

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

LAC QUI PARLE COUNTY
MADISON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2012

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

For the Year Ended December 31, 2012



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

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

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MADISON, MINNESOTA**

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**ORGANIZATION SCHEDULE
LAC QUI PARLE COUNTY
2012**

Office	Name	Term Expires
Commissioners		
1st District	Todd Patzer	January 2017
2nd District	DeRon Brehmer*	January 2015
3rd District	Graylen Carlson**	January 2017
4th District	Terrence Overlander	January 2015
5th District	Roy Marihart	January 2017
Officers		
Elected		
Attorney	Richard Stulz	January 2015
Coroner	Ralph Gerbig, M.D.	January 2013
Sheriff	Rick Halvorson	January 2015
Appointed		
Auditor-Treasurer	Jacob Sieg	Indefinite
Assessor	Lori Schwendemann	Indefinite
Environmental Officer	Jennifer Breberg	Indefinite
Highway Engineer	Steven Kubista	Indefinite
Recorder	Josh Amland	Indefinite
Veterans' Service Officer	Josh Beninga	Indefinite
Welfare Board		
Commissioner	Todd Patzer	January 2013
Commissioner	DeRon Brehmer	January 2013
Commissioner	Graylen Carlson	January 2013
Commissioner	Terrence Overlander	January 2015
Commissioner	Roy Marihart	January 2013
Member	Ann Jenson	July 2015
Member	Mary Wodrich	July 2014
Director	Joel Churness	Indefinite

*Chair 2012

**Chair 2013

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**ORGANIZATION SCHEDULE
LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
BOARD OF MANAGERS
2012**

<u>Position</u>	<u>Name</u>	<u>Term Expires</u>
Manager		
Chair	Darrel Ellefson	March 2015
Vice Chair	Willis Beecher	March 2015
Treasurer	David Ludvigson	March 2014
Secretary	David Craigmile	March 2016
Publicity Chair	John Cornell	March 2015
Staff		
Administrator	Trudy Hastad	Indefinite
Park Manager	Ron Fjerkenstad	Indefinite
Attorney	Steve Torvik	Indefinite
Clean Water Coordinator	Mary Homan	Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Lac qui Parle County

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Lac qui Parle County, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Lac qui Parle County Economic Development Authority, which represent 4 percent, 4 percent, and 26 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to amounts included for that component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Lac qui Parle County as of December 31, 2012, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 4.C. to the financial statements, in 2012 Lac qui Parle County adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the year ended December 31, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other

knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2013, 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* in considering Lac qui Parle County's internal control over financial reporting and compliance. It does not include the Lac qui Parle County Economic Development Authority which was audited by other auditors.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such

information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 26, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012
(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, 2012. 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 position is \$54,374,289, of which \$45,333,991 represents net investment in capital assets, and \$2,101,733 is restricted to specific purposes. The \$6,938,565 remaining may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's net position increased by \$1,935,519 for the year ended December 31, 2012. A large part of the increase is attributable to the increase in capital assets.
- The net cost of governmental activities for the current fiscal year was \$3,044,909. The net cost was funded by general revenues and other items totaling \$4,980,428.
- The fund balances of the governmental funds decreased by \$928,154. Most of the decrease was due an unbudgeted capital expenditure associated with a new mechanical system for the Courthouse.
- For the year ended December 31, 2012, the unassigned, assigned, and committed fund balance of the General Fund was \$1,864,331, or 38.7 percent of the total General Fund expenditures for the year.
- The assigned and committed fund balance of the Road and Bridge Special Revenue Fund was \$2,306,784, or 36.6 percent of the total Road and Bridge Special Revenue Fund expenditures for the year.
- The assigned and committed fund balance of the Family Services Special Revenue Fund was \$2,684,651, or 125.8 percent of the total Family Services Special Revenue Fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

The government-wide statements are 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 and 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. A budgetary comparison schedule has been provided as required supplementary information for each of these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements are 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 a separate Statement of Fiduciary Net Position as Exhibit 7.

The County reports the Lac qui Parle Economic Development Authority as a discretely presented component unit. The Lac qui Parle Economic Development Authority has separately issued financial statements.

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28 through 70 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$54,374,289 at the close of 2012. The largest portion of the net position (83.4 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure, such as roads and bridges).

**Table 1
Net Position**

	<u>2012</u>	<u>2011</u>
Assets		
Current and other assets	\$ 10,435,919	\$ 11,344,766
Capital assets	<u>45,333,991</u>	<u>42,115,552</u>
Total Assets	<u>\$ 55,769,910</u>	<u>\$ 53,460,318</u>
Liabilities		
Long-term liabilities	\$ 401,105	\$ 330,823
Other liabilities	<u>994,516</u>	<u>690,725</u>
Total Liabilities	<u>\$ 1,395,621</u>	<u>\$ 1,021,548</u>
Net position		
Net investment in capital assets	\$ 45,333,991	\$ 42,115,552
Restricted	2,101,733	2,651,229
Unrestricted	<u>6,938,565</u>	<u>7,671,989</u>
Total Net Position	<u>\$ 54,374,289</u>	<u>\$ 52,438,770</u>

Unrestricted net position--the part of net position 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 12.8 percent of the net position.

Governmental Activities

The County's activities increased net position by 3.6 percent (\$54,374,289 for 2012 compared to \$52,438,770 for 2011). Key elements in this increase in net position are as follows:

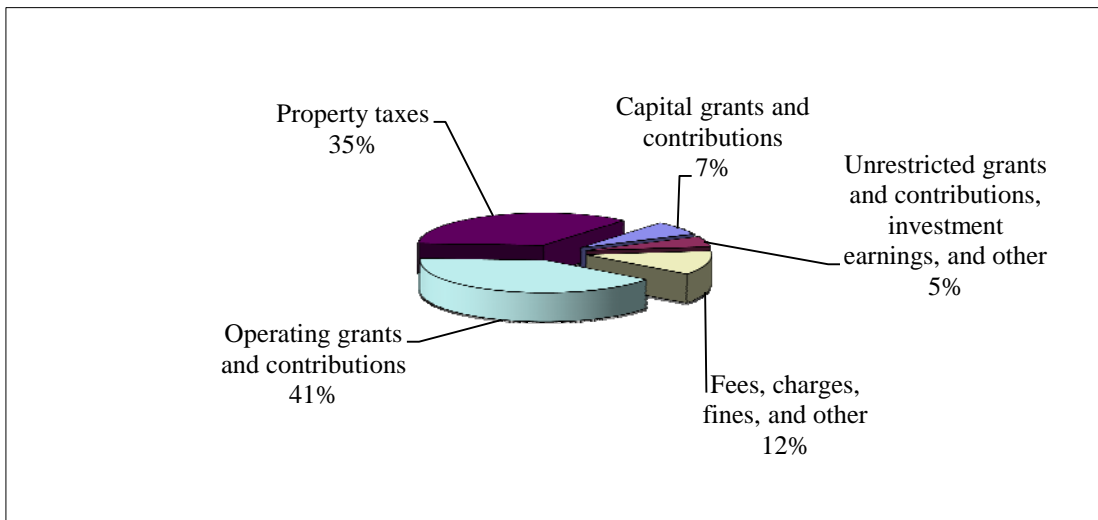
**Table 2
Changes in Net Position**

	<u>2012</u>	<u>2011</u>
Revenues		
Program revenues		
Charges for services	\$ 1,476,895	\$ 1,112,340
Operating grants and contributions	5,028,642	5,337,527
Capital grants and contributions	848,166	81,574
General revenues		
Property taxes	4,341,690	3,713,511
Other	<u>638,738</u>	<u>818,403</u>
Total Revenues	<u>\$ 12,334,131</u>	<u>\$ 11,063,355</u>

	2012	2011
Expenses		
General government	\$ 1,755,555	\$ 1,684,696
Public safety	1,237,166	1,066,178
Highways and streets	4,066,183	4,062,154
Sanitation	156,228	181,382
Human services	2,155,322	2,061,951
Health	71,376	64,539
Culture and recreation	140,470	139,854
Conservation of natural resources	580,024	555,738
Economic development	236,288	247,292
Total Expenses	\$ 10,398,612	\$ 10,063,784
Increase in Net Position	\$ 1,935,519	\$ 995,571
Net Position - January 1	52,438,770	51,439,199
Net Position - December 31	<u>\$ 54,374,289</u>	<u>\$ 52,438,770</u>

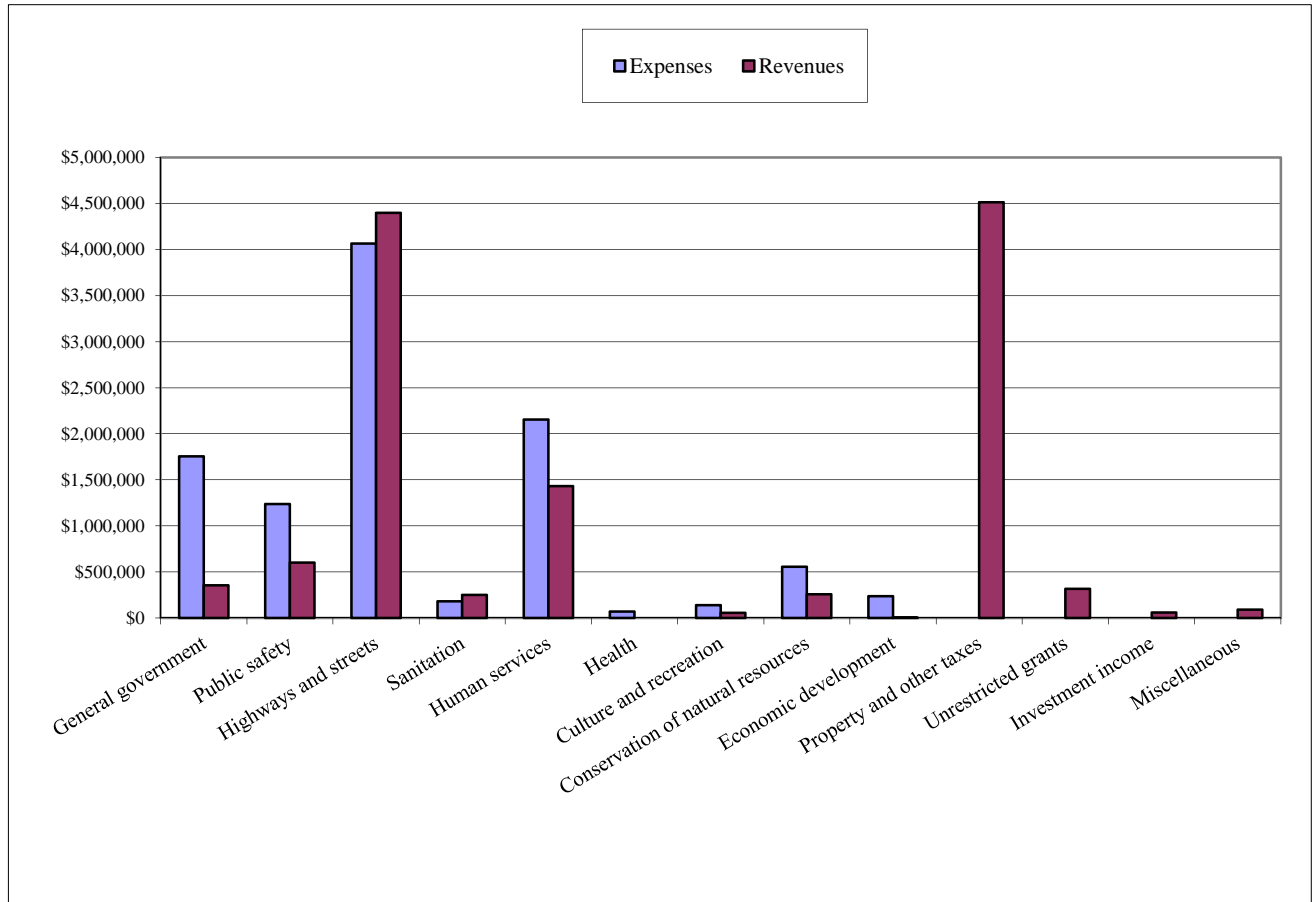
The County's total revenues were \$12,334,131. Table 3 presents the percent of total County revenues by source for the year ended December 31, 2012.

**Table 3
County Revenues**



Total expenses were \$10,398,612 while total revenues were \$12,334,131. This reflects a \$1,935,519 increase in net position for the year ended December 31, 2012. Table 4 presents the cost and revenues of each program, as well as the County’s general revenues.

**Table 4
Revenues and Expenses**



The cost of all governmental activities this year was \$10,398,612. 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 \$4,341,690 because some of the cost was paid by those who directly benefited from the programs (\$1,476,895) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,876,808). The County paid for the remaining “public benefit” portion of governmental activities with \$638,738 in general revenues such as grants and contributions not restricted to specific programs, and interest.

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

**Table 5
Governmental Activities**

	Total Cost of Services 2012	Net Cost of Services 2012
Highways and streets	\$ 4,066,183	\$ (331,491)
Human services	2,155,322	722,679
General government	1,755,555	1,399,554
Public safety	1,237,166	635,032
All others	1,184,386	619,135
Totals	\$ 10,398,612	\$ 3,044,909

FINANCIAL ANALYSIS OF THE GOVERNMENT’S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$8,407,737, a decrease of \$928,154 in comparison with the prior year. Of the combined ending fund balances, \$6,855,766 represents unrestricted fund balance, which is available for spending at the County’s discretion. The remainder of the fund balance is classified as either nonspendable or restricted to indicate that it is not available for new spending because it has already been restricted for various reasons either by state law, grant agreements, leases, bond covenants, or is nonspendable.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unrestricted fund balance of \$1,864,331. As a measure of the General Fund’s liquidity, it may be useful to compare unrestricted fund balance to total expenditures. The General Fund’s unrestricted fund balance represents 38.7 percent of total General Fund expenditures. During 2012, the ending fund balance increased by \$459,385. The primary reason for this increase was a transfer of \$1,600,000 into the General Fund from the Family Services Special Revenue Fund. The increase in fund balance associated with this transfer was countered by budgeted General Fund deficit spending during 2012 as well as an unbudgeted capital outlay for the Courthouse mechanical systems project.

The Road and Bridge Special Revenue Fund had an unrestricted fund balance of \$2,306,784 at fiscal year-end, representing 36.6 percent of its annual expenditures. The ending fund balance decreased \$83,197 during 2012. The 2012 budget for this fund had projected a decrease in fund balance of \$550,650. The actual decrease of \$83,197 was much less, primarily due to greater than expected intergovernmental revenues and lower than expected expenditures for construction and maintenance during 2012.

The Family Services Special Revenue Fund had an unrestricted fund balance of \$2,684,651 at fiscal year-end, representing 126 percent of its annual expenditures. The ending fund balance decreased \$1,271,199 during 2012, primarily due to the County Board's decision to transfer \$1,600,000 of unrestricted fund balance to the General Fund. However, the fund balance decrease associated with this transfer was counteracted with an excess of operating revenues over expenditures of \$328,801, primarily due to greater than expected revenues from intergovernmental revenues and reimbursements for services provided.

The Ditch Special Revenue Fund had a restricted fund balance of \$797,247 at fiscal year-end. The ending fund balance decreased \$33,143 during 2012, primarily due to the 101 ditches needing more maintenance than was anticipated.

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) were \$1,207,531 higher than the final budget amounts. The most significant departmental variances occurred in the category of "Economic Development" and in the general government departments.

In Economic Development, the County incurred unbudgeted costs of \$229,288 related to Community Development Block Grant funds re-paid to the Minnesota Department of Employment and Economic Development. The funds represented principal that had been paid to the County for a loan to Noah's Ark Processors Corporation. The Community Development Block Grant had originally provided the loan funds to the County. However, the funds were required to be re-paid to the Department of Employment and Economic Development due to Noah's Ark's failure to meet development goals required through the program. Noah's Ark continues to make timely loan payments to the County, and the County will be required to re-pay all additional principal payments received.

In the area of General Government, the County incurred significant unbudgeted expenses of approximately \$963,302 due to a Courthouse mechanical systems project. In this project, the County replaced the Courthouse's heating and air conditioning systems, which were at the end of their useful life cycle. The old systems were replaced with a ground source heat pump (geothermal) heating and cooling system supplemented by dual high-efficiency boilers. The system also replaced the heating systems for the County Jail building adjacent to the Courthouse. The project was pursued in order to achieve greatly decreased operating and maintenance costs and increase the mechanical system stability and reliability for decades to come.

Resources available for appropriation were \$374,520 above the final budgeted amount. This was primarily due to the receipt of grant funds for the Courthouse Mechanical Systems Project. In addition, the County Jail showed greater than expected operating revenues due to housing of inmates from other counties and successful collections for Huber Fees. Finally, greater than expected operating revenues were received in the Recorder and Auditor-Treasurer Departments as a result of increased property transaction activity.

CAPITAL ASSETS

The County's capital assets at December 31, 2012, totaled \$45,333,991 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure.

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 164,903	\$ -	\$ -	\$ 164,903
Right-of-way	470,198	-	-	470,198
Construction in progress	426,442	81,456	392,804	115,094
Total capital assets not depreciated	\$ 1,061,543	\$ 81,456	\$ 392,804	\$ 750,195
Capital assets depreciated				
Buildings	\$ 2,215,647	\$ 986,741	\$ -	\$ 3,202,388
Improvements other than building	81,405	-	-	81,405
Machinery, furniture, and equipment	4,774,421	630,050	231,529	5,172,942
Infrastructure	51,717,517	3,479,930	6,748	55,190,699
Total capital assets depreciated	\$ 58,788,990	\$ 5,096,721	\$ 238,277	\$ 63,647,434
Less: accumulated depreciation for				
Buildings	\$ 642,438	\$ 58,610	\$ -	\$ 701,048
Improvements other than building	2,907	2,326	-	5,233
Machinery, furniture, and equipment	3,019,423	386,432	222,526	3,183,329
Infrastructure	14,070,213	1,103,815	-	15,174,028
Total accumulated depreciation	\$ 17,734,981	\$ 1,551,183	\$ 222,526	\$ 19,063,638
Total capital assets depreciated, net	\$ 41,054,009	\$ 3,545,538	\$ 15,751	\$ 44,583,796
Capital Assets, Net	\$ 42,115,552	\$ 3,626,994	\$ 408,555	\$ 45,333,991

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 2013 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Lac qui Parle County at the end of 2012 was 4.2 percent. This is comparable with the state unemployment rate of 5.4 percent and shows a 0.4 percent decrease from the County's 4.6 percent rate of one year ago. This could impact the level of services requested by County residents.
- Tillable agricultural land values in the County continue to increase. This can be considered an indicator of a strong local agriculture economy and a strong local economy overall.
- Investment rates for the County have dropped significantly for the past several years and will continue to stay low for the foreseeable future. Lac qui Parle County's surplus fund balances have in the past been used to generate investment revenues which are used to offset necessary property tax levy dollars.
- A national recession appears to be improving but budget crises continue at the state level. This has resulted in tremendous uncertainty for counties regarding expected aids, operating grants, and reimbursement revenues. As most services and programs administered by Minnesota counties are mandated and funded by the state, changes in how the state funds these items can have a tremendous impact on county finances. Furthermore, recent efforts to address the state budget issues have only succeeded to manage the problems on a short-term basis. This likely means that this uncertainty will continue into the foreseeable future.
- The County General Fund, Road and Bridge Special Revenue Fund, and Family Services Special Revenue Fund expenditures for 2013 are budgeted to decrease 5.5 percent (\$705,030) over the 2012 final budget. The 2013 anticipated revenues for the same funds are budgeted to increase 1.0 percent (\$115,454) over the 2012 final budget.
- The 2013 property tax levy for the County increased 8.76 percent from 2012, which followed increases of 9.8 percent in 2011 and 12.8 percent in 2010. The County Board of Commissioners chose to increase the property tax levy significantly in comparison with historical trends in order to counter the effects of decreased state aid and investment revenues, and also to eliminate the budget deficit carried forward from the previous years. One of the main reasons for this deficit was the abrupt reduction of County Program Aid funds received from the state, which were \$663,236 in 2009, but dropped to \$125,562 by 2011.

- The County approved a 2013 budget which was balanced in the General and Family Services Funds, ending a three-year trend of deficit budgets. The County's unrestricted fund balances were significantly reduced during that period. Barring additional unfunded mandates, cost shifts, and aid reductions from the state, the County's budget and financial health appear to be stabilized.

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 position is \$5,805,358, of which \$5,113,589 represents net investment in capital assets, \$199,671 is restricted, and \$492,098 is unrestricted. The District's net position increased by \$3,803 for the year ended December 31, 2012.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the District's financial position. The District's assets exceeded liabilities by \$5,805,358 at the close of 2012. The largest portion of the net position (88.1 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure, such as water retention structures).

**Table 7
Net Position**

	2012	2011
Assets		
Current and other assets	\$ 1,518,601	\$ 1,234,659
Capital assets	5,113,589	5,160,742
Total Assets	\$ 6,632,190	\$ 6,395,401
Liabilities		
Long-term liabilities	\$ 411,062	\$ 202,091
Other liabilities	415,770	391,755
Total Liabilities	\$ 826,832	\$ 593,846
Net Position		
Net investment in capital assets	\$ 5,113,589	\$ 5,160,742
Restricted	199,671	187,896
Unrestricted	492,098	452,917
Total Net Position	\$ 5,805,358	\$ 5,801,555

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	<u>Primary Government Governmental Activities</u>	<u>Discretely Presented Component Units</u>	
		<u>Lac qui Parle- Yellow Bank Watershed District</u>	<u>Lac qui Parle County Economic Development Authority</u>
<u>Assets</u>			
Cash and pooled investments	\$ 4,125,366	\$ 1,138,739	\$ 213,908
Investments	4,600,000	-	-
Receivables - net	1,656,375	379,862	17,500
Inventories	54,061	-	-
Prepaid items	117	-	-
Capital assets			
Non-depreciable	750,195	628,458	-
Depreciable - net of accumulated depreciation	44,583,796	4,485,131	11,882
Total Assets	\$ 55,769,910	\$ 6,632,190	\$ 243,290
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 910,984	\$ 107,320	\$ 8,736
Unearned revenue	83,532	303,742	-
Long-term liabilities			
Due within one year	-	30,048	-
Due in more than one year	401,105	385,722	5,710
Total Liabilities	\$ 1,395,621	\$ 826,832	\$ 14,446
<u>Net Position</u>			
Net investment in capital assets	\$ 45,333,991	\$ 5,113,589	\$ 11,882
Restricted for			
General government	97,774	-	-
Public safety	419,454	-	-
Highways and streets	603,940	-	-
Conservation of natural resources	797,247	199,671	-
Economic development	176,729	-	-
Other purposes	6,589	-	-
Unrestricted	6,938,565	492,098	216,962
Total Net Position	\$ 54,374,289	\$ 5,805,358	\$ 228,844

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

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 1,755,555	\$ 191,823
Public safety	1,237,166	329,709
Highways and streets	4,066,183	232,602
Sanitation	156,228	196,823
Human services	2,155,322	330,838
Health	71,376	-
Culture and recreation	140,470	3,190
Conservation of natural resources	580,024	191,910
Economic development	236,288	-
	\$ 10,398,612	\$ 1,476,895
Total Primary Government		
Component units		
Lac qui Parle- Yellow Bank Watershed District	\$ 720,865	\$ 213,262
Lac qui Parle County Economic Development Authority	237,407	-
	\$ 958,272	\$ 213,262
Total Component Units		
General Revenues		
Property taxes		
Mortgage registry and deed tax		
Payments in lieu of tax		
Grants and contributions not restricted to specific programs		
Investment income		
Miscellaneous		
Total general revenues		
Change in net position		
Net Position - Beginning		
Net Position - Ending		

EXHIBIT 2

		Net (Expense) Revenue and Changes in Net Position		
		Discretely Presented Component Units		
Program Revenues		Primary Government	Lac qui Parle- Yellow Bank Watershed District	Lac qui Parle County Economic Development Authority
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities		
\$ 147,662	\$ 16,516	\$ (1,399,554)		
173,567	98,858	(635,032)		
3,432,280	732,792	331,491		
55,950	-	96,545		
1,101,805	-	(722,679)		
-	-	(71,376)		
52,125	-	(85,155)		
64,803	-	(323,311)		
450	-	(235,838)		
\$ 5,028,642	\$ 848,166	\$ (3,044,909)		
\$ 262,145	\$ -		\$ (245,458)	\$ -
77,607	-		-	(159,800)
\$ 339,752	\$ -		\$ (245,458)	\$ (159,800)
		\$ 4,341,690	\$ 219,959	\$ 134,050
		7,799	-	-
		163,359	2,092	-
		317,988	6,080	39,909
		58,554	3,393	1,782
		91,038	17,737	1,393
		\$ 4,980,428	\$ 249,261	\$ 177,134
		\$ 1,935,519	\$ 3,803	\$ 17,334
		52,438,770	5,801,555	211,510
		\$ 54,374,289	\$ 5,805,358	\$ 228,844

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled investments	\$ 793,572	\$ 471,701	\$ 1,814,244	\$ 815,252	\$ 3,894,769
Undistributed cash in agency funds	98,541	75,534	45,871	6,401	226,347
Petty cash and change funds	4,150	-	100	-	4,250
Investments	275,000	1,900,000	2,425,000	-	4,600,000
Taxes receivable					
Prior	20,901	16,566	10,383	-	47,850
Special assessments receivable					
Prior	10,638	-	-	2,078	12,716
Noncurrent	-	-	-	159,118	159,118
Accounts receivable	8,083	305	30,708	-	39,096
Accrued interest receivable	4,625	232	-	-	4,857
Due from other funds	1,600,000	-	-	-	1,600,000
Due from other governments	118,145	994,711	112,782	17,342	1,242,980
Loans receivable	149,758	-	-	-	149,758
Inventories	-	54,061	-	-	54,061
Prepaid items	117	-	-	-	117
Total Assets	\$ 3,083,530	\$ 3,513,110	\$ 4,439,088	\$ 1,000,191	\$ 12,035,919

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 93,361	\$ 106,997	\$ 85,987	\$ 41,748	\$ 328,093
Salaries payable	48,792	32,605	30,843	-	112,240
Contracts payable	-	157,662	-	-	157,662
Due to other funds	-	-	1,600,000	-	1,600,000
Due to other governments	261,312	24,453	27,224	-	312,989
Deferred revenue - unavailable	31,539	830,548	10,383	161,196	1,033,666
Deferred revenue - unearned	83,532	-	-	-	83,532
Total Liabilities	\$ 518,536	\$ 1,152,265	\$ 1,754,437	\$ 202,944	\$ 3,628,182
Fund Balances					
Nonspendable					
Inventories	\$ -	\$ 54,061	\$ -	\$ -	\$ 54,061
Prepaid items	117	-	-	-	117
Restricted for					
Recorder's technology equipment	43,096	-	-	-	43,096
Missing heirs	5,589	-	-	-	5,589
E-911	419,454	-	-	-	419,454
Recorder's compliance	48,907	-	-	-	48,907
Forfeitures	5,771	-	-	-	5,771
Cemetery	1,000	-	-	-	1,000
Loans receivable	149,758	-	-	-	149,758
EDA loans	26,971	-	-	-	26,971
Ditch repairs and maintenance	-	-	-	797,247	797,247
Committed to					
Solid waste assessments	208,221	-	-	-	208,221
Buildings and grounds	-	45,100	-	-	45,100
Capital equipment	-	524,576	-	-	524,576
Assigned to					
Poor relief	-	-	300,000	-	300,000
Road and bridge	-	1,737,108	-	-	1,737,108
Human services	-	-	1,984,651	-	1,984,651
Administration	-	-	150,000	-	150,000
Out-of-home placements	-	-	250,000	-	250,000
Recorder enhancement	10,411	-	-	-	10,411
Contracts issued	45,582	-	-	-	45,582
Sheriff forfeiture	20,310	-	-	-	20,310
Sheriff contingency	563	-	-	-	563
County park board	5,282	-	-	-	5,282
Capital purchases - Madison police contract	10,000	-	-	-	10,000
Unassigned	1,563,962	-	-	-	1,563,962
Total Fund Balances	\$ 2,564,994	\$ 2,360,845	\$ 2,684,651	\$ 797,247	\$ 8,407,737
Total Liabilities and Fund Balances	\$ 3,083,530	\$ 3,513,110	\$ 4,439,088	\$ 1,000,191	\$ 12,035,919

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF THE FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

Fund balance - total governmental funds (Exhibit 3)	\$ 8,407,737
Amounts reported for governmental activities in the statement of net position 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.	45,333,991
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	1,033,666
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	\$ (361,438)
Net OPEB obligation	<u>(39,667)</u>
	<u>(401,105)</u>
Net Position of Governmental Activities (Exhibit 1)	<u>\$ 54,374,289</u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total</u>
Revenues					
Property taxes	\$ 2,000,451	\$ 1,449,032	\$ 910,288	\$ -	\$ 4,359,771
Other taxes	7,799	-	-	-	7,799
Special assessments	133,032	-	-	237,703	370,735
Licenses and permits	21,555	-	-	-	21,555
Intergovernmental	821,580	4,550,022	1,205,790	-	6,577,392
Charges for services	436,385	10,337	248,385	-	695,107
Fines and forfeits	7,871	-	-	-	7,871
Gifts and contributions	3,190	-	-	-	3,190
Investment earnings	41,397	1,533	15,624	-	58,554
Miscellaneous	209,860	222,265	82,453	2,063	516,641
Total Revenues	\$ 3,683,120	\$ 6,233,189	\$ 2,462,540	\$ 239,766	\$ 12,618,615
Expenditures					
Current					
General government	\$ 2,656,322	\$ -	\$ -	\$ -	\$ 2,656,322
Public safety	1,137,018	-	-	-	1,137,018
Highways and streets	-	5,917,946	-	-	5,917,946
Sanitation	156,228	-	-	-	156,228
Human services	-	-	2,133,739	-	2,133,739
Culture and recreation	140,470	-	-	-	140,470
Conservation of natural resources	292,377	-	-	277,572	569,949
Economic development	236,288	-	-	-	236,288
Intergovernmental	200,369	390,274	-	-	590,643
Total Expenditures	\$ 4,819,072	\$ 6,308,220	\$ 2,133,739	\$ 277,572	\$ 13,538,603
Excess of Revenues Over (Under)					
Expenditures	\$ (1,135,952)	\$ (75,031)	\$ 328,801	\$ (37,806)	\$ (919,988)
Other Financing Sources (Uses)					
Transfers in	\$ 1,600,000	\$ -	\$ -	\$ 4,663	\$ 1,604,663
Transfers out	(4,663)	-	(1,600,000)	-	(1,604,663)
Total Other Financing Sources (Uses)	\$ 1,595,337	\$ -	\$ (1,600,000)	\$ 4,663	\$ -
Net Change in Fund Balance	\$ 459,385	\$ (75,031)	\$ (1,271,199)	\$ (33,143)	\$ (919,988)
Fund Balance - January 1	2,105,609	2,444,042	3,955,850	830,390	9,335,891
Increase (decrease) in inventories	-	(8,166)	-	-	(8,166)
Fund Balance - December 31	\$ 2,564,994	\$ 2,360,845	\$ 2,684,651	\$ 797,247	\$ 8,407,737

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Net change in fund balance - total governmental funds (Exhibit 5) \$ (919,988)

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

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

Deferred revenue - December 31	\$ 1,033,666	
Deferred revenue - January 1	<u>(1,318,150)</u>	(284,484)

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

Expenditures for general capital assets and infrastructure	\$ 4,785,373	
Net book value of assets disposed of	(15,751)	
Current year depreciation	<u>(1,551,183)</u>	3,218,439

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	\$ (30,615)	
Change in OPEB obligation	(39,667)	
Change in inventories	<u>(8,166)</u>	<u>(78,448)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 1,935,519

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FIDUCIARY FUNDS

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LAC QUI PARLE COUNTY
MADISON, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2012

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ <u>442,802</u>
<u>Liabilities</u>	
Due to other governments	\$ <u>442,802</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, 2012

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). 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. As required by accounting principles generally accepted in the United States of America, these financial statements present Lac qui Parle County (primary government) and its component units for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Discretely Presented Component Units

While part of the reporting entity, discretely presently component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. The following component units of Lac qui Parle County are discretely presented:

<u>Component Unit</u>	<u>Component Unit of Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Lac qui Parle-Yellow Bank Watershed District	County appoints a majority of the Board, and it is a financial burden to the County.	Separate financial statements are not prepared.
Lac qui Parle County Economic Development Authority	County appoints a majority of the Board, and it is a financial burden to the County.	Separate financial statements can be obtained at: 600 - 6th Street, Suite 10 Madison, Minnesota 56256

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Discretely Presented Component Units (Continued)

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

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

In the government-wide statement of net position, 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 position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

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

The County reports the following major governmental funds:

- The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.
- The Road and Bridge Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.
- The Human Services Special Revenue Fund accounts for restricted revenue resources from the federal, state, and other oversight agencies, as well as committed property tax revenues used for economic assistance and community social services programs.
- The Ditch Special Revenue Fund accounts for special assessment revenues levied against benefitted property to finance the cost of constructing and maintaining an agricultural drainage ditch system.

**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:

- Fiduciary funds - 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 as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor-Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2012, 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 2012 were \$32,894.

2. Receivables and Payables

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

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

All receivables, including those of the discretely presented component units, are shown net of an allowance for uncollectibles.

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Inventories and Prepaid Items

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

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

4. Capital Assets

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

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	30 - 66
Land improvements	20 - 35
Public domain infrastructure	15 - 70
Furniture, equipment, and vehicles	5 - 25

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Compensated Absences

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

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 position. At December 31, 2012, Lac qui Parle County reported no bonded debt.

8. Classification of Net Position

Net position in the government-wide financial statements is classified in the following categories:

Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets. At December 31, 2012, Lac qui Parle County reported no debt related to acquisition, construction, or improvement of capital assets.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

8. Classification of Net Position (Continued)

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

Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

9. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which Lac qui Parle County is bound to observe constraints imposed on the use of the resources in the governmental funds. The classifications are as follows:

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

Restricted - amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or by law through constitutional provisions or enabling legislation.

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

Assigned - amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund,

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

9. Classification of Fund Balances (Continued)

assigned amounts represent intended uses established by the County Board or the County Auditor-Treasurer, who has been delegated that authority by Board resolution.

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

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

10. Minimum Fund Balance

Lac qui Parle County has adopted a minimum fund balance policy for the General Fund. The General Fund is heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined it needs to maintain a minimum unrestricted fund balance (committed, assigned, and unassigned) of no less than five months of operating expenditures. At December 31, 2012, unrestricted fund balance for the General Fund was below the minimum fund balance level.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

<u>Fund</u>	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General	\$ 4,819,072	\$ 3,611,541	\$ 1,207,531
Family Services Special Revenue	2,133,739	2,102,190	31,549
Ditch Special Revenue	277,572	211,777	65,795

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 4,125,366
Investments	4,600,000
Statement of fiduciary net position	
Cash and pooled investments	<u>442,802</u>
Total Cash and Investments	<u>\$ 9,168,168</u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Petty cash and change funds	\$ 4,250
Checking	207,811
Money market savings	8,256,107
Certificates of deposit	<u>700,000</u>
 Total Deposits and Investments	 <u>\$ 9,168,168</u>

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The County is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

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's policy is to minimize deposit custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2012, the County's deposits were not exposed to custodial credit risk.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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, 2012, the County had no investments; therefore, no investment custodial credit risk.

Concentration of Credit Risk

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2012, for the County's governmental activities follow:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 47,850	\$ -
Special assessments	171,834	-
Accounts receivable	39,096	-
Accrued interest receivable	4,857	-
Due from other governments	1,242,980	-
Loans receivable	149,758	96,279
Total Governmental Activities	\$ 1,656,375	\$ 96,279

Loans Receivable

The County received funds from the Community Development Block Grant in 2008 for Noah's Ark Holding, LLC, of Dawson. The grant agreement states these funds are to be repaid to the County and used under specific conditions. At December 31, 2012, the County has a loan receivable from Noah's Ark Holding, LLC, with a balance remaining of \$149,758, which is to be repaid in monthly installments of \$4,770.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 164,903	\$ -	\$ -	\$ 164,903
Right-of-way	470,198	-	-	470,198
Construction in progress	426,442	81,456	392,804	115,094
Total capital assets not depreciated	<u>\$ 1,061,543</u>	<u>\$ 81,456</u>	<u>\$ 392,804</u>	<u>\$ 750,195</u>
Capital assets depreciated				
Buildings	\$ 2,215,647	\$ 986,741	\$ -	\$ 3,202,388
Improvements other than building	81,405	-	-	81,405
Machinery, furniture, and equipment	4,774,421	630,050	231,529	5,172,942
Infrastructure	51,717,517	3,479,930	6,748	55,190,699
Total capital assets depreciated	<u>\$ 58,788,990</u>	<u>\$ 5,096,721</u>	<u>\$ 238,277</u>	<u>\$ 63,647,434</u>
Less: accumulated depreciation for				
Buildings	\$ 642,438	\$ 58,610	\$ -	\$ 701,048
Improvements other than building	2,907	2,326	-	5,233
Machinery, furniture, and equipment	3,019,423	386,432	222,526	3,183,329
Infrastructure	14,070,213	1,103,815	-	15,174,028
Total accumulated depreciation	<u>\$ 17,734,981</u>	<u>\$ 1,551,183</u>	<u>\$ 222,526</u>	<u>\$ 19,063,638</u>
Total capital assets depreciated, net	<u>\$ 41,054,009</u>	<u>\$ 3,545,538</u>	<u>\$ 15,751</u>	<u>\$ 44,583,796</u>
Capital Assets, Net	<u>\$ 42,115,552</u>	<u>\$ 3,626,994</u>	<u>\$ 408,555</u>	<u>\$ 45,333,991</u>

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

Governmental Activities	
General government	\$ 59,431
Public safety	56,673
Highways and streets, including infrastructure assets	1,432,254
Human services	1,765
Conservation	1,060
Total Depreciation Expense - Governmental Activities	<u>\$ 1,551,183</u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2012, is as follows:

Receivable Fund	Payable Fund	Amount
General	Family Services Special Revenue	\$ 1,600,000
Total Due To/From Other Funds		\$ 1,600,000

The outstanding balance between funds results from the time lag between the dates the interfund goods and services were provided and reimbursable expenditures occurred, and when transactions are recorded in the accounting system and when the funds are repaid. The balance was liquidated during 2013.

2. Interfund Transfers

During 2012, the General Fund transferred \$4,663 to the Ditch Special Revenue Fund for its share of interest earnings.

During 2012, the Human Services Special Revenue Fund transferred \$1,600,000 to the General Fund as the result of a County Board-approved reclassification of assigned fund balance as of December 21, 2012.

C. Liabilities

1. Payables

Payables at December 31, 2012, were as follows:

	Governmental Activities
Accounts payable	\$ 328,093
Salaries payable	112,240
Contracts payable	157,662
Due to other governments	312,989
Total Payables	\$ 910,984

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Construction and Other Commitments

The County has active construction projects and other commitments as of December 31, 2012. The projects and commitments include the following:

	Spent-to-Date	Remaining Commitment
Road and bridge projects	\$ 1,889,905	\$ 118,550

4. Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 330,823	\$ 30,615	\$ -	\$ 361,438	\$ -
Other postemployment benefits	-	39,667	-	39,667	-
Governmental Activities Long-Term Liabilities	\$ 330,823	\$ 70,282	\$ -	\$ 401,105	\$ -

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description (Continued)

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

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description (Continued)

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

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Funding Policy (Continued)

Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County and the Lac qui Parle-Yellow Bank Watershed District are required to contribute the following percentages of annual covered payroll in 2012:

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

Lac qui Parle County's contributions for the years ending December 31, 2012, 2011, and 2010, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
General Employees Retirement Fund	\$ 172,886	\$ 163,770	\$ 165,784
Public Employees Police and Fire Fund	69,182	52,016	52,145
Public Employees Correctional Fund	9,665	9,326	7,932

Lac qui Parle-Yellow Bank Watershed District's contributions for the years ending December 31, 2012, 2011, and 2010, for the General Employees Retirement Fund were:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
General Employees Retirement Fund	\$ 9,236	\$ 9,220	\$ 8,744

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

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

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

Total contributions by dollar amount and percentage of covered payroll made by the Lac qui Parle County during the year ended December 31, 2012, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 4,049	\$ 4,049
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

In 2012, Lac qui Parle County implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

This statement required the County to calculate and record a net other postemployment benefits (OPEB) obligation at December 31, 2012. The net OPEB obligation is, in general, the cumulative difference between the actuarial required contribution and the actual contributions since January 1, 2012.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Plan Description

Employees retiring from County service with at least ten years of service and meeting the established requirements to receive a pension from the Public Employees Retirement Association may have their severance pay transferred to an individual health insurance account to pay their monthly health insurance premiums until this balance is exhausted or they reach age 65. The County finances the plan on a pay-as-you-go basis and made no payments in 2012.

The County pays the health insurance for qualified former elected officials. This is a single-employer defined benefit health care plan. To be eligible, elected officials must have been serving on or after the date of November 2, 2004, and must have served a minimum of eight years and one day as an elected official in Lac qui Parle County. Elected officials eligible for this benefit are limited to the County Attorney, County Sheriff, County Auditor-Treasurer, County Recorder, and County Commissioners. Those eligible are entitled to one year of individual health insurance coverage for each four-year term in an elected position, with additional coverage provided on a pro rata basis for partial terms served. If the former elected official becomes eligible for Medicare benefits, then that official is no longer eligible for this benefit. The County has two eligible participants and no active participants. The County finances the program on a pay-as-you-go basis

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Lac qui Parle County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. The County has two current elected officials eligible, but no former elected officials receiving or eligible for this benefit in 2012.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	\$	67,099
Interest on net OPEB obligation		-
Adjustment to ARC		-
		-
Annual OPEB cost (expense)	\$	67,099
Contributions made		(27,432)
		(27,432)
Increase in net OPEB obligation	\$	39,667
Net OPEB Obligation - Beginning of Year		-
		-
Net OPEB Obligation - End of Year	\$	39,667

The County's annual OPEB cost for December 31, 2012, was \$67,099. Employer contributions were \$27,432, the percentage of annual OPEB cost contributed to the plan was 40.9 percent, and the net OPEB obligation for 2012 was \$39,667. Trend information for the previous two fiscal years is not available based on the implementation date of December 31, 2012.

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial liability for benefits was \$498,400, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$498,400. The covered payroll (annual payroll of active employees covered by the plan) was \$2,632,510, and the ratio of the UAAL to the covered payroll was 18.9 percent.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2012, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Lac qui Parle County's implicit rate of return on the General Fund. The annual health care cost trend is 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 6 years. Both rates included a 2.5 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2012, was 29 years.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

5. Risk Management

Lac qui Parle County and the Lac qui Parle-Yellow Bank Watershed District are exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and dental coverage; or natural disasters. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. For risks related to certain equipment and for hospitalization, medical, dental, and major medical for its employees, the County purchases commercial insurance. The County retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance coverage from the previous year.

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

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

MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$460,000 per claim in 2012 and \$470,000 per claim in 2013. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT. The Property and Casualty Division of MCIT is self-sustaining, and the County pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Farmer's Mutual Telephone Cooperative

The County partnered with Farmer's Mutual Telephone Cooperative to apply as co-applicant for Rural Utility Service (RUS) Broadband Infrastructure Program (BIP) to install fiber optic broadband service throughout the County. The County was notified in 2010 of the approval of a \$9,600,000 loan/grant for a project planned to begin in 2011. The County pledged to extend a line of credit for \$2,413,239 through the Lac qui Parle County Economic Development Authority to assist with cash flows of the project. Through July 25, 2013, \$22,918 has been advanced from the County's General Fund through the Economic Development Authority to Farmer's Mutual Telephone Cooperative as part of this agreement.

Lincoln-Pipestone Rural Water System

At December 31, 2012, the Lincoln-Pipestone Rural Water System had \$36,231,499 of general obligation bonds outstanding through 2052. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

The debt is paid by the Lincoln-Pipestone Rural Water System from special assessments levied against property specially benefited by the applicable expansion, extension, or enlargement of the system and from the net revenues from time to time received in excess of the current costs of operating and maintaining the system. The bonds are general obligations of the issuing counties for which their full faith, credit, and unlimited taxing powers are pledged. The participating counties (Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, and Yellow Medicine) have adopted board resolutions and have signed joint powers agreements to define their liability for a proportional share of the debt should the issuing counties make any debt service payments. In such a situation, each of the other counties will promptly reimburse the paying counties in proportion to the percentage of Lincoln-Pipestone Rural Water System customers located in such county, in accordance with Minn. Stat. § 116A.24, subd. 3. The outstanding bonds are reported as liabilities in the annual financial statements of the Lincoln-Pipestone Rural Water System and are not reported as liabilities in the financial statements of any of the nine participating counties. The participating counties disclose a contingent liability due to the guarantee of indebtedness.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Lincoln-Pipestone Rural Water System (Continued)

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

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board

Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Pipestone, Redwood, Renville, Rock, Swift, and Yellow Medicine Counties; and Lincoln, Lyon, and Murray Counties, represented by Southwest Health and Human Services, created the Southwestern Minnesota Adult Mental Health Consortium Board under the authority of Minn. Stat. § 471.59. The Southwestern Minnesota Adult Mental Health Consortium Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host. The Southwestern Minnesota Adult Mental Health 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 Commissioner 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, 2011 (the most recent information available):

Total assets	\$	2,127,562
Total liabilities		564,148
Total net position		1,563,414
Total revenues		3,744,479
Total expenses		4,103,387
Change in net assets		(358,908)

The Board reported no long-term obligations at December 31, 2011. 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

The Countryside Public Health Service was established July 1, 1979, by a joint powers agreement among Big Stone, Chippewa, Lac qui Parle, Swift, and Yellow Medicine Counties. The agreement was established to provide community health care for the residents of the five-county area. Each county's proportionate share of the total responsibility of the project is established on a per capita basis as determined by the most recent statistical estimates provided by the Minnesota Board of Health.

In the event of termination of the joint powers agreement, any property acquired as a result of the agreement and any surplus monies on hand at that time shall be divided among the counties in the same proportions as their respective proportionate financial responsibilities.

Control is vested in the Countryside Public Health Service Board of Health. The Board consists of 11 persons, two from each county, except the county with the largest population, which has three members. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

Financing is provided by state and federal grants, appropriations from member counties, and charges for services. Lac qui Parle County's contribution for 2012 was \$71,376.

Complete financial statements for the Countryside Public Health Service can be obtained from its administrative office at P. O. Box 313, Benson, Minnesota 56215.

Region 6W Community Corrections

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

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Region 6W Community Corrections (Continued)

Lac qui Parle County's contribution for the year ended December 31, 2012, was \$128,993. Complete financial statements for Region 6W Community Corrections can be obtained at 1215 Black Oak Avenue, P. O. Box 551, Montevideo, Minnesota 56265.

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

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

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

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Lincoln-Pipestone Rural Water System

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

The Lincoln-Pipestone Rural Water System is governed by a Board appointed by the District Court. The Rural Water System's Board is solely responsible for the budgeting and financing of the Rural Water System.

Bonds were issued by Lincoln, Nobles, and Yellow Medicine Counties to finance the construction of the Rural Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2012, were \$36,231,499.

The Lincoln-Pipestone Rural Water System's 2012 financial report shows total net position of \$49,589,244, including unrestricted net position of \$18,020,861. The increase in net position for the year ended December 31, 2012, was \$1,044,426.

Complete financial statements of the Lincoln-Pipestone Rural Water System can be obtained at 415 East Benton Street, P. O. Box 188, Lake Benton, Minnesota 56149-0188.

Southwest Minnesota Regional Radio Board

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwest Minnesota Regional Radio Board (Continued)

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

During 2012, Lac qui Parle County contributed \$1,716 to the Joint Powers Board.

Minnesota Counties Information Systems

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

MCIS is governed by a 13-member Board. Each participating County's Board of Commissioners appoints a member. Financing is obtained through user charges to the member. Cass County is the fiscal agent for MCIS.

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

Separate financial information can be obtained at Minnesota Counties Information Systems, 413 Southeast 7th Avenue, Grand Rapids, Minnesota 55744.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Supporting Hands Nurse Family Partnership

The Supporting Hands Nurse Family Partnership was established in July 2007 by a joint powers agreement among Lac qui Parle County and eleven other counties under the authority of Minn. Stat. §§ 471.59 and 145A.17. Lac qui Parle County is part of the Countryside Public Health Service and is required to have this joint agreement. The purpose of this agreement is to organize, govern, plan, and administer a multi-county based Nurse Family Partnership Program specifically within the jurisdictional boundaries of the counties involved. A new agreement was signed in December 2010 to include an additional three Counties.

The governing board is composed of one Commissioner from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2012, Lac qui Parle County did not make a contribution to the Partnership as a contribution was made by the Countryside Public Health Service.

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

C. Jointly-Governed Organizations

Minnesota River Board

The Minnesota River Board (formerly the Minnesota River Basin Joint Powers Board) was established July 12, 1995, by an agreement between Lac qui Parle County and 37 other counties. The agreement was made to promote orderly water quality improvement and management of the Minnesota River Watershed. Each county is responsible for its proportionate share of the administrative budget and for its share of benefits from any special project.

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Minnesota River Board (Continued)

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

During 2012, the County contributed \$1,088 to the Board. Complete financial statements for the Minnesota River Board can be obtained from its administrative office at 135 Trafton Science Center South, Minnesota State University, Mankato, Minnesota 56001.

Pioneer Land Regional Library System

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

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

A. Summary of Significant Accounting Policies

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

Reporting Entities

The Lac qui Parle-Yellow Bank Watershed District is governed by a five-member Board of Managers, three members appointed by the Lac qui Parle County Board, one member appointed by the Yellow Medicine County Board, and one member appointed by the Lincoln County Board.

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

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

A. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

The Lac qui Parle-Yellow Bank Watershed District does not prepare separate financial statements. The District has the following major governmental funds:

- The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.
- The Ditch Special Revenue Fund is used to account for the cost of constructing and maintaining an agricultural drainage ditch system. Financing is provided by special assessments levied against benefited property.

Deposits and Investments

Deposits and investments are reported at their fair value at December 31, 2012, based on market price.

B. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

<u>Fund</u>	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General	\$ 696,401	\$ 326,575	\$ 369,826
Ditch Special Revenue	6,338	5,000	1,338

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

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

C. Detailed Notes on All Funds

1. Assets

Deposits and Investments

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

Cash and pooled investments	<u>\$ 1,138,739</u>
Checking	\$ 558,318
Money market savings	365,421
Certificates of deposit	<u>215,000</u>
Total Deposits and Investments	<u>\$ 1,138,739</u>

The District is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

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

C. Detailed Notes on All Funds

1. Assets (Continued)

Receivables

Receivables as of December 31, 2012, for the Lac qui Parle-Yellow Bank Watershed District follow:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes	\$ 1,920	\$ -
Special assessments	309,889	292,066
Accounts receivable	3,766	-
Accrued interest	862	-
Due from other governments	63,425	-
Total Receivables	\$ 379,862	\$ 292,066

Capital Assets

The Lac qui Parle-Yellow Bank Watershed District capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 628,458	\$ -	\$ -	\$ 628,458
Capital assets depreciated				
Buildings	\$ 229,885	\$ -	\$ -	\$ 229,885
Machinery, furniture, and equipment	50,394	14,422	-	64,816
Land improvements	261,549	8,455	-	270,004
Infrastructure	5,334,207	-	-	5,334,207
Total capital assets depreciated	\$ 5,876,035	\$ 22,877	\$ -	\$ 5,898,912

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

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

C. Detailed Notes on All Funds

1. Assets

Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 48,948	\$ 5,151	\$ -	\$ 54,099
Machinery, furniture, and equipment	45,761	2,593	-	48,354
Land improvements	103,787	8,944	-	112,731
Infrastructure	1,145,255	53,342	-	1,198,597
Total accumulated depreciation	\$ 1,343,751	\$ 70,030	\$ -	\$ 1,413,781
Total capital assets depreciated, net	\$ 4,532,284	\$ (47,153)	\$ -	\$ 4,485,131
Capital Assets, Net	\$ 5,160,742	\$ (47,153)	\$ -	\$ 5,113,589

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

Conservation of natural resources	\$ 58,493
Culture and recreation	11,537
Total Depreciation Expense	\$ 70,030

2. Interfund Receivables, Payables, and Transfers

Due To/From Other Funds

There were no interfund balances as of December 31, 2012

Interfund Transfers

During 2012, the General Fund transferred \$2,596 to the Ditch Special Revenue Fund for ditch special assessment revenue received in the General Fund.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

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

C. Detailed Notes on All Funds (Continued)

3. Liabilities

Payables

Payables at December 31, 2012, were as follows:

Accounts payable	\$	36,348
Salaries payable		6,532
Contracts payable		<u>64,440</u>
Total Payables	\$	<u>107,320</u>

Construction Commitments

The Lac qui Parle-Yellow Bank Watershed District has active construction projects as of December 31, 2012. The project includes the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Ditch projects	<u>\$ 212,477</u>	<u>\$ 35,759</u>

Long-Term Debt

Loans Payable

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

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

C. Detailed Notes on All Funds

3. Liabilities

Long-Term Debt (Continued)

Long-term debt outstanding at December 31, 2012, for the Lac qui Parle-Yellow Bank Watershed District consists of the following:

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate	Original Issue Amount	Remaining Commitment
Lac qui Parle River Water Mainstem CWP Project	2019	\$ 16,267	2.00%	\$ 293,540	\$ 211,526
Lac qui Parle River Water Mainstem Quality Enhancement Project	Not finalized	Not finalized	Not finalized	197,040	197,040
Total Loans Payable				<u>\$ 490,580</u>	<u>\$ 408,566</u>

Debt service requirements at December 21, 2012, were as follows:

Year Ending December 31	Loans Payable	
	Principal	Interest
2013	\$ 28,444	\$ 4,089
2014	29,016	3,517
2015	29,599	2,934
2016	30,194	2,339
2017	30,801	1,732
2018 - 2019	63,472	1,595
Total	<u>\$ 211,526</u>	<u>\$ 16,206</u>

Clean water loans of \$197,040 for the Water Quality Enhancement Project were not included in the debt service requirements because fixed repayment schedules are not available.

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

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

C. Detailed Notes on All Funds

3. Liabilities (Continued)

Changes in Long-Term Liabilities

Changes in long-term liabilities of the Lac qui Parle-Yellow Bank Watershed District for the year ended December 31, 2012, were:

	Balance January 1	Additions	Deductions	Balance December 31	Amount Due Within One Year
Loans payable	\$ 383,408	\$ 81,486	\$ 56,328	\$ 408,566	\$ 28,444
Compensated absences	8,347	-	1,143	7,204	1,604
Total	<u>\$ 391,755</u>	<u>\$ 81,486</u>	<u>\$ 57,471</u>	<u>\$ 415,770</u>	<u>\$ 30,048</u>

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

A. Summary of Significant Accounting Policies

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

Reporting Entity

The Lac qui Parle County Economic Development Authority is a public body politic and corporate and a political subdivision of the State of Minnesota. The primary purpose of the Authority is to serve as an Economic Development Authority pursuant to Minn. Stat. ch. 469. The Authority is governed by a Board of Commissioners consisting of seven members. Two members are from the County Board of Commissioners, three members are “at large” from within the County, and two members are appointed--one from the City of Dawson and one from the City of Madison.

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

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

A. Summary of Significant Accounting Policies

Reporting Entity (Continued)

Basis of Presentation

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

- The General Fund includes all transactions relating to the Authority.

Deposits and Investments

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

B. Detailed Notes

1. Assets

Receivables

Receivables as of December 31, 2012, for the Lac qui Parle County Economic Development Authority follow:

Governmental Activities	
Taxes	\$ 7,233
Accrued interest	179
Accounts receivable	8,179
Due from other governments	<u>1,909</u>
Total Governmental Activities	<u>\$ 17,500</u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

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

B. Detailed Notes

1. Assets (Continued)

Capital Assets

The Lac qui Parle Economic Development Authority capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets depreciated				
Machinery, furniture, and equipment	\$ 15,168	\$ -	\$ -	\$ 15,168
Less: accumulated depreciation for Machinery, furniture, and equipment	<u>1,770</u>	<u>1,516</u>	<u>-</u>	<u>3,286</u>
Capital Assets, Net	<u>\$ 13,398</u>	<u>\$ 1,516</u>	<u>\$ -</u>	<u>\$ 11,882</u>

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

Economic Development	<u>\$ 1,516</u>
----------------------	-----------------

2. Liabilities

Payables

Payables at December 31, 2012, were as follows:

Accounts payable	\$ 962
Salaries payable	1,819
Due to other governments	<u>5,955</u>
Total Payables	<u>\$ 8,736</u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

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

B. Detailed Notes

2. Liabilities (Continued)

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

	<u>Compensated Absences</u>
Payable - January 1	\$ 5,653
Net changes	<u>57</u>
Payable - December 31	<u>\$ 5,710</u>
Amount Due Within One Year	<u><u>\$ -</u></u>

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REQUIRED SUPPLEMENTARY INFORMATION

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 2,088,868	\$ 2,088,868	\$ 2,000,451	\$ (88,417)
Other taxes	3,900	3,900	7,799	3,899
Special assessments	136,200	136,200	133,032	(3,168)
Licenses and permits	12,650	12,650	21,555	8,905
Intergovernmental	469,604	469,604	821,580	351,976
Charges for services	394,083	394,083	436,385	42,302
Fines and forfeits	-	-	7,871	7,871
Gifts and contributions	-	-	3,190	3,190
Investment earnings	67,000	67,000	41,397	(25,603)
Miscellaneous	136,295	136,295	209,860	73,565
Total Revenues	\$ 3,308,600	\$ 3,308,600	\$ 3,683,120	\$ 374,520
Expenditures				
Current				
General government				
Commissioners	\$ 211,052	\$ 211,052	\$ 216,924	\$ (5,872)
Courts	10,000	10,000	17,168	(7,168)
Jury manager	-	-	1,637	(1,637)
Auditor-Treasurer	370,377	370,377	365,673	4,704
Assessor	154,076	154,076	144,505	9,571
Elections	47,796	47,796	49,612	(1,816)
Data processing	165,171	165,171	181,152	(15,981)
Attorney	172,318	172,318	176,563	(4,245)
Recorder	177,373	177,373	147,291	30,082
Planning and zoning	33,605	33,605	30,176	3,429
Buildings and plant	137,201	137,201	128,011	9,190
Veterans service officer	107,772	107,772	87,894	19,878
County car	1,030	1,030	89	941
Geothermal project	-	-	963,302	(963,302)
GIS	9,000	9,000	22,033	(13,033)
Other general government	90,540	90,540	124,292	(33,752)
Total general government	\$ 1,687,311	\$ 1,687,311	\$ 2,656,322	\$ (969,011)
Public safety				
Sheriff	\$ 718,214	\$ 718,214	\$ 736,897	\$ (18,683)
Safety/AWAIR	4,500	4,500	3,925	575
Sheriff's forfeiture activity	-	-	1,958	(1,958)
County sheriff (city)	195,383	195,383	216,519	(21,136)
Boat and water safety	3,050	3,050	767	2,283

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

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current				
Public safety (Continued)				
Snowmobile safety	1,925	1,925	559	1,366
Coroner	7,100	7,100	12,528	(5,428)
Fed safe and sober	-	-	3,076	(3,076)
E-911 system	84,000	84,000	21,496	62,504
County jail	54,575	54,575	63,802	(9,227)
Civil defense	72,759	72,759	72,037	722
Ambulance	3,000	3,000	3,000	-
Sheriff contingency	-	-	100	(100)
Other	2,500	2,500	354	2,146
Total public safety	\$ 1,147,006	\$ 1,147,006	\$ 1,137,018	\$ 9,988
Sanitation				
Solid waste	\$ 55,772	\$ 55,772	\$ 44,005	\$ 11,767
Recycling	110,463	110,463	112,223	(1,760)
Total sanitation	\$ 166,235	\$ 166,235	\$ 156,228	\$ 10,007
Culture and recreation				
Historical society	\$ 10,300	\$ 10,300	\$ 10,300	\$ -
Parks	1,344	1,344	2,085	(741)
Senior citizens	500	500	500	-
County/regional library	75,697	75,697	75,697	-
Other	20,000	20,000	51,888	(31,888)
Total culture and recreation	\$ 107,841	\$ 107,841	\$ 140,470	\$ (32,629)
Conservation of natural resources				
Extension	\$ 89,423	\$ 89,423	\$ 89,401	\$ 22
Soil and water conservation	102,140	102,140	102,140	-
Water quality	23,823	23,823	24,231	(408)
Agricultural society/County fair	9,550	9,550	9,550	-
E-waste	-	-	43	(43)
River basin	12,658	12,658	12,658	-
Environmental officer	27,630	27,630	26,740	890
Resource, conservation, and development	1,000	1,000	-	1,000
Feedlot administration	28,555	28,555	26,554	2,001
Other	1,000	1,000	1,060	(60)
Total conservation of natural resources	\$ 295,779	\$ 295,779	\$ 292,377	\$ 3,402

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

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Airport	\$ 7,000	\$ 7,000	\$ 7,000	\$ -
Economic development	-	-	229,288	(229,288)
Total economic development	<u>\$ 7,000</u>	<u>\$ 7,000</u>	<u>\$ 236,288</u>	<u>\$ (229,288)</u>
Intergovernmental				
Public safety	\$ 128,993	\$ 128,993	\$ 128,993	\$ -
Health	71,376	71,376	71,376	-
Total intergovernmental	<u>\$ 200,369</u>	<u>\$ 200,369</u>	<u>\$ 200,369</u>	<u>\$ -</u>
Total Expenditures	<u>\$ 3,611,541</u>	<u>\$ 3,611,541</u>	<u>\$ 4,819,072</u>	<u>\$ (1,207,531)</u>
Excess of Revenues Over (Under)				
Expenditures	<u>\$ (302,941)</u>	<u>\$ (302,941)</u>	<u>\$ (1,135,952)</u>	<u>\$ (833,011)</u>
Other Financing Sources (Uses)				
Transfers in	\$ 5,000	\$ 5,000	\$ 1,600,000	\$ 1,595,000
Transfers out	-	-	(4,663)	(4,663)
Total Other Financing Sources (Uses)	<u>\$ 5,000</u>	<u>\$ 5,000</u>	<u>\$ 1,595,337</u>	<u>\$ 1,590,337</u>
Net Change in Fund Balance	<u>\$ (297,941)</u>	<u>\$ (297,941)</u>	<u>\$ 459,385</u>	<u>\$ 757,326</u>
Fund Balance - January 1	<u>2,105,609</u>	<u>2,105,609</u>	<u>2,105,609</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 1,807,668</u>	<u>\$ 1,807,668</u>	<u>\$ 2,564,994</u>	<u>\$ 757,326</u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 1,513,400	\$ 1,513,400	\$ 1,449,032	\$ (64,368)
Intergovernmental	4,814,000	4,814,000	4,550,022	(263,978)
Charges for services	-	-	10,337	10,337
Investment earnings	46,000	46,000	1,533	(44,467)
Miscellaneous	126,000	126,000	222,265	96,265
Total Revenues	\$ 6,499,400	\$ 6,499,400	\$ 6,233,189	\$ (266,211)
Expenditures				
Current				
Highways and streets				
Administration	\$ 172,200	\$ 172,200	\$ 162,551	\$ 9,649
Maintenance	2,477,850	2,477,850	2,187,772	290,078
Construction	3,752,500	3,752,500	3,370,695	381,805
Equipment and maintenance shops	246,500	246,500	196,928	49,572
Total highways and streets	\$ 6,649,050	\$ 6,649,050	\$ 5,917,946	\$ 731,104
Intergovernmental				
Highways and streets	401,000	401,000	390,274	10,726
Total Expenditures	\$ 7,050,050	\$ 7,050,050	\$ 6,308,220	\$ 741,830
Net Change in Fund Balance	\$ (550,650)	\$ (550,650)	\$ (75,031)	\$ 475,619
Fund Balance - January 1	2,444,042	2,444,042	2,444,042	-
Increase (decrease) in inventories	-	-	(8,166)	(8,166)
Fund Balance - December 31	\$ 1,893,392	\$ 1,893,392	\$ 2,360,845	\$ 467,453

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 969,716	\$ 969,716	\$ 910,288	\$ (59,428)
Intergovernmental	939,575	939,575	1,205,790	266,215
Charges for services	114,899	114,899	248,385	133,486
Investment earnings	30,000	30,000	15,624	(14,376)
Miscellaneous	48,000	48,000	82,453	34,453
Total Revenues	\$ 2,102,190	\$ 2,102,190	\$ 2,462,540	\$ 360,350
Expenditures				
Current				
Human services				
Income maintenance	\$ 607,789	\$ 607,789	\$ 628,342	\$ (20,553)
Administration	-	-	6,980	(6,980)
Social services	1,494,401	1,494,401	1,498,417	(4,016)
Total Expenditures	\$ 2,102,190	\$ 2,102,190	\$ 2,133,739	\$ (31,549)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 328,801	\$ 328,801
Other Financing Sources (Uses)				
Transfers out	-	-	(1,600,000)	(1,600,000)
Net Change in Fund Balance	\$ -	\$ -	\$ (1,271,199)	\$ (1,271,199)
Fund Balance - January 1	3,955,850	3,955,850	3,955,850	-
Fund Balance - December 31	\$ 3,955,850	\$ 3,955,850	\$ 2,684,651	\$ (1,271,199)

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 206,777	\$ 206,777	\$ 237,703	\$ 30,926
Investment earnings	10,000	10,000	-	(10,000)
Miscellaneous	-	-	2,063	2,063
Total Revenues	\$ 216,777	\$ 216,777	\$ 239,766	\$ 22,989
Expenditures				
Current				
Conservation of natural resources				
Other	211,777	211,777	277,572	(65,795)
Excess of Revenues Over (Under)				
Expenditures	\$ 5,000	\$ 5,000	\$ (37,806)	\$ (42,806)
Other Financing Sources (Uses)				
Transfers in	-	-	4,663	4,663
Transfers out	(5,000)	(5,000)	-	5,000
Total Other Financing Sources (Uses)	\$ (5,000)	\$ (5,000)	\$ 4,663	\$ 9,663
Net Change in Fund Balance	\$ -	\$ -	\$ (33,143)	\$ (33,143)
Fund Balance - January 1	830,390	830,390	830,390	-
Fund Balance - December 31	\$ 830,390	\$ 830,390	\$ 797,247	\$ (33,143)

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2012	\$ -	\$ 498,400	\$ 498,400	0.0%	\$ 2,632,510	18.9%

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012**

1. General Budget Policies

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

The budgets may be amended or modified at any time by the County Board. Expenditures may not legally exceed budgeted appropriations. Comparisons of final budgeted revenues and expenditures to actual are presented in required supplementary information for the General Fund and 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.

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

Fund	Expenditures	Budget	Excess
General Fund	\$ 4,819,072	\$ 3,611,541	\$ 1,207,531
Family Services Special Revenue Fund	2,133,739	2,102,190	31,549
Ditch Special Revenue Fund	277,572	211,777	65,795

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

5. Other Postemployment Benefits Funding Status

Beginning in 2012, Lac qui Parle County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets to pay the accrued liability for postemployment benefits is zero. Currently, only one actuarial valuation is available. As the information becomes available, future reports will provide additional trend analysis to meet the three valuation funding status requirement. See Note 4.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

SUPPLEMENTARY INFORMATION

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

AGENCY FUNDS

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

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

Social Welfare - to account for the collection and disbursement of funds held on behalf of individuals in the Social Welfare program.

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

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

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT B-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CHILDREN'S MENTAL HEALTH COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 221,699	\$ 89,864	\$ 104,256	\$ 207,307
<u>Liabilities</u>				
Due to other governments	\$ 221,699	\$ 89,864	\$ 104,256	\$ 207,307
 <u>FORFEITED TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 3,043	\$ 8,635	\$ 3,037	\$ 8,641
<u>Liabilities</u>				
Due to other governments	\$ 3,043	\$ 8,635	\$ 3,037	\$ 8,641
 <u>SOCIAL WELFARE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,521	\$ 3,556	\$ 3,682	\$ 1,395
<u>Liabilities</u>				
Due to other governments	\$ 1,521	\$ 3,556	\$ 3,682	\$ 1,395

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**EXHIBIT B-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 10,585	\$ 1,187,210	\$ 1,131,437	\$ 66,358
<u>Liabilities</u>				
Due to other governments	\$ 10,585	\$ 1,187,210	\$ 1,131,437	\$ 66,358
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 179,309	\$ 11,140,971	\$ 11,161,179	\$ 159,101
<u>Liabilities</u>				
Due to other governments	\$ 179,309	\$ 11,140,971	\$ 11,161,179	\$ 159,101
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 416,157	\$ 12,430,236	\$ 12,403,591	\$ 442,802
<u>Liabilities</u>				
Due to other governments	\$ 416,157	\$ 12,430,236	\$ 12,403,591	\$ 442,802

OTHER SCHEDULES

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT C-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Primary Government</u>	<u>Discretely Presented Component Unit Lac qui Parle- Yellow Bank Watershed District</u>
Shared Revenue		
State		
Highway users tax	\$ 3,651,517	\$ -
Market value credit	128,790	5,948
PERA rate reimbursement	12,441	132
Disparity reduction aid	51,195	-
County program aid	125,562	-
Police aid	45,308	-
E-911	77,670	-
	<hr/>	<hr/>
Total shared revenue	\$ 4,092,483	\$ 6,080
Reimbursement for Services		
State		
Minnesota Department of Human Services	\$ 236,200	\$ -
Minnesota Department of Public Safety	1,660	-
Local		
Lincoln County	-	211,657
	<hr/>	<hr/>
Total reimbursement for services	\$ 237,860	\$ 211,657
Payments		
Local		
Local contributions	\$ -	\$ 6,526
Payments in lieu of taxes	163,359	2,092
	<hr/>	<hr/>
Total payments	\$ 163,359	\$ 8,618
Grants		
State		
Minnesota Department/Board of Human Services	\$ 422,533	\$ -
Natural Resources	53,218	-
Public Safety	1,025	-
Transportation	732,792	-
Veterans Affairs	3,698	-
Water and Soil Resources	64,803	4,389
Pollution Control Agency	55,950	39,573
	<hr/>	<hr/>
Total state	\$ 1,334,019	\$ 43,962

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Primary Government</u>	<u>Discretely Presented Component Unit Lac qui Parle- Yellow Bank Watershed District</u>
Grants (Continued)		
Federal		
Department of		
Agriculture	\$ 51,904	\$ -
Commerce	454	-
Housing and Urban Development	450	-
Justice	1,619	-
Transportation	7,695	-
Energy	127,972	-
Health and Human Services	413,752	-
Homeland Security	138,662	-
Election Assistance Commission	7,163	-
Total federal	<u>\$ 749,671</u>	<u>\$ -</u>
Total state and federal grants	<u>\$ 2,083,690</u>	<u>\$ 43,962</u>
Total Intergovernmental Revenue	<u>\$ 6,577,392</u>	<u>\$ 270,317</u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT C-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ <u>51,904</u>
U.S. Department of Commerce		
Passed Through Southwest Minnesota Regional Radio Board Public Safety Interoperable Communications Grant Program	11.555	\$ <u>454</u>
U.S. Department of Housing and Urban Development		
Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	\$ <u>450</u>
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Law Enforcement Assistance Narcotics and Dangerous Drugs Training	16.004	\$ <u>1,619</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Public Safety Highway Safety Cluster		
State and Community Highway Safety	20.600	\$ 2,300
Occupant Protection Incentive Grants	20.602	2,000
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>3,395</u>
Total U.S. Department of Transportation		\$ <u>7,695</u>
U.S. Department of Energy		
Passed Through Minnesota Department of Commerce State Energy Program - ARRA	81.041	\$ 111,456
Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA	81.128	<u>16,516</u>
Total U.S. Department of Energy		\$ <u>127,972</u>
U.S. Election Assistance Commission		
Passed Through Minnesota Office of the Secretary of State Help America Vote Act Requirements Payments	90.401	\$ <u>7,163</u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**EXHIBIT C-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	\$ 2,897
Temporary Assistance for Needy Families (TANF) Cluster		
Temporary Assistance for Needy Families	93.558	48,946
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	93.714	1,628
Child Support Enforcement	93.563	64,477
Refugee and Entrant Assistance - State Administered Programs	93.566	110
Child Care and Development Block Grant	93.575	1,832
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1,561
Foster Care - Title IV-E	93.658	13,319
Social Services Block Grant	93.667	73,340
Chafee Foster Care Independence Program	93.674	250
Children's Health Insurance Program	93.767	17
Medical Assistance Program	93.778	205,375
		<hr/>
Total U.S. Department of Health and Human Services		\$ 413,752
U.S. Department of Homeland Security		
Passed Through United Way		
Emergency Food and Shelter National Board Program	97.024	\$ 2,761
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grants	97.042	35,450
Passed Through Southwest Minnesota Regional Radio Board		
Interoperable Emergency Communications	97.055	1,593
Homeland Security Grant Program	97.067	98,858
		<hr/>
Total U.S. Department of Homeland Security		\$ 138,662
		<hr/>
Total Federal Awards		\$ 749,671

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Lac qui Parle County under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Lac qui Parle County, it is not intended to and does not present the financial position or changes in net position of Lac qui Parle County.

3. Summary of Significant Accounting Policies

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

4. Clusters

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

Highway Safety Cluster	\$ 4,300
Temporary Assistance for Needy Families (TANF) Cluster	50,574

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

5. Subrecipients

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

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
14.228	Community Development Block Grants/State's Program and Non-entitlement Grants in Hawaii	\$ 450
81.128	Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA	6,463

6. American Recovery and Reinvestment Act

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

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

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT D-1

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and pooled investments	\$ 1,138,739
Taxes receivable	
Prior	1,920
Special assessments receivable	
Noncurrent	309,889
Accounts receivable	3,766
Accrued interest receivable	862
Due from other governments	63,425
Capital assets	
Non-depreciable	628,458
Depreciable - net of accumulated	
Depreciable - net of accumulated depreciation	<u>4,485,131</u>
Total Assets	<u>\$ 6,632,190</u>
<u>Liabilities</u>	
Accounts payable	\$ 36,348
Salaries payable	6,532
Contracts payable	64,440
Unearned revenue	303,742
ISTS loans	
Due in one year	28,444
Due in more than one year	380,122
Compensated absences	
Due within one year	1,604
Due in more than one year	<u>5,600</u>
Total Liabilities	<u>\$ 826,832</u>
<u>Net Position</u>	
Net investment in capital assets	\$ 5,113,589
Restricted for conservation	199,671
Unrestricted	<u>492,098</u>
Total Net Position	<u><u>\$ 5,805,358</u></u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT D-2

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Program Revenues				Net (Expense)
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position	
<u>Functions/Programs</u>					
Governmental activities					
Culture and recreation	\$ 105,431	\$ 107,057	\$ 3,500	\$ -	\$ 5,126
Conservation of natural resources	610,755	106,205	258,645	-	(245,905)
Interest	4,679	-	-	-	(4,679)
Total Governmental Activities	<u>\$ 720,865</u>	<u>\$ 213,262</u>	<u>\$ 262,145</u>	<u>\$ -</u>	<u>\$ (245,458)</u>
 General Revenues					
Property taxes				\$ 219,959	
Payments in lieu of tax				2,092	
Grants and contributions not restricted to specific programs				6,080	
Unrestricted investment earnings				3,393	
Miscellaneous				17,737	
Total general revenues				<u>\$ 249,261</u>	
Change in net position				\$ 3,803	
Net Position - Beginning				<u>5,801,555</u>	
Net Position - Ending				<u>\$ 5,805,358</u>	

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT D-3

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2012**

	General	Ditch Special Revenue	Total
<u>Assets</u>			
Cash and pooled investments	\$ 1,055,569	\$ 83,170	\$ 1,138,739
Taxes receivable			
Prior	1,920	-	1,920
Special assessments receivable			
Noncurrent	292,066	17,823	309,889
Accounts receivable	3,766	-	3,766
Accrued interest receivable	862	-	862
Due from other governments	63,425	-	63,425
	\$ 1,417,608	\$ 100,993	\$ 1,518,601
	\$ 1,417,608	\$ 100,993	\$ 1,518,601
<u>Liabilities and Fund Balance</u>			
Liabilities			
Accounts payable	\$ 36,348	\$ -	\$ 36,348
Salaries payable	6,532	-	6,532
Contracts payable	64,440	-	64,440
Deferred revenue - unavailable	293,986	17,823	311,809
Deferred revenue - unearned	303,742	-	303,742
	\$ 705,048	\$ 17,823	\$ 722,871
	\$ 705,048	\$ 17,823	\$ 722,871
Fund Balance			
Restricted for			
Septic/sewer loans	\$ 116,501	\$ -	\$ 116,501
Ditch repairs and maintenance	-	83,170	83,170
Assigned to			
Flood control	423,731	-	423,731
Unassigned	172,328	-	172,328
	\$ 712,560	\$ 83,170	\$ 795,730
	\$ 712,560	\$ 83,170	\$ 795,730
Total Liabilities and Fund Balance	\$ 1,417,608	\$ 100,993	\$ 1,518,601

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT D-4

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
RECONCILIATION OF THE FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

Fund balance - total governmental funds	\$ 795,730
Amounts reported for governmental activities in the statement of net position 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.	5,113,589
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	311,809
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Loans payable	(408,566)
Compensated absences	<u>(7,204)</u>
Net Position of Governmental Activities	<u><u>\$ 5,805,358</u></u>

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT D-5

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Ditch Special Revenue	Total
Revenues			
Taxes	\$ 220,544	\$ -	\$ 220,544
Special assessments	52,249	-	52,249
Intergovernmental	270,317	-	270,317
Charges for services	114,010	150	114,160
Interest earnings	3,080	313	3,393
Miscellaneous	38,500	-	38,500
	\$ 698,700	\$ 463	\$ 699,163
Expenditures			
Current			
Culture and recreation	\$ 116,771	\$ -	\$ 116,771
Conservation of natural resources	547,067	6,338	553,405
Debt service			
Principal	27,884	-	27,884
Interest	4,679	-	4,679
	\$ 696,401	\$ 6,338	\$ 702,739
Excess of Revenues Over (Under)			
Expenditures	\$ 2,299	\$ (5,875)	\$ (3,576)
Other Financing Sources (Uses)			
Transfers in	\$ -	\$ 2,596	\$ 2,596
Transfers out	(2,596)	-	(2,596)
Loans issued	53,042	-	53,042
	\$ 50,446	\$ 2,596	\$ 53,042
Net Change in Fund Balance	\$ 52,745	\$ (3,279)	\$ 49,466
Fund Balance - January 1	659,815	86,449	746,264
Fund Balance - December 31	\$ 712,560	\$ 83,170	\$ 795,730

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT D-6

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES -- GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Net change in fund balance - total governmental funds (Exhibit D-5) \$ 49,466

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

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

Deferred revenue - December 31	\$ 311,809	
Deferred revenue - January 1	<u>(286,304)</u>	25,505

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

Expenditures for capital assets	\$ 22,877	
Current year depreciation	<u>(70,030)</u>	(47,153)

Governmental funds report loans issued as other financing sources. However, in the statement of activities, the loans are reported as a liability. (53,042)

Payments on long-term debt are reported as expenditures in the governmental funds, but reduce the liabilities at the government-wide level. 27,884

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

Change in compensated absences		<u>1,143</u>
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Change in Net Position of Governmental Activities (Exhibit D-2) \$ 3,803

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT D-7

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ -	\$ -	\$ 220,544	\$ 220,544
Special assessments	-	-	52,249	52,249
Intergovernmental	-	-	270,317	270,317
Charges for services	103,200	103,200	114,010	10,810
Investment earnings	-	-	3,080	3,080
Miscellaneous	-	-	38,500	38,500
Total Revenues	\$ 103,200	\$ 103,200	\$ 698,700	\$ 595,500
Expenditures				
Current				
Culture and recreation				
Parks	\$ 101,575	\$ 101,575	\$ 116,771	\$ (15,196)
Conservation of natural resources				
Watershed	225,000	225,000	547,067	(322,067)
Debt service				
Principal	-	-	27,884	(27,884)
Interest	-	-	4,679	(4,679)
Total Expenditures	\$ 326,575	\$ 326,575	\$ 696,401	\$ (369,826)
Excess of Revenues Over (Under)				
Expenditures	\$ (223,375)	\$ (223,375)	\$ 2,299	\$ 225,674
Other Financing Sources (Uses)				
Loans issued	\$ -	\$ -	\$ 53,042	\$ 53,042
Transfers out	-	-	(2,596)	(2,596)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 50,446	\$ 50,446
Net Change in Fund Balance	\$ (223,375)	\$ (223,375)	\$ 52,745	\$ 276,120
Fund Balance - January 1	659,815	659,815	659,815	-
Fund Balance - December 31	\$ 436,440	\$ 436,440	\$ 712,560	\$ 276,120

**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

EXHIBIT D-8

**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
BUDGETARY COMPARISON SCHEDULE
DITCH FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for services	\$ -	\$ -	\$ 150	\$ 150
Investment earnings	-	-	313	313
Total Revenues	\$ -	\$ -	\$ 463	\$ 463
Expenditures				
Current				
Conservation of natural resources				
Conservation - other	5,000	5,000	6,338	(1,338)
Excess of Revenues Over (Under) Expenditures	\$ (5,000)	\$ (5,000)	\$ (5,875)	\$ (875)
Other Financing Sources (Uses)				
Transfers in	-	-	2,596	2,596
Net Change in Fund Balance	\$ (5,000)	\$ (5,000)	\$ (3,279)	\$ 1,721
Fund Balance - January 1	86,449	86,449	86,449	-
Fund Balance - December 31	\$ 81,449	\$ 81,449	\$ 83,170	\$ 1,721

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**LAC QUI PARLE COUNTY
MADISON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

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

The major programs are:

State Energy Program - ARRA	CFDA #81.041
Medical Assistance Program	CFDA #93.778
Homeland Security Grant Program	CFDA #97.067

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-1 Segregation of Duties

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

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

Context: Due to the limited number of office personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Lac qui Parle County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

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

Cause: The County indicated to us that it is a small-sized County, and trying to achieve efficiency through a small staff size is not always conducive to appropriate segregation of duties.

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

Client's Response:

The County Board has been advised and is well aware of the lack of segregation of the accounting functions. Lac qui Parle County will create or modify policies to ensure that duties are segregated wherever possible and reasonable.

06-7 Audit Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis.

Condition: During our audit, we identified five adjustments which were proposed and recorded that resulted in significant changes to the County's financial statements. These adjustments were not material individually or in the aggregate; however the number of adjustments required indicates an internal control weakness.

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

Effect: Multiple audit adjustments were recorded to correctly identify and report revenue, including federal revenue.

Cause: The adjustments resulted from a lack of controls over the calculation and recording of certain balances and transactions.

Recommendation: We recommend County staff review the trial balances and journal entries in detail to ensure they have an understanding of all adjustments made. We also recommend that the County modify internal controls over financial reporting to detect misstatements, including misclassifications, in the financial statements.

Client's Response:

The County believes that the accounting staff has put forth significant effort to reduce the quantity and magnitude of audit adjustments necessary. As a result of that effort, many of the recurring adjustments made by auditors each year have been eliminated. The Auditor-Treasurer-Coordinator will continue to work with management and accounting staff to review and understand the sources of the auditor adjustments and change accounting practices accordingly in order to alleviate the need for future adjustments.

09-4 Assessing and Monitoring Internal Controls

Criteria: Management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by County management are still effective or if

changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

Condition: A risk assessment of existing controls over significant functions of the accounting system used to produce financial information has not been completed. In addition, our audit procedures detected areas and responsibilities performed by County staff with little or no documentation of the monitoring taking place by management or other staff members. Some areas with minimal or no monitoring include:

- review of journal entries;
- review of certain bank reconciliations;
- reconciling tax levy information in the accounting system to amounts approved by the County Board;
- review of capital asset additions, deletions, and balances; and
- review of payroll journals to determine all calculations, including net pay, are correct.

Context: Local governments tend to establish controls but fail to periodically review those controls to ensure they are working as intended when they were initially designed. Controls should be reviewed to determine they are appropriate for all of the changes that take place over time.

Effect: The internal control environment is constantly changing with changes in staffing, information systems, processes, and services provided. Changes may have taken place that reduce or negate the effectiveness of internal controls which may go unnoticed without a formal and timely risk assessment process in place.

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

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

Client's Response:

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

11-1 Network/Application Password Controls

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

Condition: In 2011, Lac qui Parle County updated to a new version of the Integrated Financial System (IFS) application software. This application was written as a web-based application and may be run on a server or a mainframe system. Lac qui Parle County contracts with another government for use of space on a mainframe IBM I Series system. For an employee of Lac qui Parle County to access the new IFS application, the user must be signed on to the County network and have a current sign-on for the IFS application. The sign-on differs from the sign-on for the IBM I Series system, so the mainframe security settings do not apply to the application. Lac qui Parle County has not reviewed the network controls or assessed risks from the change to a web-based application to ensure password controls are working as intended.

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

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

Cause: During 2012, the County implemented stronger password controls. However, after employee resistance, the County reverted back to the former password controls.

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

Client's Response:

The County Auditor-Treasurer-Coordinator has contacted the IFS software developers, who have indicated that enhancement of IFS password controls is not likely in the near future. However, the security may still be addressed through limiting access. We will work with IT staff to review current password controls and implement new controls to appropriately limit access to IFS. The Auditor-Treasurer-Coordinator will work with the County's IT Committee to determine whether these enhancements are feasible for the County.

11-2 Timeliness of Preparation of Financial Statements

Criteria: Management is responsible for preparing the County's financial statements in accordance with generally accepted accounting principles (GAAP). The financial statement preparation in accordance with GAAP requires internal control over both (1) recording, processing, and summarizing accounting data (that is, maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

Condition: Financial information for the Lac qui Parle-Yellow Bank Watershed District, a component unit, was provided to the Office of the State Auditor more than two weeks later than scheduled. In addition, the information that was submitted required numerous revisions affecting both the financial statements and related notes. Office of the State Auditor staff were required to complete the financial statement process including converting the modified accrual to full accrual in order to complete the government-wide financial statements for that component unit.

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

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

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

Recommendation: Procedures should be implemented to ensure that the necessary financial information be prepared in a manner that allows staff from the Office of the State Auditor an adequate amount of time to complete the audit by the County's reporting deadline.

Client's Response:

Staff for the Lac qui Parle-Yellow Bank Watershed District component unit have been working with the OSA staff to change audit preparation procedures with a goal of decreasing the time necessary to prepare for the annual audit. Also, the County has discussed with the component unit the possibility of consolidating accounting and audit preparation in the duties of the Auditor-Treasurer-Coordinator's Office. However, that change would only be made possible following changes to the Auditor-Treasurer-Coordinator staff in 2014.

ITEM ARISING THIS YEAR

12-1 Itemized Receipts for Credit Card Purchases

Criteria: Sound internal controls should provide a system to ensure that all credit card purchases are supported by itemized receipts, and Lac qui Parle County's credit card policy requires such documentation. Additionally, Minn. Stat. § 375.171 provides that a purchase by credit card must "comply with all statutes, rules, or county policy applicable to county purchases," and Minn. Stat. § 471.38, subd. 1, requires claims presented for payment must be in writing and itemized. Monthly statements received from a credit card company lack sufficient detail to comply with these requirements.

Condition: We reviewed two fuel credit card claims paid by Lac qui Parle County. Neither of the fuel credit card claims tested had itemized vendor receipts to support all charges on the monthly billing.

Context: Documentation of claims paid is a fundamental requirement of a sound accounting system; it is the primary evidence used to support and explain the nature of the County's cash outlays and expenditures recorded in the general ledger.

Effect: Billings received from a credit card company lack sufficient detail to permit the County Board to adequately review and approve expenditures incurred by using credit cards. In order to pay these bills, the County must have itemized invoices or receipts to support items charged.

Cause: Internal controls are not adequate to ensure Lac qui Parle County staff provide itemized vendor invoices or receipts for all credit card purchases. Departmental personnel reviewing and authorizing payment of the credit card claims either did not request the supporting documentation that was missing or did not follow up to ensure the necessary documentation was received and was valid before payment of the credit card billing.

Recommendation: We recommend Lac qui Parle County adhere to Minn. Stat. §§ 375.171 and 471.38, subd. 1, and to the County's credit card policy. Departmental personnel reviewing the claim should ensure that credit card claims are accompanied with itemized vendor invoices or receipts that support all charges.

Client's Response:

The Auditor-Treasurer-Coordinator's Office has been working with staff to create awareness on the need to submit itemized receipts for all credit card purchases, including use of the fleet fueling cards. Several months ago, the Sheriff agreed to hold his staff personally liable for charges incurred for which receipts are not turned in. Since then, the County is not aware of any credit card transactions for which receipts have not been obtained.

PREVIOUSLY REPORTED ITEM RESOLVED

Other Postemployment Benefits (OPEB) (10-1)

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was effective for Lac qui Parle County for the year ended December 31, 2009. Previously, Lac qui Parle County determined the cost of hiring an actuary to determine annual costs and liabilities associated with reporting its OPEB liability was not worth the necessary investment to become compliant with GASB Statement 45.

Resolution

Lac qui Parle County obtained an actuarial evaluation as of January 1, 2012, and reported its OPEB liability in the governmental activities for the year ended December 31, 2012.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

12-2 Reporting - State Energy Program

Program: U.S. Department of Energy's State Energy Program - ARRA (CFDA No. 81.041)

Pass-Through Agency: Minnesota Department of Commerce

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

Condition: The County did not comply with, nor maintain adequate internal controls over, monthly and quarterly reporting requirements:

- The grant agreement requires submission of reimbursement requests by the 5th day of each month for the preceding month's work. The March 31, 2012, reimbursement request was dated April 7, 2012, and the May 31, 2012, reimbursement request was dated June 7, 2012.
- The grant agreement requires submission of quarterly reports for additional information related to the award including data for hiring practices jobs retained or created under the award. These reports are due by the 5th day of each month following the end of the quarter for the preceding quarter's work. The March 31, 2012 quarterly report was dated April 7, 2012, and the June 30, 2012 quarterly report was dated July 11, 2012.

Questioned Costs: None.

Context: The County hired an independent contractor for construction management to administer the State Energy Program.

Effect: Internal controls over the administration of the State Energy Program are inadequate and compliance with the reporting compliance requirement was not met.

Cause: The independent contractor prepared reports which were then reviewed, approved, and submitted to the state by the County Auditor-Treasurer. Delays occurred in the process and this procedure did not allow for reports to be submitted on time.

Recommendation: We recommend that the County develop written internal controls and written policies and procedures to ensure compliance with the requirements over reporting. The procedures identified should allow enough time for reports to be prepared, reviewed, approved and submitted on time.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Jake Sieg, Auditor-Treasurer-Coordinator

Corrective Action Planned:

Responsibilities of the Auditor-Treasurer-Coordinator are changing as a result of a department re-organization. The County intends to have more staff time available for tasks such as monitoring of grant compliance following this reorganization. Also, as the County staff gain more experience in the areas of grant monitoring and compliance, findings such as these should be alleviated.

Anticipated Completion Date:

Immediate.

12-3 Procurement and Suspension and Debarment

Program: U.S. Department of Energy's State Energy Program - ARRA (CFDA No. 81.041)

Pass-Through Agency: Minnesota Department of Commerce

Criteria: Federal Regulation 45 C.F.R. § 92.35 prohibits any state or agency from purchasing good and services with federal money from vendors who have been suspended or debarred by the federal government.

Condition: The County entered into contracts with vendors for projects that were federally funded. These contracts did not include suspension and debarment language, nor was verification performed to determine these vendors were not suspended or debarred at the time the contract was awarded. Compliance testing performed during the federal program audits did not indicate that either contractor was suspended or debarred at the time the testing was performed.

Questioned Cost: None.

Context: The contractors hired by the County to work on federally funded projects may have been suspended or debarred, yet payments were made to these contractors.

Effect: The County had no assurance that its contractors on projects funded with federal awards had not been suspended or debarred by the federal government.

Cause: The County hired an independent contractor for construction management to administer the State Energy Program which included managing the bidding process for potential contractors and the handling of contracts. The County does not have internal control procedures to ensure the inclusion of suspension and debarment language in contracts; the language was not included in the contracts handled by the independent contractor. In addition, the County did not perform verification to determine these vendors were not suspended or debarred at the time the contract was awarded.

Recommendation: We recommend the County develop written internal controls and written policies and procedures to ensure compliance with the requirements over procurement and suspension and debarment. Such procedures should be completed prior to awarding contracts to vendors on federally funded projects. Documentation should exist to support the monitoring of and compliance with this requirement.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Jake Sieg, Auditor-Treasurer-Coordinator

Corrective Action Planned:

While the County did not take the exact steps specifically required through the grant agreement, the County believes that steps were indeed taken to address the risks for which these steps were designed to mitigate. These steps included hiring a reputable commercial construction management company, which used industry standard contract forms and performed reference checks, interviews, and gathered other information with the specific goals of eliminating unqualified vendors and contractors. That being said, the County understands that the grant agreement called for specific actions that were not completed by County or construction management staff, and that in the future more attention should be paid to the minute grant requirements, however excessive or inane they may be.

Anticipated Completion Date:

Immediate.

PREVIOUSLY REPORTED ITEMS RESOLVED

Reporting (11-3)

The County receives funding under the Medical Assistance Program (CFDA No. 93.778) for reimbursement of direct costs related to the access transportation program. Reimbursements are based on monthly requests submitted by the County to the Minnesota Department of Human Services (DHS) on the state's system. We reviewed six monthly requests for reimbursement and noted two included expenditures that did not agree with the County's general ledger. In addition, we noted one monthly request that was denied by DHS and not resubmitted by the County until our audit brought it to the County's attention.

Resolution

The County implemented reconciling procedures which include tracing all claims submitted for reimbursement to a remittance advice indicating payment was received. We noted no instances of claims submitted for reimbursement that did not agree with the County's general ledger, and no instances of denied reimbursements.

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

Our testing of disbursements for the Medical Assistance Program (CFDA No. 93.778) found 8 of the 11 tested Family Services Department disbursements did not include evidence to indicate they were reviewed and approved by a supervisor or the Director.

Resolution

All Family Services disbursements tested during the current audit had sufficient evidence to indicate review and approval by a supervisor or the Director.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 Ditch Fund Cash Deficits

Criteria: As stated in Minn. Stat. § 385.04, in part, “. . . every warrant shall be paid only from the cash on hand in the fund from which it may be properly payable.” As allowed by Minn. Stat. § 103E.655, subd. 2, loans may be made from ditch systems with surplus funds or from the General Fund to a ditch with insufficient cash to pay expenditures. The loan must be repaid with interest.

Condition: Six of the 103 individual ditch systems had deficit cash balances totaling \$76,860 at December 31, 2012. This amount increased from the prior year when we reported that ten of the 103 individual ditch systems had deficit cash balances totaling \$68,395.

Context: If the County Board transfers money from another account or fund to a drainage system account, the money plus interest must be reimbursed from the proceeds of the drainage system that received the transfer. A fund balance to be used for repairs may be established under Minn. Stat. § 103E.735, subd. 1, for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is larger.

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

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

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

Client's Response:

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

ITEMS ARISING THIS YEAR

12-4 Safe Driving Class

Criteria: As stated in Minn. Stat. § 169.022, in part, “. . . Local authorities may adopt traffic regulations which are not in conflict with the provisions of this chapter; provided, that when any local ordinance regulating traffic covers the same subject for which a penalty is provided for in this chapter, then the penalty provided for violation of said local ordinance shall be identical with the penalties provided for in this chapter for the same offense.”

In 2009, the Minnesota Legislature enacted a new statute, Minn. Stat. § 169.999, to authorize the issuance of administrative citations and prescribe criteria for them. *See* 2009 Minn. Laws, ch. 158. Among other provisions, the statute states that a governing body resolution must be passed to authorize issuance of administrative citations. The

resolution must bar peace officers from issuing administrative citations in violation of Minn. Stat. § 169.999. The statute specifies the offenses for which an administrative citation may be used. The authority requires the use of a uniform administrative citation prescribed by the Commissioner of Public Safety and specifies that the fine for an administrative violation must be \$60, two-thirds of which must be credited to the general revenue fund of the local unit of government, and one-third of which must be transferred to the Commissioner of Minnesota Management & Budget for deposit in the state's General Fund. A local unit of government receiving administrative fine proceeds must use one-half of the funds for law enforcement purposes. Each local unit of government must follow these and other criteria specified in the new statute.

Condition: Lac qui Parle County has established a Driver Awareness Class option in lieu of issuance or court filing of a state uniform traffic ticket. The County hands out a Driving Awareness Class brochure with “simpler” traffic tickets. Motorists who are given brochures are given the option of paying \$75 and attending a two-hour Driving Awareness Class in lieu of having their citations prosecuted.

Context: In a letter to State Representative Steve Smith on December 1, 2003, the Minnesota Attorney General specifically addressed the issue of a driver improvement course or clinic in lieu of a ticket or other penalty. After reviewing the state law, the Attorney General concluded: “All such programs, however, require that a *trial court* make the determination as to whether attendance at such a [driver’s] clinic is appropriate. We are aware of no express authority for local officials to create a *pretrial* diversion program.” (Emphasis is that of the Attorney General.)

The Minnesota Supreme Court has stated, “[a]s a creature of the state deriving its sovereignty from the state, the county should play a leadership role in carrying out legislative policy.” *Kasch v. Clearwater County*, 289 N.W. 2d 148, 152 (Minn. 1980), quoting *County of Freeborn v. Bryson*, 243 N.W. 2d 316, 321 (Minn. 1976).

Effect: The County’s Driver Awareness Class is unauthorized and in violation of Minn. Stat. § 169.022.

Cause: The County asserts that the County can offer the Safe Driving Class option in lieu of issuance or court filing of a state uniform traffic ticket as a safe driving diversionary program.

Recommendation: We recommend the County comply with Minn. Stat. ch. 169, including Minn. Stat. § 169.999, or any subsequent legislation by not offering a Driver Awareness Class in lieu of issuance or court filing of a state uniform traffic ticket.

Client's Response:

Due to pending litigation being experienced by other counties that have enacted a Safe Driving Class program, in August 2013 the County Attorney and County Sheriff have agreed to suspend the program until further notice.

12-5 Publication of Financial Statements

Criteria: The County is required by Minn. Stat. § 375.17 to annually publish its financial statements.

Condition: The County Auditor-Treasurer did not publish the financial statements for 2011.

Context: The County typically defers publishing its financial statements until the audit of its financial statements is complete.

Effect: The County is not in compliance with Minn. Stat. § 375.17.

Cause: In lieu of publishing the financial statements, the County published a notice in the official newspaper notifying readers where the financial statements could be obtained.

Recommendation: We recommend the County Auditor-Treasurer publish the County's financial statements annually as required by Minn. Stat. § 375.17.

Client's Response:

The County Auditor-Treasurer-Coordinator will discuss with the County Board the potential benefits of compliance with financial statement publication requirements in comparison to the significant publication costs that would be incurred.

12-6 Publication of Board Minutes

Criteria: County Board minutes are required by Minn. Stat. § 375.12 to be published within 30 days of the meeting.

Condition: We reviewed the affidavits of publication related to the publishing of a summary of the County Board minutes for 2012 and found that some of the summaries were not published in the County's official newspaper within the 30-day requirement.

Context: Of the 17 published summaries reviewed, 16 were not published within the 30-day requirement.

Effect: Noncompliance with Minn. Stat. § 375.12.

Cause: The County Board minutes are not presented to the County Board for review and approval in time to meet the publication within the 30-day requirement.

Recommendation: We recommend the County publish its summaries of the County Board minutes in compliance with Minn. Stat. § 375.12.

Client's Response:

The County agrees that delays in publication of the Board Minutes are not acceptable. The County intends to rectify this issue through re-organization of the Auditor-Treasurer-Coordinator Department and re-allocation of staff duties to allow sufficient time to draft minutes for approval and publication within the time requirements mandated through this statute.



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

Independent Auditor's Report

Board of County Commissioners
Lac qui Parle County

We have audited, 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, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Lac qui Parle County, Minnesota as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 26, 2013. Our report includes a reference to other auditors. Other auditors audited the financial statements of the Lac qui Parle County Economic Development Authority, a component unit, as described in our report on Lac qui Parle County's financial statements. This report does not include the results of other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lac qui Parle County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 99-1, 06-7, 09-4, 11-1, 11-2, and 12-1, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lac qui Parle County's financial statements are free from 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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Lac qui Parle County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as items 96-1 and 12-4 through 12-6. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

Lac qui Parle County's responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 26, 2013

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Lac qui Parle County

Report on Compliance for Each Major Federal Program

We have audited Lac qui Parle County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2012. Lac qui Parle County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

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

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Lac qui Parle County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally

accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lac qui Parle County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Lac qui Parle County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 12-2 and 12-3. Our opinion on each major federal program is not modified with respect to these matters.

Lac qui Parle County's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. Lac qui Parle County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of Lac qui Parle County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance as described in the accompanying Schedule of Findings and Questioned Costs as items 12-2 and 12-3 that we consider to be significant deficiencies.

Lac qui Parle County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. Lac qui Parle County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 26, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR