\$ 10,534,123</u>	<u>\$ 1,015,018</u>	<u>\$ 182,274</u>	<u>\$ 11,366,867</u>
Total accumulated depreciation				
Total capital assets depreciated, net	\$ 30,072,708	\$ 1,355,777	\$ 20,462	\$ 31,448,947
	<u>\$ 30,689,809</u>	<u>\$ 1,355,777</u>	<u>\$ 20,462</u>	<u>\$ 32,066,048</u>
Governmental Activities Capital Assets, Net				

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County's elected and appointed officials considered many factors when setting the 2005 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Lac qui Parle County at the end of 2005 was 4 percent. This compares favorably with the state unemployment rate of 4.2 percent and shows an improvement from the County's 4.2 percent rate of one year ago. This could impact the level of services requested by County residents.
- Mortgage interest rates have been extremely low, causing many to refinance their mortgages and/or finance new construction.
- The County General Fund, Road and Bridge Special Revenue Fund, and Family Services Special Revenue Fund expenditures for 2006 are budgeted to increase 7.4 percent (\$699,647) over the 2005 original budget. The 2006 anticipated revenues, other than tax levy, state aid, and special assessments, are budgeted to increase 8.4 percent (\$544,216) over the 2005 original budget.
- The property tax levy for the County increased 5.9 percent (\$162,136) from 2004.

LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT

The Lac qui Parle-Yellow Bank Watershed District is a component unit of the County. The component unit is included in the County's financial report because of the significance of its operational and financial relationship with the County. It is reported in a separate column to emphasize that it is legally separate from the County.

FINANCIAL HIGHLIGHTS

Governmental activities' total net assets are \$5,752,226, of which \$5,224,230 are invested in capital assets and \$527,996 is unrestricted.

The District's net assets increased by \$24,991 for the year ended December 31, 2005. A large part of the increase is attributable to the reduction in current payables.

Program specific revenues were less than the cost of governmental activities for the current fiscal year by \$132,826.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the District's financial position. The District's assets exceeded liabilities by \$5,752,226 at the close of 2005. The largest portion of the net assets (90.8 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure, such as water retention structures).

Lac qui Parle-Yellow Bank Watershed District Net Assets

	2005	2004 (Restated)
Assets		
Current and other assets	\$ 641,368	\$ 593,516
Capital assets	5,224,230	5,282,272
Total Assets	<u>\$ 5,865,598</u>	<u>\$ 5,875,788</u>
Liabilities		
Long-term liabilities	\$ 54,979	\$ -
Other liabilities	58,393	148,553
Total Liabilities	<u>\$ 113,372</u>	<u>\$ 148,553</u>
Net Assets		
Invested in capital assets	\$ 5,224,230	\$ 5,282,272
Restricted	527,996	444,963
Total Net Assets	<u>\$ 5,752,226</u>	<u>\$ 5,727,235</u>

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 5,857,245	\$ 537,958
Investments	3,594,925	-
Receivables - net	1,011,219	103,410
Due from component unit	36,000	-
Inventories	112,965	-
Prepaid items	2,193	-
Capital assets		
Non-depreciable capital assets	617,101	628,458
Depreciable capital assets - net of accumulated depreciation	31,448,947	4,595,772
Total Assets	\$ 42,680,595	\$ 5,865,598
<u>Liabilities</u>		
Accounts payable and other current liabilities	\$ 448,983	\$ 22,393
Unearned revenue	3,960	-
Due to primary government		
Due within one year	-	6,000
Due in more than one year	-	30,000
Long-term liabilities		
Due within one year	15,899	-
Due in more than one year	272,723	54,979
Total Liabilities	\$ 741,565	\$ 113,372
<u>Net Assets</u>		
Invested in capital assets	\$ 32,066,048	\$ 5,224,230
Restricted for		
Other purposes	14,688	-
Public safety	98,218	-
Highways and streets	670,134	-
Unrestricted	9,089,942	527,996
Total Net Assets	\$ 41,939,030	\$ 5,752,226

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Primary Government		
Governmental activities		
General government	\$ 1,164,965	\$ 148,704
Public safety	711,839	30,284
Highways and streets	2,712,749	31,616
Sanitation	389,489	53,248
Human services	1,673,752	86,981
Health	67,995	-
Culture and recreation	122,045	-
Conservation of natural resources	350,058	53,615
Economic development	10,620	-
	\$ 7,203,512	\$ 404,448
Total governmental activities	\$ 7,203,512	\$ 404,448
Component Unit		
Lac qui Parle-Yellow Bank Watershed District	\$ 405,898	\$ 130,527

General Revenues

Property taxes
Mortgage registry and deed tax
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Investment earnings
Miscellaneous
Gain on sale of capital assets

Total general revenues

Change in Net Assets

Net Assets - Beginning (Note 1.E.)

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Discretely Presented Component Unit
\$ 22,111	\$ -	\$ (994,150)	
110,989	47,900	(522,666)	
1,896,826	1,674,151	889,844	
178,897	-	(157,344)	
1,052,540	-	(534,231)	
-	-	(67,995)	
-	-	(122,045)	
37,843	-	(258,600)	
-	-	(10,620)	
\$ 3,299,206	\$ 1,722,051	\$ (1,777,807)	
\$ 98,428	\$ 44,117		\$ (132,826)
		\$ 2,494,343	\$ 130,907
		3,955	-
		67,648	-
		1,277,743	17,480
		255,684	9,430
		77,784	-
		35,030	-
		\$ 4,212,187	\$ 157,817
		\$ 2,434,380	\$ 24,991
		39,504,650	5,727,235
		\$ 41,939,030	\$ 5,752,226

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FUND FINANCIAL STATEMENTS

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	General	Road and Bridge	Family Services	Ditch	Total Governmental Funds
<u>Assets</u>					
Cash and pooled investments	\$ 3,827,527	\$ 469,424	\$ 928,499	\$ 573,247	\$ 5,798,697
Undistributed cash in agency funds	28,642	14,781	9,725	1,250	54,398
Petty cash and change funds	4,050	-	100	-	4,150
Investments	125,000	1,867,425	1,602,500	-	3,594,925
Taxes receivable					
Prior	18,579	11,460	8,438	-	38,477
Special assessments receivable					
Prior	7,760	-	-	298	8,058
Noncurrent	-	-	-	83,363	83,363
Accounts receivable	13,286	1,682	9,203	-	24,171
Accrued interest receivable	38,672	14,402	14,258	-	67,332
Due from other governments	31,598	614,739	136,546	6,935	789,818
Due from component unit	36,000	-	-	-	36,000
Inventories	-	112,965	-	-	112,965
Prepaid items	925	240	1,028	-	2,193
Total Assets	<u>\$ 4,132,039</u>	<u>\$ 3,107,118</u>	<u>\$ 2,710,297</u>	<u>\$ 665,093</u>	<u>\$ 10,614,547</u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total Governmental Funds</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 51,434	\$ 70,154	\$ 40,853	\$ 36,785	\$ 199,226
Salaries payable	37,283	37,097	23,895	-	98,275
Contracts payable	-	88,136	-	-	88,136
Due to other governments	8,024	24,048	31,274	-	63,346
Deferred revenue - unavailable	26,337	625,785	8,438	83,661	744,221
Deferred revenue - unearned	-	-	3,960	-	3,960
Total Liabilities	\$ 123,078	\$ 845,220	\$ 108,420	\$ 120,446	\$ 1,197,164
Fund Balances					
Reserved for					
Inventories	\$ -	\$ 112,965	\$ -	\$ -	\$ 112,965
Prepaid items	925	240	1,028	-	2,193
Missing heirs	4,590	-	-	-	4,590
Recorder's compliance fund	10,098	-	-	-	10,098
Enhanced 911	98,218	-	-	-	98,218
Cemetery	1,000	-	-	-	1,000
Due from component unit	36,000	-	-	-	36,000
Highway allotments	-	265,166	-	-	265,166
Unreserved					
Designated for future expenditures	-	750,000	895,238	-	1,645,238
Designated for capital improvements	2,420,736	-	-	-	2,420,736
Designated for out of home placements	-	-	250,000	-	250,000
Designated for administration	-	-	150,000	-	150,000
Designated for poor relief	-	-	300,000	-	300,000
Undesignated	1,437,394	1,133,527	1,005,611	544,647	4,121,179
Total Fund Balances	\$ 4,008,961	\$ 2,261,898	\$ 2,601,877	\$ 544,647	\$ 9,417,383
Total Liabilities and Fund Balances	\$ 4,132,039	\$ 3,107,118	\$ 2,710,297	\$ 665,093	\$ 10,614,547

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005**

Fund balances - total governmental funds (Exhibit 3)	\$ 9,417,383
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.	32,066,048
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	744,221
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	<u>(288,622)</u>
Net assets of governmental activities (Exhibit 1)	<u>\$ 41,939,030</u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General	Road and Bridge	Family Services	Ditch	Total Governmental Funds
Revenues					
Taxes	\$ 1,240,541	\$ 761,725	\$ 499,755	\$ -	\$ 2,502,021
Special assessments	100,129	-	-	50,021	150,150
Licenses and permits	9,358	-	-	-	9,358
Intergovernmental	974,678	3,937,700	1,346,573	-	6,258,951
Charges for services	190,444	19,749	26,482	-	236,675
Investment earnings	165,199	59,017	31,468	-	255,684
Miscellaneous	113,089	11,719	60,499	1,029	186,336
Total Revenues	\$ 2,793,438	\$ 4,789,910	\$ 1,964,777	\$ 51,050	\$ 9,599,175
Expenditures					
Current					
General government	\$ 1,210,352	\$ -	\$ -	\$ -	\$ 1,210,352
Public safety	730,014	-	-	-	730,014
Highways and streets	-	3,929,287	-	-	3,929,287
Sanitation	90,354	-	-	-	90,354
Human services	-	-	1,659,598	-	1,659,598
Health	3,000	-	-	-	3,000
Culture and recreation	122,045	-	-	-	122,045
Conservation of natural resources	250,644	-	-	97,640	348,284
Economic development	10,620	-	-	-	10,620
Intergovernmental	128,839	294,739	-	-	423,578
Total Expenditures	\$ 2,545,868	\$ 4,224,026	\$ 1,659,598	\$ 97,640	\$ 8,527,132
Excess of Revenues Over (Under) Expenditures	\$ 247,570	\$ 565,884	\$ 305,179	\$ (46,590)	\$ 1,072,043
Other Financing Sources (Uses)					
Transfers in	\$ -	\$ -	\$ -	\$ 13,643	\$ 13,643
Transfers out	(13,643)	-	-	-	(13,643)
Proceeds from sale of assets	-	35,030	-	-	35,030
Total Other Financing Sources (Uses)	\$ (13,643)	\$ 35,030	\$ -	\$ 13,643	\$ 35,030
Change in Fund Balance	\$ 233,927	\$ 600,914	\$ 305,179	\$ (32,947)	\$ 1,107,073
Fund Balance - January 1	3,775,034	1,678,099	2,296,698	577,594	8,327,425
Increase (decrease) in reserved for inventories	-	(17,115)	-	-	(17,115)
Fund Balance - December 31	\$ 4,008,961	\$ 2,261,898	\$ 2,601,877	\$ 544,647	\$ 9,417,383

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 1,107,073

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

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

Deferred revenue - December 31	\$ 744,221	
Deferred revenue - January 1	(740,534)	3,687

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

Expenditures for general capital assets and infrastructure	\$ 2,370,795	
Net book value of assets disposed of	20,462	
Current year depreciation	(1,015,018)	1,376,239

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

Change in compensated absences	\$ (35,504)	
Change in inventories	(17,115)	(52,619)

Change in net assets of governmental activities (Exhibit 2) \$ 2,434,380

LAC QUI PARLE COUNTY
MADISON, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2005

Assets

Cash and pooled investments	<u>\$ 103,785</u>
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Liabilities

Due to other governments	<u>\$ 103,785</u>
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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Lac qui Parle County was established in 1871, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Auditor, elected on a County-wide basis, serves as the clerk of the Board of Commissioners but has no vote.

As required by generally accepted accounting principles, these financial statements present Lac qui Parle County (the primary government) and its component unit. The component unit, Lac qui Parle-Yellow Bank Watershed District, is included in the County's financial reporting entity because of the significance of its operational and financial relationship with the County. It is reported in a separate column to emphasize that it is legally separate from the County.

Component Unit - The Lac qui Parle-Yellow Bank Watershed District was organized April 19, 1971, under the Minnesota Watershed Act, as amended by the Minnesota Water Resources Board, as provided in Minn. Stat. ch. 103D. The Watershed District covers areas in the following three counties: Lac qui Parle, Lincoln, and Yellow Medicine. The Watershed District is operated by a five-member Board of Managers appointed by the respective county Boards of Commissioners for staggered three-year terms. The Watershed District's main purpose is to regulate and control water and natural resources within the Watershed District. The Watershed District is reported as a discrete component unit of the primary government because Lac qui Parle County

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

appoints three of the five managers of the Watershed District's Board and is financially responsible for funding watershed projects under Minn. Stat. § 103D.901, subd. 2. Separate financial statements for the Watershed District are not available.

Significant accounting policies of the Watershed District do not differ from those of the County.

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

operational or capital requirements of a particular function or activity. Revenues 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 separate columns in the fund financial statements. All governmental funds are reported as major funds.

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department that is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Family Services Special Revenue Fund is used to account for economic assistance and community social services programs.

The Ditch Special Revenue Fund is used to account for the cost of constructing and maintaining an agricultural drainage ditch system. Financing is provided by special assessments levied against benefited property.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Lac qui Parle County considers all revenues to be available if 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 general long-term debt, compensated absences, and claims and judgments which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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, 2005, 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 2005 were \$158,534.

2. Receivables and Payables

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

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

All receivables are shown net of an allowance for uncollectables.

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

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Inventories and Prepaid Items

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

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

4. Capital Assets

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

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

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

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

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. 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 and fiduciary fund financial statements. A liability for these amounts is reported in the governmental funds only if it has matured, for example, as a result of employee resignations and retirements.

6. Deferred Revenue

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

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

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. At December 31, 2005, Lac qui Parle County reported no bonded debt.

8. Fund Equity

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Use of Estimates

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

E. Prior Period Adjustment

In 2004, certain special assessments receivable by the Lac qui Parle-Yellow Bank Watershed District were incorrectly reported on the government-wide financial statements as unearned revenues. To correct this error, net assets as of January 1, 2005, have been restated:

Net Assets - January 1, as previously reported	\$ 5,685,179
Special assessments receivable reported as unearned revenue at December 31, 2004	<u>42,056</u>
Net Assets - January 1, restated	<u>\$ 5,727,235</u>

2. Stewardship, Compliance, and Accountability

Deficit Fund Equity

Ditch System Fund Balance Deficits

For internal accounting purposes, individual ditch system records are maintained on the full accrual basis. Using that method, which recognizes special assessments as revenues when levied, 5 of 104 drainage systems have deficit unreserved, undesignated fund balances at December 31, 2005. The following is a summary of fund balances using the full accrual basis.

Account balances	\$ 666,349
Account deficits	<u>(45,546)</u>
Unreserved, Undesignated Fund Balance	<u>\$ 620,803</u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

	Primary Government	Component Unit
Government-wide statement of net assets		
Governmental activities		
Cash and pooled investments	\$ 5,857,245	\$ 537,958
Investments	3,594,925	-
Statement of fiduciary net assets		
Cash and pooled investments	103,785	-
Total Cash and Investments	\$ 9,555,955	\$ 537,958
Petty cash and change funds	\$ 4,150	\$ -
Checking	107,937	182,958
Money market savings	2,645,549	-
Certificates of deposit	6,798,319	355,000
Total Deposits and Investments	\$ 9,555,955	\$ 537,958

a. Deposits

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

Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. The County's deposits in banks at December 31, 2005, were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At December 31, 2005, none of the County's investments were subject to custodial credit risk.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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

2. Receivables

Receivables as of December 31, 2005, for the County's governmental activities follow:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 38,477	\$ -
Special assessments	91,421	83,363
Due from other governments	789,818	-
Accounts receivable	24,171	-
Interest	67,332	-
Total Governmental Activities	\$ 1,011,219	\$ 83,363

Receivables as of December 31, 2005, for the Lac qui Parle-Yellow Bank Watershed District governmental activities follow:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 1,499	\$ -
Special assessments	93,806	84,264
Due from other governments	3,000	-
Accounts receivable	1,224	-
Interest	3,881	-
Total Governmental Activities	\$ 103,410	\$ 84,264

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2005, for Lac qui Parle County (primary government) was as follows:

Primary Government

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 146,903	\$ -	\$ -	\$ 146,903
Right-of-way	470,198	-	-	470,198
Total capital assets not depreciated	\$ 617,101	\$ -	\$ -	\$ 617,101
Capital assets depreciated				
Buildings	\$ 1,009,136	\$ 66,400	\$ -	\$ 1,075,536
Machinery, furniture, and equipment	3,206,917	445,099	161,812	3,490,204
Infrastructure	36,390,778	1,859,296	-	38,250,074
Total capital assets depreciated	\$ 40,606,831	\$ 2,370,795	\$ 161,812	\$ 42,815,814
Less: accumulated depreciation for				
Buildings	\$ 675,855	\$ 24,169	\$ 42,541	\$ 657,483
Machinery, furniture, and equipment	2,199,462	225,847	139,733	2,285,576
Infrastructure	7,658,806	765,002	-	8,423,808
Total accumulated depreciation	\$ 10,534,123	\$ 1,015,018	\$ 182,274	\$ 11,366,867
Total capital assets depreciated, net	\$ 30,072,708	\$ 1,355,777	\$ 20,462	\$ 31,448,947
Capital Assets, Net	\$ 30,689,809	\$ 1,355,777	\$ 20,462	\$ 32,066,048

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Primary Government (Continued)

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

Governmental Activities					
General government		\$		6,206	
Public safety				28,385	
Sanitation				3,733	
Highways and streets				965,850	
Human services				10,844	
				10,844	
Total Depreciation Expense - Governmental Activities		\$		1,015,018	

Component Unit

Capital asset activity for the year ended December 31, 2005, for the Lac qui Parle-Yellow Bank Watershed District (the discretely presented component unit) was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 628,458	\$ -	\$ -	\$ 628,458
Capital assets depreciated				
Buildings	\$ 35,200	\$ -	\$ -	\$ 35,200
Machinery, furniture, and equipment	44,891	5,591	-	50,482
Land improvements	128,664	-	-	128,664
Infrastructure	5,334,207	-	-	5,334,207
Total capital assets depreciated	\$ 5,542,962	\$ 5,591	\$ -	\$ 5,548,553
Less: accumulated depreciation for				
Buildings	\$ 33,792	\$ 1,408	\$ -	\$ 35,200
Machinery, furniture, and equipment	32,847	2,450	-	35,297
Land improvements	50,648	6,433	-	57,081
Infrastructure	771,861	53,342	-	825,203
Total accumulated depreciation	\$ 889,148	\$ 63,633	\$ -	\$ 952,781
Total capital assets depreciated, net	\$ 4,653,814	\$ (58,042)	\$ -	\$ 4,595,772
Capital Assets, Net	\$ 5,282,272	\$ (58,042)	\$ -	\$ 5,224,230

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Component Unit (Continued)

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

Conservation of natural resources	\$	54,750
Culture and recreation		8,883
Total Depreciation Expense		\$ 63,633

B. Interfund Receivables, Payables, and Transfers

Lac Qui Parle County did not have any interfund balances as of December 31, 2005. The composition of interfund balances for the Lac Qui Parle–Yellow Bank Watershed to correct an error as of December 31, 2005, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
Ditch Special Revenue Fund	General Fund	\$ 3,745

Interfund Transfers

During 2005, the General Fund transferred \$13,643 to the Ditch Special Revenue Fund for its share of interest earnings.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2005, were as follows:

	Primary Government	Component Unit
Accounts	\$ 199,226	\$ 16,162
Salaries	98,275	6,196
Contracts	88,136	-
Due to other governments	63,346	35
Total Payables	\$ 448,983	\$ 22,393

2. Other Postemployment Benefits

Employees' Health Insurance Benefits

Employees retiring from County service with at least ten years of service and meeting the established requirements to receive a pension from the Public Employees Retirement Association may have their severance pay transferred to an individual health insurance account to pay their monthly health insurance premiums until this balance is exhausted or they reach age 65. At December 31, 2005, the County had no liability. The County finances the plan on a pay-as-you-go basis and made no payments in 2005.

Retired Officials' Health Insurance Benefits

The County pays the health insurance for qualified retired elected officials. The elected official will receive one year of paid insurance for every four years of service to Lac qui Parle County after they have served for eight years and one day. A maximum of four years of paid insurance is available to elected officials or until they become eligible for Medicare. At December 31, 2005, the County had no liability. The County finances the plan on a pay-as-you-go basis and made no payments in 2005.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Compensated Absences
Payable - January 1	\$ 253,118
Net changes	35,504
Payable - December 31	\$ 288,622
Amount Due Within One Year	\$ 15,899

4. Other Long-Term Liabilities

Due to Primary Government

The Lac qui Parle-Yellow Bank Watershed District has a balance due to the Lac qui Parle County General Fund at December 31, 2005, of \$36,000. The balance is being repaid in annual installments of \$6,000.

Loans Payable

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

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2005
Lac qui Parle River Mainstem Water Quality Project				\$ 54,979	\$ 54,979

No repayment schedule was available for this project.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Other Long-Term Liabilities (Continued)

Changes in Long-Term Liabilities

Changes in long-term liabilities of the Lac qui Parle-Yellow Bank Watershed District for the year ended December 31, 2005, were:

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>	<u>Amount Due Within One Year</u>
Advance from General Fund	\$ 42,000	\$ -	\$ 6,000	\$ 36,000	\$ 6,000
Loan payable	-	54,979	-	54,979	-

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution and have direct contact with inmates are covered by the Public Employees Correctional Fund.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from 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. Each government makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.5 percent. Public Employees Police and Fire Fund members were required to contribute 6.20 percent of their annual covered salary in 2005. That rate increased to 7.00 percent in 2006. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

Each government is required to contribute the following percentages of annual covered payroll in 2005 and 2006:

	<u>2005</u>	<u>2006</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	5.53	6.00
Public Employees Police and Fire Fund	9.30	10.50
Public Employees Correctional Fund	8.75	8.75

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

Each government's contributions for the years ending December 31, 2005, 2004, and 2003, 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
2005	\$	116,298	\$ 28,724	\$ 5,025
2004		114,371	29,271	4,409
2003		127,507	29,375	5,665

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

B. Defined Contribution Plan

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

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

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

The County's contributions for the years ending December 31, 2005, 2004, and 2003, were \$957, \$0, and \$0, respectively, equal to the contractually required contributions for each year as set by state statute.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

5. Risk Management

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

The Workers' Compensation Division of the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$760,000 and \$790,000 per claim in 2004 and 2005, respectively. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

The Property and Casualty Division of the 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, the MCIT may assess the County in a method and amount to be determined by the MCIT.

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities (Continued)

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

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board

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

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

The following is a summary of the Consortium Board's annual financial report for the year ended December 31, 2003 (the latest information available):

Total assets	\$	220,978
Total liabilities		5,230
Total equity		215,748
Total revenues		889,414
Total expenditures		856,904
Net increase to fund balance		32,510

The Consortium Board reported no long-term obligations at December 31, 2003.

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Countryside Public Health Service

Lac qui Parle County participates with Big Stone, Chippewa, Swift, and Yellow Medicine Counties in a joint venture to provide community health services. The governing board consists of 11 members, 3 from Chippewa County and 2 from each of the other participating counties. Lac qui Parle County's contribution to the Countryside Public Health Service for the year ended December 31, 2005, was \$64,995.

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

Region 6W Community Corrections

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

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

Lac qui Parle County's contribution for the year ended December 31, 2005, was \$63,844. Complete financial statements for the Community Corrections can be obtained at 1215 Black Oak Avenue, P. O. Box 551, Montevideo, Minnesota 56265.

Minnesota River Basin

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Minnesota River Basin (Continued)

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

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

During 2005, the County contributed \$11,969 to the Joint Powers Board. Complete financial statements for the Minnesota River Basin Joint Powers Board can be obtained from its administrative office at Administration Building No. 14, 600 East 4th Street, Chaska, Minnesota 55318.

Regional Drug Task Force

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

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

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

Financing is provided by state and federal grants and appropriations from members. The County did not contribute to the Task Force in 2005. Complete financial statements for the Regional Drug Task Force can be obtained from its administrative office at 600 Sixth Street, Madison, Minnesota 56256, or from the City Manager of the City of Madison.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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

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

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

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

Regional Library

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

REQUIRED SUPPLEMENTARY INFORMATION

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,446,665	\$ 1,446,665	\$ 1,240,541	\$ (206,124)
Special assessments	-	-	100,129	100,129
Licenses and permits	23,360	23,360	9,358	(14,002)
Intergovernmental	633,197	633,197	974,678	341,481
Charges for services	168,100	168,100	190,444	22,344
Investment earnings	91,500	91,500	165,199	73,699
Miscellaneous	140,656	140,656	113,089	(27,567)
Total Revenues	\$ 2,503,478	\$ 2,503,478	\$ 2,793,438	\$ 289,960
Expenditures				
Current				
General government				
Commissioners	\$ 158,274	\$ 158,274	\$ 168,610	\$ (10,336)
Courts	5,000	5,000	5,228	(228)
County auditor	178,865	178,865	171,725	7,140
County treasurer	112,875	112,875	105,990	6,885
County assessor	111,790	111,790	110,283	1,507
Elections	1,650	1,650	420	1,230
Accounting and auditing	-	-	23,913	(23,913)
Data processing	120,900	120,900	112,204	8,696
Attorney	137,050	137,050	138,019	(969)
Recorder	116,960	116,960	130,891	(13,931)
Planning and zoning	33,955	33,955	31,619	2,336
Buildings and plant	114,035	114,035	107,583	6,452
Veterans' service officer	68,675	68,675	66,854	1,821
County car	800	800	983	(183)
Other general government	198,869	198,869	36,030	162,839
Total general government	\$ 1,359,698	\$ 1,359,698	\$ 1,210,352	\$ 149,346
Public safety				
Sheriff	\$ 531,210	\$ 531,210	\$ 543,639	\$ (12,429)
Boat and water safety	2,350	2,350	2,520	(170)
Snowmobile safety	1,500	1,500	3,049	(1,549)
Coroner	6,500	6,500	1,236	5,264
E-911 system	36,000	36,000	8,370	27,630
County jail	26,300	26,300	92,700	(66,400)
Civil defense	15,750	15,750	78,500	(62,750)
Total public safety	\$ 619,610	\$ 619,610	\$ 730,014	\$ (110,404)
Sanitation				
Solid waste	\$ 21,683	\$ 21,683	\$ 16,470	\$ 5,213
Recycling	81,105	81,105	73,884	7,221
Total sanitation	\$ 102,788	\$ 102,788	\$ 90,354	\$ 12,434

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Health				
Ambulance	\$ 3,000	\$ 3,000	\$ 3,000	\$ -
Culture and recreation				
Historical society	\$ 8,500	\$ 8,500	\$ 8,500	\$ -
Minnesota trails	20,000	20,000	22,017	(2,017)
Parks	3,000	3,000	2,800	200
Senior citizens	500	500	400	100
County/regional library	75,697	75,697	81,228	(5,531)
Other	7,100	7,100	7,100	-
Total culture and recreation	\$ 114,797	\$ 114,797	\$ 122,045	\$ (7,248)
Conservation of natural resources				
Extension	\$ 72,665	\$ 72,665	\$ 68,748	\$ 3,917
Soil and water conservation	85,600	85,600	85,600	-
Agricultural society/County fair	5,050	5,050	5,050	-
Predator control	2,000	2,000	1,431	569
River basin	12,000	12,000	11,969	31
County farm	4,600	4,600	1,948	2,652
Water planning	24,834	24,834	32,180	(7,346)
Environmental officer	31,045	31,045	21,881	9,164
Feedlot administration	37,782	37,782	20,837	16,945
Other	1,000	1,000	1,000	-
Total conservation of natural resources	\$ 276,576	\$ 276,576	\$ 250,644	\$ 25,932
Economic development				
Airport	\$ 7,000	\$ 7,000	\$ 7,000	\$ -
Other	1,200	1,200	3,620	(2,420)
Total economic development	\$ 8,200	\$ 8,200	\$ 10,620	\$ (2,420)
Intergovernmental				
Public safety	\$ 54,270	\$ 54,270	\$ 63,844	\$ (9,574)
Health	\$ 64,539	\$ 64,539	\$ 64,995	\$ (456)
Total Expenditures	\$ 2,603,478	\$ 2,603,478	\$ 2,545,868	\$ 57,610
Excess of Revenues Over (Under) Expenditures	\$ (100,000)	\$ (100,000)	\$ 247,570	\$ 347,570

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Transfers in	\$ 100,000	\$ 100,000	\$ -	\$ (100,000)
Transfers out	-	-	(13,643)	(13,643)
Total Other Financing Sources (Uses)	\$ 100,000	\$ 100,000	\$ (13,643)	\$ (113,643)
Change in Fund Balance	\$ -	\$ -	\$ 233,927	\$ 233,927
Fund Balance - January 1	3,775,034	3,775,034	3,775,034	-
Fund Balance - December 31	\$ 3,775,034	\$ 3,775,034	\$ 4,008,961	\$ 233,927

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 892,700	\$ 892,700	\$ 761,725	\$ (130,975)
Intergovernmental	3,980,800	3,980,800	3,937,700	(43,100)
Charges for services	30,000	30,000	19,749	(10,251)
Investment earnings	20,000	20,000	59,017	39,017
Miscellaneous	38,300	38,300	11,719	(26,581)
Total Revenues	\$ 4,961,800	\$ 4,961,800	\$ 4,789,910	\$ (171,890)
Expenditures				
Current				
Highways and streets				
Administration	\$ 141,200	\$ 141,200	\$ 138,891	\$ 2,309
Maintenance	1,595,400	1,595,400	1,297,062	298,338
Construction	2,850,100	2,850,100	2,102,141	747,959
Equipment and maintenance shops	375,100	375,100	391,193	(16,093)
Total highways and streets	\$ 4,961,800	\$ 4,961,800	\$ 3,929,287	\$ 1,032,513
Intergovernmental				
Highways and streets	-	-	294,739	(294,739)
Total Expenditures	\$ 4,961,800	\$ 4,961,800	\$ 4,224,026	\$ 737,774
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 565,884	\$ 565,884
Other Financing Sources (Uses)				
Proceeds from sale of assets	-	-	35,030	35,030
Change in Fund Balance	\$ -	\$ -	\$ 600,914	\$ 600,914
Fund Balance - January 1	1,678,099	1,678,099	1,678,099	-
Increase (decrease) in reserved for inventories	-	-	(17,115)	(17,115)
Fund Balance - December 31	\$ 1,678,099	\$ 1,678,099	\$ 2,261,898	\$ 583,799

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 776,240	\$ 776,240	\$ 499,755	\$ (276,485)
Intergovernmental	977,225	977,225	1,346,573	369,348
Charges for services	28,950	28,950	26,482	(2,468)
Investment earnings	15,000	15,000	31,468	16,468
Miscellaneous	30,000	30,000	60,499	30,499
Total Revenues	\$ 1,827,415	\$ 1,827,415	\$ 1,964,777	\$ 137,362
Expenditures				
Current				
Human Services				
Income maintenance	\$ 486,239	\$ 486,239	\$ 501,770	\$ (15,531)
Social services	1,341,176	1,341,176	1,157,828	183,348
Total Expenditures	\$ 1,827,415	\$ 1,827,415	\$ 1,659,598	\$ 167,817
Change in Fund Balance	\$ -	\$ -	\$ 305,179	\$ 305,179
Fund Balance - January 1	2,296,698	2,296,698	2,296,698	-
Fund Balance - December 31	\$ 2,296,698	\$ 2,296,698	\$ 2,601,877	\$ 305,179

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 33,955	\$ 33,955	\$ 50,021	\$ 16,066
Miscellaneous	-	-	1,029	1,029
Total Revenues	\$ 33,955	\$ 33,955	\$ 51,050	\$ 17,095
Expenditures				
Current				
Conservation of natural resources				
Other	582,976	582,976	97,640	485,336
Excess of Revenues Over (Under) Expenditures	\$ (549,021)	\$ (549,021)	\$ (46,590)	\$ 502,431
Other Financing Sources (Uses)				
Transfers in	5,472	5,472	13,643	8,171
Change in Fund Balance	\$ (543,549)	\$ (543,549)	\$ (32,947)	\$ 510,602
Fund Balance - January 1	577,594	577,594	577,594	-
Fund Balance - December 31	\$ 34,045	\$ 34,045	\$ 544,647	\$ 510,602

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

1. General Budget Policies

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

The budgets may be amended or modified at any time by the County Board. Comparisons of final budgeted revenues and expenditures to actual are presented in required supplementary information for the General Fund and special revenue funds.

2. Budget Basis of Accounting

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

3. Budget Amendments

The County did not amend the budgets for the General Fund or any of the special revenue funds.

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SUPPLEMENTARY INFORMATION

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Statement 1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 21,887	\$ 871,903	\$ 868,494	\$ 25,296
<u>Liabilities</u>				
Due to other governments	\$ 21,887	\$ 871,903	\$ 868,494	\$ 25,296
<u>FORFEITED TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 3,300	\$ 509	\$ 2,791
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 3,300	\$ 509	\$ 2,791
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 82,031	\$ 7,109,291	\$ 7,115,624	\$ 75,698
<u>Liabilities</u>				
Due to other governments	\$ 82,031	\$ 7,109,291	\$ 7,115,624	\$ 75,698
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 103,918	\$ 7,984,494	\$ 7,984,627	\$ 103,785
<u>Liabilities</u>				
Due to other governments	\$ 103,918	\$ 7,984,494	\$ 7,984,627	\$ 103,785

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OTHER SCHEDULES

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 5

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Primary Government	Component Unit
Shared Revenue		
State		
Highway users tax	\$ 3,080,222	\$ -
County program aid	836,697	-
PERA rate reimbursement	12,441	132
Disparity reduction aid	51,576	-
Police aid	29,271	-
Enhanced 911	59,815	-
Market value credit	377,029	17,348
Total shared revenue	\$ 4,447,051	\$ 17,480
Reimbursement for Services		
Minnesota Department of Human Services	\$ 484,917	\$ -
Payments		
Local		
Payments in lieu of taxes	\$ 67,648	\$ -
Local grants	-	44,117
Local grants - public safety	12,618	-
Total payments	\$ 80,266	\$ 44,117
Grants		
State		
Minnesota Department/Board of Human Services	\$ 405,448	\$ -
Natural Resources	25,848	-
Water and Soil Resources	42,341	65,563
Office of Environmental Assistance	24,539	-
Peace Officers Board	1,410	-
Pollution Control Agency	24,540	32,865
Total state	\$ 524,126	\$ 98,428
Federal		
Department of Agriculture	\$ 2,113	\$ -
Labor	5,000	-
Transportation	477,530	-
Health and Human Services	178,073	-
Homeland Security	59,875	-
Total federal	\$ 722,591	\$ -
Total state and federal grants	\$ 1,246,717	\$ 98,428
Total Intergovernmental Revenue	\$ 6,258,951	\$ 160,025

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 6

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2005**

	<u>General</u>	<u>Ditch Special Revenue</u>	<u>Total Governmental Funds</u>	<u>Adjustments (Schedule 7)</u>	<u>Statement of Net Assets</u>
Assets					
Cash and pooled investments	\$ 465,747	\$ 72,211	\$ 537,958	\$ -	\$ 537,958
Taxes receivable					
Prior	1,499	-	1,499	-	1,499
Special assessments receivable					
Prior	-	2,120	2,120	-	2,120
Noncurrent	56,903	34,783	91,686	-	91,686
Accounts receivable	1,224	-	1,224	-	1,224
Accrued interest receivable	2,903	978	3,881	-	3,881
Due from other funds	-	3,745	3,745	(3,745)	-
Due from other governments	3,000	-	3,000	-	3,000
Capital assets					
Non-depreciable	-	-	-	628,458	628,458
Depreciable - net of accumulated depreciation	-	-	-	4,595,772	4,595,772
Total Assets	<u>\$ 531,276</u>	<u>\$ 113,837</u>	<u>\$ 645,113</u>	<u>\$ 5,220,485</u>	<u>\$ 5,865,598</u>
Liabilities					
Accounts payable	\$ 11,918	\$ 4,244	\$ 16,162	\$ -	\$ 16,162
Salaries payable	6,196	-	6,196	-	6,196
Due to other funds	3,745	-	3,745	(3,745)	-
Due to other governments	35	-	35	-	35
Deferred revenue - unavailable	58,402	36,903	95,305	(95,305)	-
Due to primary government					
Due within one year	-	-	-	6,000	6,000
Due in more than one year	-	-	-	30,000	30,000
ISTS loans					
Due in more than one year	-	-	-	54,979	54,979
Total Liabilities	<u>\$ 80,296</u>	<u>\$ 41,147</u>	<u>\$ 121,443</u>	<u>\$ (8,071)</u>	<u>\$ 113,372</u>
Fund Balances					
Unreserved					
Designated for					
Ditch repairs and maintenance	\$ -	\$ 72,690	\$ 72,690	\$ (72,690)	
Flood control	450,980	-	450,980	(450,980)	
Total Fund Balances	<u>\$ 450,980</u>	<u>\$ 72,690</u>	<u>\$ 523,670</u>	<u>\$ (523,670)</u>	
Total Liabilities and Fund Balances	<u>\$ 531,276</u>	<u>\$ 113,837</u>	<u>\$ 645,113</u>		
Net Assets					
Invested in capital assets				\$ 5,224,230	\$ 5,224,230
Unrestricted				527,996	527,996
Total Net Assets				<u>\$ 5,752,226</u>	<u>\$ 5,752,226</u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 7

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005**

Fund balances - total governmental funds (Schedule 6)	\$ 523,670
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	5,224,230
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	95,305
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Advance from primary government	(36,000)
Loans payable	<u>(54,979)</u>
Net assets of governmental activities (Exhibit 1)	<u>\$ 5,752,226</u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 8

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General	Ditch Special Revenue	Total Governmental Funds	Adjustments	Statement of Activities
Revenues					
Taxes	\$ 132,294	\$ -	\$ 132,294	\$ (1,387)	\$ 130,907
Special assessments	-	3,813	3,813	47,937	51,750
Intergovernmental	160,025	-	160,025	-	160,025
Charges for services	56,321	-	56,321	-	56,321
Interest on investments	7,816	1,614	9,430	-	9,430
Miscellaneous	22,456	-	22,456	-	22,456
Total Revenues	\$ 378,912	\$ 5,427	\$ 384,339	\$ 46,550	\$ 430,889
Expenditures/Expenses					
Current					
Culture and recreation	\$ 77,195	\$ -	\$ 77,195	\$ 8,883	\$ 86,078
Conservation of natural resources	261,992	5,729	267,721	49,159	316,880
Debt service					
Principal retirement	-	6,000	6,000	(6,000)	-
Interest	-	2,940	2,940	-	2,940
Total Expenditures	\$ 339,187	\$ 14,669	\$ 353,856	\$ 52,042	\$ 405,898
Excess of Revenues Over (Under) Expenditures/Expenses	\$ 39,725	\$ (9,242)	\$ 30,483	\$ (5,492)	\$ 24,991
Other Financing Sources (Uses)					
Loans issued	54,979	-	54,979	(54,979)	-
Change in Fund Balance/ Net Assets	\$ 94,704	\$ (9,242)	\$ 85,462	\$ (60,471)	\$ 24,991
Fund Balance/Net Assets					
January 1, as previously reported	\$ 356,276	\$ 81,932	\$ 438,208	\$ 5,246,971	\$ 5,685,179
Restatement - see Note 1.E.	-	-	-	42,056	42,056
January 1, as restated	\$ 356,276	\$ 81,932	\$ 438,208	\$ 5,289,027	\$ 5,727,235
December 31	\$ 450,980	\$ 72,690	\$ 523,670	\$ 5,228,556	\$ 5,752,226

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 8
(Continued)

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2005**

Net change in fund balance - total governmental funds **\$ 85,462**

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

In the funds, under the modified accrual basis, receivables not available for expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues is the increase (decrease) in amounts of unavailable deferred revenues.

Deferred revenue - December 31	\$ 95,305	
Deferred revenue - January 1	<u>(48,755)</u>	46,550

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

Expenditures for capital assets and infrastructure	\$ 5,591	
Current year depreciation	<u>(63,633)</u>	(58,042)

Governmental funds report ISTS loans issued as other financing sources. However, in the statement of activities the loans are reported as a liability. (54,979)

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

Change in net assets of governmental activities (Exhibit 2) **\$ 24,991**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

99-1 Internal Accounting Controls

Due to the limited number of office personnel within the various Lac qui Parle 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 County Board has been advised and is well aware of the lack of segregation of the accounting functions. All reasonable management procedures are in place with the number of employees Lac qui Parle County currently has.

ITEM ARISING THIS YEAR

05-1 County Recorder's Office

The County Recorder's Office collects fees and surcharges for recording various documents, certified copies, and vital statistics. Receipts of cash, checks, and direct deposits are entered into the general cashbook. Cash is reconciled to the cash receipt entries in the journals and deposited in the Treasurer's Office weekly. A list of the direct deposits received is included with the weekly deposit, and the Treasurer ties these out to the direct deposits shown on the KleinBank statement.

Our review of the County Recorder's Office noted the following:

- Receipts did not tie to deposits for October, November, and December 2005.
- Receipts are not written for all transactions.
- Several receipts were written that could not be traced to the deposit made with the Treasurer's Office.
- Some voided receipts were torn out of the receipt book so no record of the transaction exists.
- Fees were paid to the state twice for June collections.
- Several items listed on the Secretary of State's report as being processed by the Lac qui Parle County Recorder's Office are not in the Recorder's numerical register or cashbook.
- The Recorder's Office has an unauthorized change fund.

Maintaining source documents, such as receipt forms, is a fundamental requirement of good internal control. It helps demonstrate accountability for all funds coming into the office. The absence of receipt forms creates doubt as to whether all funds received from customers have been recorded properly and received a proper disposition.

We recommend that procedures be strengthened to secure all receipt forms with other accounting records. Voided receipt forms must be kept with all other receipts issued. We also recommend that staff provide explanations for missing forms and that such explanations be noted in the accounting records. Furthermore, staff should reconcile the differences between the Secretary of State's listing of records and the Recorder's numerical register. Finally, we recommend that staff remit the unauthorized change fund to the County Treasurer.

Client's Response:

The County Board is aware of the irregularities discovered in the County Recorder's Office and is working to implement new and more secure office procedures.

PREVIOUSLY REPORTED ITEM RESOLVED

Travel Expenditure Reimbursements (04-1)

The County travel policy states the County will reimburse its representatives and employees for ordinary and necessary expenses incurred while attending to official County business. The policy requires itemized receipts to accompany the reimbursement requests. While testing expenditures, we noted some travel expenditure reimbursement requests that did not contain appropriate supporting documentation and were not itemized.

Resolution

The County allows to be paid only claims that have the proper itemization, supporting documentation attached, and that have been properly audited and verified by the officer authorized by law to audit and allow claims to be paid.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 Ditch Fund Cash and Fund Deficits

Eight of the 107 individual ditch systems had deficit cash balances totaling \$46,091 at December 31, 2005. This amount is down from the prior year when we reported that 7 of the 107 individual ditch systems had deficit cash balances totaling \$57,911. Minn. Stat. § 385.04 states, in part, “. . . every warrant shall be paid only from the cash on hand in the fund from which it may be properly payable.” Minn. Stat. § 103E.655, subd. 2, allows for loans to be made from ditch systems with surplus funds or from the General Fund to a ditch with insufficient cash to pay expenditures. If the County Board transfers money from another account or fund to a drainage system account, the money plus interest must be reimbursed from the proceeds of the drainage system that received the transfer.

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

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

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

Client's Response:

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

03-2

Collateral Substitution

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

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

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

Client's Response:

The County Treasurer has received a new depository pledge agreement. She will forward to the State Auditor's Office for approval.

ITEM ARISING THIS YEAR

05-2

Depository Pledge Agreement

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

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

We recommend that the County review this security agreement to ensure that it is consistent with the default language of Minn. Stat. § 118A.03, subd. 4, and that the required language is included.

Client's Response:

The County Treasurer has contacted KleinBank. The bank has put a call into the Minnesota Department of Commerce for advisement.

B. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, like what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other

Schedule 9
(Continued)

postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

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

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

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

If applicable for Lac qui Parle County, GASB Statements 43 and 45 would be implemented for the years ending December 31, 2008 and 2009, respectively.

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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Lac qui Parle County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lac qui Parle County as of and for the year ended December 31, 2005, and have issued our report thereon dated April 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lac qui Parle County's internal control over financial reporting 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 99-1 and 05-1.

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. We believe neither of the reportable conditions indicated above is a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Lac qui Parle County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 96-1, 03-2, and 05-2.

Pursuant to Minn. Stat. § 6.48, a special report pertaining to finding 05-1, "County Recorder's Office." will be issued.

This report is intended solely for the information and use of the Board of County Commissioners and 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 3, 2006

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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
Lac qui Parle County

Compliance

We have audited the compliance of Lac qui Parle County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2005. Lac qui Parle County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, Lac qui Parle County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Lac qui Parle County as of and for the year ended December 31, 2005, and have issued our report thereon dated April 3, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of County Commissioners, management, 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 3, 2006

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 10

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	\$ <u>2,113</u>
U.S. Department of Labor		
Passed Through Minnesota Department of Labor and Industry Occupational Safety and Health - State Program	17.503	\$ <u>5,000</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ <u>477,530</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 3,873
Temporary Assistance for Needy Families (TANF)	93.558	35,340
Child Care and Development Block Grant	93.575	20,612
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	13,910
Child Welfare Services - State Grants	93.645	4,424
Foster Care - Title IV-E	93.658	16,778
Social Services Block Grant	93.667	74,866
Chafee Foster Care Independence Program	93.674	1,780
Block Grants for Community Mental Health Services	93.958	<u>6,490</u>
Total U.S. Department of Health and Human Services		\$ <u>178,073</u>
U.S. Department of Homeland Security		
Passed Through United Way Emergency Food and Shelter National Board Program	97.024	\$ 4,100
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Program	97.004	47,900
Homeland Security Grant Program	97.067	<u>7,875</u>
Total U.S. Department of Homeland Security		\$ <u>59,875</u>
Total Federal Awards		\$ <u><u>722,591</u></u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

Schedule 10
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Notes to Schedule of Expenditures of Federal Awards.

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Lac qui Parle County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. During 2005, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.