STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

LINCOLN COUNTY
IVANHOE, MINNESOTA

YEAR ENDED DECEMBER 31, 2007

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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LINCOLN COUNTY
IVANHOE, MINNESOTA

Year Ended December 31, 2007

Audit Practice Division
Office of the State Auditor
State of Minnesota

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LINCOLN COUNTY
IVANHOE, MINNESOTA

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LINCOLN COUNTY
IVANHOE, MINNESOTA

ORGANIZATION
2007

Office	Name	Term Expires
Commissioners		
1st District	Jim Johansen	January 2009
2nd District	Larry Hansen	January 2011
3rd District	Deane Sagmoe	January 2009
4th District	Curtis Blumeyer[1]	January 2011
5th District	Joan Jagt[2]	January 2009
Officers		
Elected		
Attorney	Glen Petersen	January 2011
Auditor	Kathy Schreurs	January 2011
Recorder	Loretta Lundberg	January 2011
Sheriff	Jack Vizecky	January 2011
Treasurer	Mark R. Leibfried	January 2011
Appointed		
Acting Assessor	Bruce Nielsen	Indefinite
Coroner	Richard D. Mulder, M.D.	Indefinite
Environmental Officer	Robert Olsen	Indefinite
Highway Engineer	Lee Amundson	Indefinite
Veterans Service Officer	Gary Serie	Indefinite
Emergency Management	Norm VanOverbeke	Indefinite
Transit	Cara Nielsen	Indefinite
Maintenance	Craig Larson	Indefinite

[1]Chair 2007
[2]Chair 2008

LINCOLN COUNTY
IVANHOE, MINNESOTA

ORGANIZATION SCHEDULE
LAKE BENTON LAKE IMPROVEMENT DISTRICT
BOARD OF DIRECTORS
2007

Name	Position
Director	
Sam Hedge	Chair
Greg Peter	Vice Chair
Ed Gruhot	Treasurer
L. W. Kline	Secretary
Joseph Weber	Member
Mark McCallum	Member
Betty Popkes	Member
Staff	
Glen Petersen	Attorney

Financial Section

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Lincoln County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lincoln County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lincoln County as of December 31, 2007, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the budgetary comparison schedules 1 through 4 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2009, on our consideration of Lincoln County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

April 21, 2009

MANAGEMENT’S DISCUSSION AND ANALYSIS

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LINCOLN COUNTY
IVANHOE, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(Unaudited)

As management of Lincoln County, Minnesota, we offer the readers of the Lincoln County financial statements this narrative overview and analysis of its financial activities for the fiscal year ended December 31, 2007. We encourage readers to consider the information presented here in conjunction with the basic financial statements that follow this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- The assets of Lincoln County exceeded its liabilities on December 31, 2007, by $37,379,656 (net assets). Of this amount, $6,458,628 (unrestricted net assets) may be used to meet the County's ongoing obligations to citizens and creditors.

- Lincoln County's total net assets increased by $971,043 in 2007. This shows up primarily in the County's investment in capital assets, net of accumulated depreciation.

- As of the close of 2007, Lincoln County's governmental funds reported combined ending fund balances of $6,852,965, an increase of $363,165 in comparison with 2006. Of this balance amount, $4,927,486 was unreserved and undesignated by Lincoln County, and thus available for spending at the County's discretion.

- At the end of 2007, unreserved, undesignated fund balance for the General Fund was $2,232,219, or 56 percent, of the total General Fund expenditures for that year.

- Lincoln County's total debt increased by $155,330, or 4.8 percent, during 2007. The key factor in this increase was the "LAW" and "FIRE" channel upgrade in communications equipment.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

The government-wide financial statements include not only Lincoln County (known as the primary government), but also a legally separate entity known as Lake Benton Lake Improvement District, for which Lincoln County is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

Fund Level Statements

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

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

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

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

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

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 through 53 of this report.

Other Information

Other information is provided in addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The budgetary comparison for the Jail Facility Debt Service Fund, combining statements referred to earlier in connection with fiduciary funds, component unit statements, and information regarding Lincoln County's intergovernmental revenues are presented.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. Lincoln County's assets exceeded liabilities by $37,379,656 at the close of 2007. The largest portion of Lincoln County's net assets (80 percent) reflects the County's investment in capital assets (for example, land, buildings, equipment, and infrastructure such as roads and bridges), less any related debt used to acquire those assets (that is still outstanding). However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

Net Assets

	Governmental Activities	
	2007	2006
Assets		
Current and other assets	$ 9,100,380	$ 9,736,866
Capital assets	31,945,318	30,389,427
Total Assets	$ 41,045,698	$ 40,126,293
Liabilities		
Long-term liabilities	$ 3,078,105	$ 2,966,686
Other liabilities	587,937	750,994
Total Liabilities	$ 3,666,042	$ 3,717,680
Net Assets		
Invested in capital assets, net of related debt	$ 30,055,263	$ 28,572,723
Restricted	865,765	1,894,703
Unrestricted	6,458,628	5,941,187
Total Net Assets	$ 37,379,656	$ 36,408,613

The unrestricted net assets amount of $6,458,628 as of December 31, 2007, may be used to meet the County's ongoing obligations to citizens and creditors.

Governmental Activities

Lincoln County's activities increased Lincoln County's net assets during 2007 by $971,043, representing a 2.7 percent increase, primarily because of the County's investment in capital assets. Key elements in this increase in net assets are as follows:

Changes in Net Assets

	2007	2006
Revenues		
Program revenues		
Charges for services	$ 866,621	$ 1,262,786
Operating grants and contributions	2,806,333	3,386,926
Capital grants and contributions	122,589	519,333
General revenues		
Property taxes	3,188,803	2,834,907
Other	1,852,204	1,790,273
Total Revenues	$ 8,836,550	$ 9,794,225

	2007	2006
Expenses		
General government	$ 1,554,092	$ 1,485,807
Public safety	1,048,086	895,554
Highways and streets	3,091,216	2,979,961
Sanitation	143,830	110,956
Human services	915,622	832,102
Health	37,121	37,087
Culture and recreation	194,845	194,921
Conservation of natural resources	688,096	949,681
Economic development	107,426	53,351
Interest	85,173	96,259
Total Expenses	$ 7,865,507	$ 7,635,679
Increase in Net Assets	$ 971,043	$ 2,158,546
Net Assets - January 1	36,408,613	34,250,067
Net Assets - December 31	$ 37,379,656	$ 36,408,613

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, Lincoln County's governmental funds reported combined ending fund balances of $6,852,965, an increase of $363,165 in comparison with the prior year. Of the ending fund balance, $5,922,621 represents unreserved fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons.

The General Fund is the chief operating fund for Lincoln County. At the end of the current fiscal year, it had an unreserved fund balance of $3,146,354. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. General Fund unreserved fund balance represents 78 percent of total General Fund expenditures. In 2007, fund balance in the General Fund increased by $323,953. The primary reasons for this increase were increases in taxes, special assessments, investment earnings, and other financing sources, and reductions in other financing uses and expenditures of general government and conservation of natural resources.

The Road and Bridge Special Revenue Fund’s unreserved fund balance of $2,226,254 at year-end represents 49 percent of the fund’s annual expenditures. Unreserved fund balance increased $22,580 during 2007, primarily due to the reduction of road projects and costs associated with those projects.

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

The Ditch Special Revenue Fund had an unreserved ending balance of $262,922. This ending balance represents a $25,019 decrease in fund balance from the prior year. The decrease is attributed to more than expected repair expenditures for the various County ditches.

General Fund Budgetary Highlights

The final General Fund expenditure budget exceeded the original amended budget by $87,096.

Actual General Fund revenues exceeded final budgeted revenues by $384,816, primarily due to more pass-through intergovernmental receipts and more than expected investment earnings.

Actual expenditures exceeded final budgeted expenditures by $326,407. The more than expected expenditures reflect higher than anticipated operating costs. Water quality loan program expenses of $178,232 were not included in the 2007 budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Lincoln County’s depreciable capital assets for its governmental activities at December 31, 2007, totaled $31,366,805 (net of accumulated depreciation). This investment in capital assets includes land improvements, buildings, equipment, and infrastructure. The County’s investment in depreciable capital assets increased $1,555,073, or 5.2 percent, from the previous year. The major capital asset event was Road and Bridge projects of $2.0 million.

Governmental Capital Assets

	2007	2006
Depreciable capital assets		
Land improvements	$ 260,014	$ 254,940
Buildings	4,173,797	4,134,598
Machinery and equipment	3,867,429	3,463,345
Infrastructure	34,123,447	32,123,231
Total depreciable capital assets	$ 42,424,687	$ 39,976,114
Less: accumulated depreciation for		
Land improvements	$ 108,328	$ 99,452
Buildings	888,542	790,578
Machinery and equipment	2,692,527	2,551,665
Infrastructure	7,368,485	6,722,687
Total accumulated depreciation	$ 11,057,882	$ 10,164,382
Total Capital Assets Depreciated, Net	$ 31,366,805	$ 29,811,732

Additional information on the County's capital assets can be found in Note 3.A.3. in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the County had a total outstanding debt of $3,388,855 for governmental activities, which was backed by the full faith and credit of the government. Other liabilities and contingencies are described in the notes to the financial statements.

Outstanding Debt

	2007	2006
Special assessment debt	$ -	$ 12,000
General obligation bonds	1,685,000	1,790,000
Leases payable	205,055	26,704
Loans payable	1,337,639	1,259,277
Compensated absences	161,161	145,544
Total	$ 3,388,855	$ 3,233,525

The County's debt related to special assessment obligation bonds and notes decreased by $12,000 (100 percent) during the fiscal year due to repayment of principal. General obligation bonded debt decreased by $105,000 (6 percent) during the fiscal year due to repayment of principal of the 2004 G.O. Refunding Bonds. The increase in leases payable is due to the lease/purchase of "LAW" and "FIRE" channel upgrade communications equipment.

Minnesota statutes limit the amount of debt a county may levy to two percent of its total market value of $694,537,600. At the end of 2007, Lincoln County's debt was less than one percent of its total market value.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The unemployment rate for Lincoln County at the end of 2007 was 4.6 percent. This compares with the state unemployment rate of 4.6 percent and shows an increase from the 4.2 percent rate of one year ago.

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

On December 19, 2006, the Lincoln County Board of Commissioners approved the 2007 budget and adopted a property tax levy of $3,573,497, which represents a 9.53 percent increase over the 2006 property tax levy of $3,262,590.

LAKE BENTON LAKE IMPROVEMENT DISTRICT

Lake Benton Lake Improvement 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

The Lake Benton Lake Improvement District's governmental activities' total net assets are a deficit of $200,560. The District had immaterial activity in 2004 and became a component unit of Lincoln County in 2005.

Government-Wide Financial Analysis

Over time, net assets serve as a useful indicator of the District's financial position. The District's liabilities exceeded assets by $200,560 at the close of 2007.

Lake Benton Lake Improvement District Net Assets

		Governmental Activities 2007
Assets		
Current and other assets	$	13,005
Liabilities		
Due to primary government		213,565
Net Assets		
Restricted	$	(200,560)

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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LINCOLN COUNTY
IVANHOE, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS
DECEMBER 31, 2007

	Primary Government Governmental Activities	Lake Benton Lake Improvement District Component Unit
Assets		
Cash and pooled investments	$ 6,482,470	$ -
Receivables - net	2,061,854	13,005
Due from component unit	209,565	-
Inventories	324,320	-
Prepaid items	1,145	-
Deferred charges	21,026	-
Capital assets		
Nondepreciable capital assets	578,513	-
Depreciable capital assets - net of accumulated depreciation	31,366,805	-
Total Assets	**$ 41,045,698**	**$ 13,005**
Liabilities		
Accounts payable and other current liabilities	$ 275,730	$ -
Due to primary government	-	9,565
Accrued interest payable	26,832	4,000
Long-term liabilities		
Due within one year	285,375	21,840
Due in more than one year	3,078,105	178,160
Total Liabilities	**$ 3,666,042**	**$ 213,565**
Net Assets		
Invested in capital assets, net of related debt	$ 30,055,263	$ -
Restricted for		
Debt service	263,845	-
Public safety	78,344	-
Highways and streets	440,181	-
Conservation of natural resources	6,355	-
Other purposes	77,040	-
Unrestricted	6,458,628	(200,560)
Total Net Assets	**$ 37,379,656**	**$ (200,560)**

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

LINCOLN COUNTY
IVANHOE, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Primary Government		
Governmental activities		
General government	$ 1,554,092	$ 247,865
Public safety	1,048,086	52,289
Highways and streets	3,091,216	147,224
Sanitation	143,830	77,225
Human services	915,622	-
Health	37,121	-
Culture and recreation	194,845	87,397
Conservation of natural resources	688,096	254,621
Economic development	107,426	-
Interest	85,173	-
Total Primary Government	**$ 7,865,507**	**$ 866,621**
Component Unit		
Lake Benton Lake Improvement District	**$ 159,120**	**$ 6,215**

General Revenues
Property taxes
Mortgage registry and deed tax
Wind production tax
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Investment earnings
Miscellaneous

Total general revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Lake Benton Lake Improvement District Component Unit
$ 130,510	$ 1,400	$ (1,174,317)	
125,952	-	(869,845)	
2,400,648	121,189	(422,155)	
52,039	-	(14,566)	
-	-	(915,622)	
-	-	(37,121)	
22,390	-	(85,058)	
-	-	(433,475)	
74,794	-	(32,632)	
-	-	(85,173)	
$ 2,806,333	**$ 122,589**	**$ (4,069,964)**	
$ 43,500	**$ -**		**$ (109,405)**
		$ 3,188,803	$ 23,162
		3,914	-
		355,844	-
		65,330	-
		982,618	6,452
		327,152	-
		117,346	206
		$ 5,041,007	**$ 29,820**
		$ 971,043	**$ (79,585)**
		36,408,613	**(120,975)**
		$ 37,379,656	**$ (200,560)**

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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LINCOLN COUNTY
IVANHOE, MINNESOTA

EXHIBIT 3

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	General	Road and Bridge	Human Services	Ditch	Jail Facility Debt Service	Total
Assets						
Cash and pooled investments	$ 3,364,573	$ 2,357,502	$ -	$ 273,676	$ 284,450	$ 6,280,201
Undistributed cash in agency funds	170,909	13,905	12,633	441	2,641	200,529
Petty cash and change funds	1,740	-	-	-	-	1,740
Taxes receivable						
Prior	25,323	18,338	16,610	-	3,586	63,857
Special assessments receivable						
Prior	7,843	-	-	873	-	8,716
Noncurrent	1,165,620	-	-	50,752	-	1,216,372
Accounts receivable	16,997	379	-	-	-	17,376
Accrued interest receivable	53,412	-	-	-	-	53,412
Due from other funds	7,000	-	-	-	-	7,000
Due from other governments	66,258	634,886	-	-	-	701,144
Due from component unit	209,565	-	-	-	-	209,565
Advance to other funds	977	-	-	-	-	977
Inventories	-	324,320	-	-	-	324,320
Prepaid items	1,145	-	-	-	-	1,145
Total Assets	**$ 5,091,362**	**$ 3,349,330**	**$ 29,243**	**$ 325,742**	**$ 290,677**	**$ 9,086,354**

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

LINCOLN COUNTY
IVANHOE, MINNESOTA

EXHIBIT 3
(Continued)

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	General	Road and Bridge	Human Services	Ditch	Jail Facility Debt Service	Total
Liabilities and Fund Balances						
Liabilities						
Accounts payable	$ 52,646	$ 10,238	$ -	$ 265	$ -	$ 63,149
Salaries payable	68,393	35,871	-	-	-	104,264
Contracts payable	-	46,200	-	-	-	46,200
Due to other funds	-	-	-	7,000	-	7,000
Due to other governments	45,554	-	12,633	3,930	-	62,117
Deferred revenue - unavailable	1,228,548	650,290	16,610	51,625	3,586	1,950,659
Total Liabilities	**$ 1,395,141**	**$ 742,599**	**$ 29,243**	**$ 62,820**	**$ 3,586**	**$ 2,233,389**
Fund Balances						
Reserved for						
Encumbrances	$ -	$ 56,157	$ -	$ -	$ -	$ 56,157
Inventories	-	324,320	-	-	-	324,320
Prepaid items	1,145	-	-	-	-	1,145
Missing heirs	268	-	-	-	-	268
Recorder's technology fund	22,035	-	-	-	-	22,035
Recorder's compliance fund	44,632	-	-	-	-	44,632
Enhanced 911	60,706	-	-	-	-	60,706
Sheriff's contingency	14,963	-	-	-	-	14,963
Gun permit fees	2,675	-	-	-	-	2,675
Due from component unit	209,565	-	-	-	-	209,565
Probation supervision fees	10,063	-	-	-	-	10,063
Septic/sewer loans	167,355	-	-	-	-	167,355
Election equipment	10,105	-	-	-	-	10,105
Unspent grant monies	6,355	-	-	-	-	6,355
Unreserved						
Designated for						
Future expenditures	870,430	81,000	-	-	-	951,430
Recycling	43,705	-	-	-	-	43,705
Undesignated	2,232,219	2,145,254	-	262,922	287,091	4,927,486
Total Fund Balances	**$ 3,696,221**	**$ 2,606,731**	**$ -**	**$ 262,922**	**$ 287,091**	**$ 6,852,965**
Total Liabilities and Fund Balances	**$ 5,091,362**	**$ 3,349,330**	**$ 29,243**	**$ 325,742**	**$ 290,677**	**$ 9,086,354**

LINCOLN COUNTY
IVANHOE, MINNESOTA

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007

Fund balances - total governmental funds (Exhibit 3)			$	**6,852,965**
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.				31,945,318
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.				1,950,659
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.				
General obligation bonds	$	(1,685,000)		
Capital leases		(205,055)		
Loans payable		(1,337,639)		
Compensated absences		(161,161)		
Accrued interest payable		(26,832)		
Unamortized discount on G.O. bonds		25,375		
Deferred debt issuance charges		21,026		(3,369,286)
Net Assets of Governmental Activities (Exhibit 1)			**$**	**37,379,656**

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

LINCOLN COUNTY
IVANHOE, MINNESOTA

EXHIBIT 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	General	Road and Bridge	Human Services	Ditch	Jail Facility Debt Service	Total
Revenues						
Taxes	$ 1,666,006	$ 888,715	$ 807,207	$ -	$ 168,566	$ 3,530,494
Special assessments	210,903	-	-	33,096	-	243,999
Licenses and permits	8,660	22,650	-	-	-	31,310
Intergovernmental	1,203,710	3,484,137	108,415	-	22,608	4,818,870
Charges for services	277,297	56,028	-	-	-	333,325
Fines and forfeits	7,017	-	-	-	-	7,017
Gifts and contributions	1,000	-	-	-	-	1,000
Investment earnings	314,218	-	-	-	-	314,218
Miscellaneous	260,057	76,806	-	1,531	-	338,394
Total Revenues	**$ 3,948,868**	**$ 4,528,336**	**$ 915,622**	**$ 34,627**	**$ 191,174**	**$ 9,618,627**
Expenditures						
Current						
General government	$ 1,540,660	$ -	$ -	$ -	$ -	$ 1,540,660
Public safety	1,196,159	-	-	-	-	1,196,159
Highways and streets	-	4,331,645	-	-	-	4,331,645
Sanitation	143,830	-	-	-	-	143,830
Health	455	-	-	-	-	455
Culture and recreation	205,425	-	-	-	-	205,425
Conservation of natural resources	644,132	-	-	50,539	-	694,671
Economic development	107,426	-	-	-	-	107,426
Intergovernmental	36,666	192,928	915,622	-	-	1,145,216
Debt service						
Principal	125,017	-	-	12,000	105,000	242,017
Interest	16,253	-	-	345	65,973	82,571
Administrative (fiscal) fees	-	-	-	-	403	403
Total Expenditures	**$ 4,016,023**	**$ 4,524,573**	**$ 915,622**	**$ 62,884**	**$ 171,376**	**$ 9,690,478**
Excess of Revenues Over (Under) Expenditures	**$ (67,155)**	**$ 3,763**	**$ -**	**$ (28,257)**	**$ 19,798**	**$ (71,851)**
Other Financing Sources (Uses)						
Transfers in	$ 21,519	$ 4,787	$ -	$ 3,238	$ -	$ 29,544
Transfers out	(8,025)	(21,519)	-	-	-	(29,544)
Capital lease/installment purchase	199,282	-	-	-	-	199,282
Loans issued	178,332	-	-	-	-	178,332
Total Other Financing Sources (Uses)	**$ 391,108**	**$ (16,732)**	**$ -**	**$ 3,238**	**$ -**	**$ 377,614**
Net Change in Fund Balances	**$ 323,953**	**$ (12,969)**	**$ -**	**$ (25,019)**	**$ 19,798**	**$ 305,763**
Fund Balances - January 1	**3,372,268**	**2,562,298**	**-**	**287,941**	**267,293**	**6,489,800**
Increase (decrease) in reserved for inventories	**-**	**57,402**	**-**	**-**	**-**	**57,402**
Fund Balances - December 31	**$ 3,696,221**	**$ 2,606,731**	**$ -**	**$ 262,922**	**$ 287,091**	**$ 6,852,965**

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

LINCOLN COUNTY
IVANHOE, MINNESOTA

EXHIBIT 6

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2007

Net change in fund balances - total governmental funds (Exhibit 5)			$	**305,763**
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 revenues between the fund statements and the statement of activities is the increase or decrease in revenues deferred as unavailable.				
Deferred revenue - December 31	$	1,950,659		
Deferred revenue - January 1		(2,741,143)		(790,484)
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.				
Expenditures for general capital assets, including infrastructure	$	2,635,960		
Current year depreciation		(1,080,069)		1,555,891
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.				
Principal repayments				
General obligation bonds	$	117,000		
Loans payable		104,086		
Capital leases		20,931		242,017
Debt issuance proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The net proceeds for debt issuance are:				
Septic/ISTS loans	$	(182,448)		
Capital lease/installment purchase		(199,282)		(381,730)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.				
Change in accrued interest payable	$	1,371		
Amortization of discounts and deferred issuance charges		(3,570)		
Change in compensated absences		(15,617)		
Change in inventories		57,402		39,586
Change in Net Assets of Governmental Activities (Exhibit 2)			**$**	**971,043**

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FIDUCIARY FUNDS

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LINCOLN COUNTY
IVANHOE, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2007

Assets		
Cash and pooled investments	$	113,721
Due from other governments		977
Total Assets	**$**	**114,698**
Liabilities		
Due to other governments	$	113,721
Advance from other funds		977
Total Liabilities	**$**	**114,698**

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

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1. Summary of Significant Accounting Policies

Lincoln County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2007. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. More significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Discretely Presented Component Unit

While part of the reporting entity, the discretely presented component unit is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County. Disclosures relating to the discretely presented component unit are reported with those of the primary government. The County's significant accounting policies are also used by the discretely presented component unit. The following component unit of Lincoln County is discretely presented:

Component Unit	Component Unit Included in Reporting Entity Because	Separate Financial Statements
Lake Benton Lake Improvement District	County is financially accountable for the District as a result of fiscal dependency; the District cannot levy taxes without County Board approval.	Separate financial statements are not prepared.

1. Summary of Significant Accounting Policies

   A. Financial Reporting Entity (Continued)

   The County participates in several joint ventures described in Note 6.D. The County also participates in jointly-governed organizations and a related organization described in Note 6.E. and Note 6.F., respectively.

   B. Basic Financial Statements

   1. Government-Wide Statements

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

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

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

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements (Continued)

      2. Fund Financial Statements

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

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

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

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

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

         The County reports no proprietary funds.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

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

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. Lincoln 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 long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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.

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at fair value at December 31, 2007, 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 2007 were $299,360.

Lincoln County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

2. Receivables and Payables

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

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

All receivables are shown net of an allowance for uncollectibles.

1. Summary of Significant Accounting Policies

   D. Assets, Liabilities, and Net Assets or Equity

      2. Receivables and Payables (Continued)

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

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

      3. Inventories and Prepaid Items

         All inventories are valued at cost using the first in/first out (FIFO) method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. 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 applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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:

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

5. Compensated Absences

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

6. Deferred Revenue

Governmental 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 not considered to be available to liquidate liabilities of the current period.

1. Summary of Significant Accounting Policies

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

7. Long-Term Obligations

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

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

8. Fund Equity

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

9. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Deficit Fund Equity

The Lake Benton Lake Improvement District discretely presented component unit had deficit net assets as of December 31, 2007, of $200,560. The deficit will be eliminated through future tax levies.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets		
Cash and pooled investments		
Primary government	$	6,482,470
Agency funds		
Cash and pooled investments		113,721
Total Cash and Investments	$	6,596,191

Deposits		
Checking	$	164,270
Money market savings		109,432
Certificates of deposit		684,294
Invested in MAGIC Fund		3,231,402
Invested in U.S. government agency securities		7,053
Invested in negotiable certificates of deposit		2,398,000
Petty cash and change funds		1,740
Total Deposits, Cash on Hand, and Investments	$	6,596,191

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable 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 that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2007, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

(1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

(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 that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

(6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

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's investment policy is to invest in both short-term and long-term investments to limit exposure to interest rate risk.

3. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments

         b. Investments (Continued)

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. The MAGIC Fund was not rated, and none of the other County investments were required to be rated.

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 in the possession of an outside party. The County does not have an investment policy for custodial credit risk. At December 31, 2007, $1,905,053 of negotiable certificates of deposit held by brokers were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy that U.S. Treasury securities, U.S. agency securities, and obligations backed by U.S. Treasury and/or U.S. agency securities, may be held without limit.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's cash and investment balances at December 31, 2007, and information relating to potential investment risks:

Investment Type	Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
U.S. government agency securities			
Government National Mortgage Association		12/15/2016	$ 7,053
Investment pools/mutual funds			
MAGIC Fund	N/A	N/A	$ 3,231,402
Negotiable certificates of deposit			
Carolina First Bank		04/17/2008	$ 97,000
Bank Baroda		02/28/2008	95,000
Grand Bank		12/18/2008	95,000
Westbound Bank		06/23/2008	96,000
Center Bank		11/26/2008	95,000
Commercial Bank		05/13/2009	95,000
Colonial Bank		11/14/2008	95,000
E-Trade Bank		11/28/2008	95,000
Professional Business Bank		05/20/2010	95,000
Coastal Bank		11/07/2008	95,000
Discover Bank		09/15/2008	96,000
First City Bank		05/22/2008	96,000
Bancorp Bank		02/11/2008	95,000
State Bank India		10/30/2008	95,000
Midfirst Bank		10/24/2008	95,000
Community National Bank		06/17/2008	97,000
Columbus Bank and Trust		03/07/2008	95,000
National Bank		03/07/2008	95,000
GMAC Bank		09/12/2008	95,000
Fidelity Bank		08/29/2008	95,000
Dallas City Bank		12/05/2008	95,000
Peoples Bank		07/28/2008	99,000
Bank of Little Rock		01/22/2008	99,000
Cresent Bank and Trust		06/13/2008	99,000
Country Wide Bank		09/27/2008	99,000
Total negotiable certificates of deposit	N/A		$ 2,398,000
Total investments			$ 5,636,455
Checking			164,270
Money market savings			109,432
Certificates of deposit			684,294
Petty cash			1,740
Total Cash and Investments			$ 6,596,191

N/A - Not Applicable

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2007, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	$ 63,857	$ -
Special assessments	1,225,088	1,060,442
Accounts	17,376	-
Interest	53,412	-
Loans	977	-
Due from other governments	701,144	-
Total Governmental Activities	$ 2,061,854	$ 1,060,442

Governmental activities and the General Fund also report a $209,565 receivable from the Lake Benton Lake Improvement District component unit. Of this receivable, $31,405 is expected to be received within the next year.

3. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 269,531	$ -	$ -	$ 269,531
Right-of-way	308,164	818	-	308,982
Total capital assets not depreciated	$ 577,695	$ 818	$ -	$ 578,513

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Land improvements	$ 254,940	$ 5,074	$ -	$ 260,014
Buildings	4,134,598	39,199	-	4,173,797
Machinery and equipment	3,463,345	590,653	186,569	3,867,429
Infrastructure	32,123,231	2,000,216	-	34,123,447
Total capital assets depreciated	$ 39,976,114	$ 2,635,142	$ 186,569	$ 42,424,687
Less: accumulated depreciation for				
Land improvements	$ 99,452	$ 8,876	$ -	$ 108,328
Buildings	790,578	97,964	-	888,542
Machinery and equipment	2,551,665	327,431	186,569	2,692,527
Infrastructure	6,722,687	645,798	-	7,368,485
Total accumulated depreciation	$ 10,164,382	$ 1,080,069	$ 186,569	$ 11,057,882
Total capital assets depreciated, net	$ 29,811,732	$ 1,555,073	$ -	$ 31,366,805
Governmental Activities Capital Assets, Net	$ 30,389,427	$ 1,555,891	$ -	$ 31,945,318

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

Governmental Activities	
General government	$ 41,107
Public safety	111,736
Highways and streets, including depreciation of infrastructure assets	914,312
Culture and recreation	9,111
Conservation of natural resources	3,803
Total Depreciation Expense - Governmental Activities	$ 1,080,069

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances and transfers as of and for the year ended December 31, 2007, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Special Revenue Fund	$ 7,000

The outstanding balance between funds results from loans made by the General Fund to two individual ditch systems. The balance is expected to be liquidated in the subsequent year.

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Southwest Regional Solid Waste Commission Agency Fund	$ 977

The advance is for the deficit cash in the agency fund at December 31, 2007. The balance is expected to be liquidated in the subsequent year.

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2007, consisted of the following:

Transfer to Road and Bridge Fund from General Fund	$ 4,787	Interest earnings
Transfer to Ditch Fund from General Fund	3,238	Interest earnings
Transfer to General Fund from Road and Bridge Fund	21,519	Self-insurance
Total Interfund Transfers	$ 29,544	

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2007, were as follows:

	Governmental Activities
Accounts	$ 63,149
Salaries	104,264
Contracts	46,200
Due to other governments	62,117
Total Payables	$ 275,730

2. Construction Commitments

The government has active construction projects as of December 31, 2007. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Roads and bridges	$ 22,638	$ 56,157

3. Capital Leases

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

In 2007, the County entered into a $182,557 capital lease agreement with Alpha Wireless for upgrade to existing "LAW" and "FIRE" channels. The agreement calls for an $80,000 down payment and 72 monthly payments of $2,935, including principal and interest (plus sales tax and maintenance), at an interest rate of 4.94 percent starting December 1, 2007.

3. Detailed Notes on All Funds

C. Liabilities

3. Capital Leases (Continued)

In 2007, the County entered into a $16,725 installment agreement at zero percent interest with CNH Capital for the purchase of a New Holland Tractor and Farm King Mower. The agreement is to pay $4,181 yearly installments starting January 2008. The first payment was made in December 2007.

These lease agreements qualify as capital leases for accounting purposes and therefore have been recorded at the present value of the future minimum lease payments as of the inception date. They consist of the following at December 31, 2007:

Capital Lease	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2007
E-911 equipment	2008	$ 1,214	None stated	$ 81,520	$ 12,138
"LAW" & "FIRE" Channel Upgrade	2013	2,935	4.94%	182,557	180,373
Tractor and Mower	2012	4,181	None stated	16,725	12,544
Total Capital Leases				$ 280,802	$ 205,055

Payments on the capital leases are made from the General Fund. The future lease obligations and the net present value of these minimum lease payments as of December 31, 2007, were as follows:

Year Ending December 31	Governmental Activities
2008	$ 51,539
2009	39,401
2010	39,402
2011	35,220
2012	35,220
2013	32,284
Total minimum lease payments	$ 233,066
Less: amount representing interest	(28,011)
Present Value of Minimum Lease Payments	$ 205,055

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Long-Term Debt

Loans Payable

In 2002, the County agreed to act as loan and project sponsor for a project loan agreement made under the Clean Water Partnership Law with the State of Minnesota through the Minnesota Pollution Control Agency (PCA) and the Minnesota Department of Agriculture. The County is required to repay the funds. All loans are secured by special assessments placed on the individual parcels requesting repair of a failing system. Loan payments are reported in the General Fund.

General Obligation Bonds

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2007
General obligation bonds					
2004 G.O. Refunding Bonds	2020	$105,000 - $160,000	3.00 - 4.45	$ 1,790,000	$ 1,685,000
Less: unamortized discount					(25,375)
Total General Obligation Bonds, Net					$ 1,659,625

5. Debt Service Requirements

Debt service requirements at December 31, 2007, were as follows:

Year Ending December 31	General Obligation Bonds Principal	General Obligation Bonds Interest	Loans Payable Principal	Loans Payable Interest
2008	$ 110,000	$ 62,748	$ 120,036	$ 16,142
2009	110,000	59,447	120,844	14,070
2010	115,000	55,957	118,601	11,956
2011	115,000	52,105	117,410	9,799
2012	120,000	47,963	115,339	7,600
2013 - 2017	655,000	167,519	306,045	10,797
2018 - 2020	460,000	30,775	-	-
Total	$ 1,685,000	$ 476,514	$ 898,275	$ 70,364

3. Detailed Notes on All Funds

C. Liabilities

5. Debt Service Requirements (Continued)

Loans payable to the PCA of $439,364 do not have fixed amortization schedules at December 31, 2007, and are not included in the table on page 41.

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Special assessment debt with government commitment	$ 12,000	$ -	$ 12,000	$ -	$ -
General obligation bonds	1,790,000	-	105,000	1,685,000	110,000
Leases payable	26,704	199,282	20,931	205,055	43,232
Loans payable	1,259,277	182,448	104,086	1,337,639	120,036
Compensated absences	145,544	15,617	-	161,161	12,107
Long-Term Liabilities	$ 3,233,525	$ 397,347	$ 242,017	$ 3,388,855	$ 285,375

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Lincoln County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public 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.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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.

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

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

For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all Public Employees Retirement Fund members 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. A reduced retirement annuity is also available to eligible members seeking early retirement.

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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 Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent. Public Employees Police and Fire Fund members were required to contribute 7.80 percent of their annual covered salary in 2007. That rate increased to 8.60 percent in 2008. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2007 and 2008:

	2007	2008
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.25	6.50
Public Employees Police and Fire Fund	11.70	12.90
Public Employees Correctional Fund	8.75	8.75

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2007, 2006, and 2005, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2007	2006	2005
Public Employees Retirement Fund	$ 111,171	$ 100,068	$ 89,725
Public Employees Police and Fire Fund	20,282	16,563	14,836
Public Employees Correctional Fund	3,212	2,909	2,632

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

B. Defined Contribution Plan

One employee is covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA in accordance with Minn. Stat. ch. 353D. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

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

4. Employee Retirement Systems and Pension Plans

   B. Defined Contribution Plan (Continued)

   Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2007, were:

	Employee	Employer
Contribution amount	$ 664	$ 664
Percentage of covered payroll	5.00%	5.00%

   Required contribution rates were 5.00 percent.

5. Conduit Debt

In 2001, Lincoln County issued variable rate (3.00 percent to 3.85 percent) General Obligation Refunding Bonds of 2001 in the amount of $3,045,000 for Lincoln-Pipestone Rural Water System to redeem and prepay the General Obligation Refunding Bonds of 1995, which were issued to refund, in advance of their maturity, the outstanding principal amount of the General Obligation Refunding Bonds, Series 1988 (the 1988 Bonds), and to pay the costs of issuance. The 1988 Bonds were issued to refund outstanding prior bonds which were issued to finance, in part, construction and extension of the Rural Water System.

The County issued variable rate (2.50 percent to 4.125 percent) General Obligation Water System Refunding Bonds, Series 2003A, in the amount of $1,890,000 in 2003 for Lincoln-Pipestone Rural Water System to redeem and prepay the outstanding principal amount of the General Obligation Water System Bonds, Series 1994A and Series 1994B, and to pay the costs of issuance of the bonds.

In 2005, the County issued variable rate (3.50 percent to 4.30 percent) General Obligation Refunding Bonds, Series 2005A, in the amount of $4,565,000 for Lincoln-Pipestone Rural Water System to redeem and prepay principal maturities of General Obligation Refunding Bonds of 1998, Series B, and to pay the costs of issuance of the bonds. The 1998 bonds were issued in order to refinance outstanding obligations originally issued to finance improvements and extensions to the Rural Water System.

5. Conduit Debt (Continued)

The above listed debt is paid from special assessments levied against property specially benefited by the extension and 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. However, the bonds are general obligations of Lincoln County for which its full faith, credit, and unlimited taxing powers are pledged.

The bonds are not reported as liabilities in the financial statements. The outstanding balance at December 31, 2007, is $6,985,000.

6. Summary of Significant Contingencies and Other Items

A. Risk Management

The County and the Lake Benton Lake Improvement District are exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. 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 $400,000 per claim in 2007 and $410,000 per claim in 2008. 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.

6. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The Southwest/West Central Service Cooperative (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. For 2007, the County retained the risk of loss after the $500 initial employee deductible through the first $4,000 of claims for the coverage of each employee. The County has contracted with Hanratty and Associates to administer the County's health claims for which the risk has been retained by the County. Claims are recognized as they are paid. The amount of claims incurred at the balance sheet date which have not been accrued in the financial statements is immaterial.

B. Subsequent Events

On September 11, 2008, Lincoln County issued General Obligation Capital Improvement Plan Bonds, Series 2008A, in the amount of $750,000, with an interest rate of 4.15 percent, to finance the costs of replacing windows and upgrading the air conditioning in the Courthouse.

C. Contingent Liabilities

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

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

6. <u>Summary of Significant Contingencies and Other Items</u> (Continued)

D. <u>Joint Ventures</u>

<u>Lincoln, Lyon, & Murray Human Services</u>

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

Lincoln County	20.90%
Lyon County	54.77
Murray County	24.33

LLMHS is governed by two County Commissioners from each of the participating counties, who are chosen by their respective County Boards, and one lay person from each participating County. At least one lay Board member is to be a woman. Financing is provided by state grants and appropriations from member counties.

Lincoln County's contribution in 2007 was $1,021,389.

At December 31, 2007, LLMHS reported a total fund balance of $3,850,861. In addition, LLMHS reported total net assets of $3,476,003. LLMHS's long-term debt at December 31, 2007, is composed of $455,377 of compensated absences payable. The debt will be funded by intergovernmental revenue and revenue from computer services.

Complete financial statements of Lincoln, Lyon, & Murray Human Services can be obtained at 607 West Main, Marshall, Minnesota 56258.

<u>Lincoln, Lyon, Murray, Pipestone Public Health Services</u>

Lincoln County has joined with other surrounding counties to form a community health service agency under the authority of Minn. Stat. ch. 145A and Minn. Stat. § 471.59. This agency is known as the Lincoln, Lyon, Murray, Pipestone Public Health Services and was established August 1, 1978. The governing board is composed of nine members: two Commissioners representing Lincoln County, one Board member from each of the other participating counties, and four lay members. Financing is provided by state grants, appropriations from member counties, and charges for services. Lincoln County's contribution in 2007 was $36,666.

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Lincoln, Lyon, Murray, Pipestone Public Health Services (Continued)

At December 31, 2005 (the latest information available), the Health Services had retained earnings of $905,772 and long-term liabilities of $99,767.

Complete financial statements of the Lincoln, Lyon, Murray, Pipestone Public Health Services can be obtained at 607 West Main, Marshall, Minnesota 56258.

Lincoln-Pipestone Rural Water System

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

Bonds were issued by Lincoln County and Yellow Medicine County 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, 2007, are $19,496,142.

The Lincoln-Pipestone Rural Water System's 2007 financial report shows total net assets of $38,079,073, including unrestricted net assets of $19,414,884. The decrease in net assets for the year ended December 31, 2007, was $68,041.

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

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

E. Jointly Governed Organizations

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

- The Minnesota River Basin provides programs for flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County did not contribute to the project.

- The County Board is responsible for appointing two members of the Board of Managers for the Yellow Medicine River Watershed District, but the County's responsibility does not extend beyond making the appointments.

- The County Board is responsible for appointing two members of the Board of Managers for the Lac qui Parle-Yellow Bank Watershed District, but the County's responsibility does not extend beyond making the appointments.

F. Related Organization

Housing and Redevelopment Authority of Lincoln County

The five-member governing body of the Housing and Redevelopment Authority of Lincoln County is appointed by Lincoln County. Lincoln County is not financially responsible for the Authority. During 2007, there were no related-party transactions between Lincoln County and the Housing and Redevelopment Authority of Lincoln County.

G. Agriculture Best Management Loan Program

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

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

In addition to those policies identified in Note 1, the Lake Benton Lake Improvement District component unit has the following significant accounting policies.

Reporting Entity

The Lake Benton Lake Improvement District is governed by a seven-member elected board, with the first members appointed to staggered terms. The District was established to provide a means for property owners to meet and deal with specific needs relating to lake quality and lake management, including control of curly leaf pondweed.

The District is considered a component unit of Lincoln County because it cannot levy property taxes without approval of the County Board. The County acts as the fiscal agent for the District.

Basis of Presentation and Basis of Accounting

The District does not issue separate financial statements. It accounts for its funds on the modified accrual basis of accounting.

Cash and Pooled Investments

All cash of the District is on deposit with Lincoln County and included in pooled cash and investments. Disclosures included in Note 3.A.1. apply to the District as well as to the County.

B. Detailed Notes

Receivables

Receivables at December 31, 2007, for the Lake Benton Lake Improvement District are as follows:

Taxes	$ 1,418
Special assessments	135
Due from other governments	11,452
Total	$ 13,005

7. Component Unit Disclosures

B. Detailed Notes

Receivables (Continued)

All receivables are expected to be collected within the next year.

Liabilities

The District has a long-term loan from Lincoln County. It was received in two stages, carries an interest rate of four percent, and is to be repaid over seven years. A payment schedule has been agreed on. Payments are to be made from the General Fund. It is carried as Due to Primary Government on the balance sheet for December 31, 2007.

Changes in the loan during 2007 were as follows:

Balance, January 1	$	140,000
Additional loan received		60,000
Balance, December 31	$	200,000

Debt service requirements at December 31, 2007, were as follows:

Year Ending December 31	Loans Payable			
		Principal		Interest
2008	$	21,840	$	12,160
2009		26,874		7,126
2010		27,949		6,051
2011		29,066		4,934
2012		30,229		3,771
2013 - 2014		64,042		3,866
Total	$	200,000	$	37,908

Risk Management

See Note 6.A. for the District's risk management.

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REQUIRED SUPPLEMENTARY INFORMATION

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LINCOLN COUNTY
IVANHOE, MINNESOTA

Schedule 1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 1,858,569	$ 1,903,569	$ 1,666,006	$ (237,563)
Special assessments	45,000	-	210,903	210,903
Licenses and permits	26,850	26,850	8,660	(18,190)
Intergovernmental	992,227	967,323	1,203,710	236,387
Charges for services	295,006	300,806	277,297	(23,509)
Fines and forfeits	5,500	5,500	7,017	1,517
Gifts and contributions	2,000	2,000	1,000	(1,000)
Investment earnings	110,500	135,500	314,218	178,718
Miscellaneous	227,304	222,504	260,057	37,553
Total Revenues	**$ 3,562,956**	**$ 3,564,052**	**$ 3,948,868**	**$ 384,816**
Expenditures				
Current				
General government				
Commissioners	$ 137,070	$ 137,070	$ 127,816	$ 9,254
Courts	8,100	8,100	16,364	(8,264)
Law library	9,250	9,250	10,485	(1,235)
County administration	158,329	191,329	96,538	94,791
Auditor	217,771	217,771	194,921	22,850
Treasurer	108,195	108,195	106,113	2,082
Assessor	106,844	106,844	103,989	2,855
Elections	5,000	5,000	876	4,124
Data processing	81,200	81,200	69,975	11,225
Attorney	112,573	112,573	112,634	(61)
Recorder	200,884	200,884	210,758	(9,874)
Geographic information systems	50,000	20,000	30,131	(10,131)
Buildings and plant	212,409	212,409	148,435	63,974
Veterans service officer	22,095	22,095	19,819	2,276
Transportation	189,775	189,775	232,629	(42,854)
Safety officer	12,635	12,635	9,856	2,779
Other general government	26,958	110,958	49,321	61,637
Total general government	**$ 1,659,088**	**$ 1,746,088**	**$ 1,540,660**	**$ 205,428**
Public safety				
Sheriff	$ 900,140	$ 896,040	$ 790,988	$ 105,052
Boat and water safety	9,350	9,350	9,331	19
Coroner	3,500	7,600	9,339	(1,739)
E-911 system	76,000	76,000	311,986	(235,986)
Rural addressing	5,000	-	-	-
Probation and parole	26,000	26,000	46,523	(20,523)
Civil defense	24,499	24,499	27,992	(3,493)
Total public safety	**$ 1,044,489**	**$ 1,039,489**	**$ 1,196,159**	**$ (156,670)**

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

LINCOLN COUNTY
IVANHOE, MINNESOTA

Schedule 1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	**$ 130,256**	**$ 130,256**	**$ 143,830**	**$ (13,574)**
Health				
Nursing service	**$ 421**	**$ 421**	**$ 455**	**$ (34)**
Culture and recreation				
Historical society	$ 8,000	$ 8,000	$ -	$ 8,000
Minnesota trails	21,600	21,696	21,696	-
Parks	127,451	127,451	148,053	(20,602)
Library	35,076	35,076	35,076	-
Other	600	600	600	-
Total culture and recreation	**$ 192,727**	**$ 192,823**	**$ 205,425**	**$ (12,602)**
Conservation of natural resources				
Extension	$ 102,571	$ 102,571	$ 99,227	$ 3,344
Water quality loan program	-	-	178,232	(178,232)
ISTS projects	39,000	39,000	47,919	(8,919)
Geographic information	65,610	65,610	35,766	29,844
Water planning	22,035	22,035	31,455	(9,420)
Environmental officer	120,221	125,221	115,622	9,599
Wetland challenge	10,000	10,000	10,000	-
Other	125,911	125,911	125,911	-
Total conservation of natural resources	**$ 485,348**	**$ 490,348**	**$ 644,132**	**$ (153,784)**
Economic development				
Community development	$ 40,000	$ 40,000	$ 20,000	$ 20,000
Tourism	7,221	7,221	7,203	18
Other	5,725	5,725	80,223	(74,498)
Total economic development	**$ 52,946**	**$ 52,946**	**$ 107,426**	**$ (54,480)**
Intergovernmental				
Health	**$ 37,245**	**$ 37,245**	**$ 36,666**	**$ 579**
Debt service				
Principal	$ -	$ -	$ 125,017	$ (125,017)
Interest	-	-	16,253	(16,253)
Total debt service	**$ -**	**$ -**	**$ 141,270**	**$ (141,270)**
Total Expenditures	**$ 3,602,520**	**$ 3,689,616**	**$ 4,016,023**	**$ (326,407)**

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

LINCOLN COUNTY
IVANHOE, MINNESOTA

Schedule 1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Excess of Revenues Over (Under) Expenditures	**$ (39,564)**	**$ (125,564)**	**$ (67,155)**	**$ 58,409**
Other Financing Sources (Uses)				
Transfers in	$ -	$ -	$ 21,519	$ 21,519
Transfers out	-	-	(8,025)	(8,025)
Capital lease/installment purchase	-	-	199,282	199,282
Loans issued	-	-	178,332	178,332
Total Other Financing Sources (Uses)	**$ -**	**$ -**	**$ 391,108**	**$ 391,108**
Net Change in Fund Balance	**$ (39,564)**	**$ (125,564)**	**$ 323,953**	**$ 449,517**
Fund Balance - January 1	**3,372,268**	**3,372,268**	**3,372,268**	**-**
Fund Balance - December 31	**$ 3,332,704**	**$ 3,246,704**	**$ 3,696,221**	**$ 449,517**

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

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 1,014,260	$ 1,014,260	$ 888,715	$ (125,545)
Licenses and permits	3,000	3,000	22,650	19,650
Intergovernmental	2,715,479	2,715,479	3,484,137	768,658
Charges for services	28,550	28,550	56,028	27,478
Miscellaneous	12,750	12,750	76,806	64,056
Total Revenues	**$ 3,774,039**	**$ 3,774,039**	**$ 4,528,336**	**$ 754,297**
Expenditures				
Current				
Highways and streets				
Administration	$ 368,259	$ 368,259	$ 300,612	$ 67,647
Maintenance	926,500	926,500	1,066,112	(139,612)
Construction	1,838,913	1,838,913	2,171,385	(332,472)
Equipment and maintenance shops	640,367	640,367	793,536	(153,169)
Total highways and streets	**$ 3,774,039**	**$ 3,774,039**	**$ 4,331,645**	**$ (557,606)**
Intergovernmental				
Highways and streets	-	-	192,928	(192,928)
Total Expenditures	**$ 3,774,039**	**$ 3,774,039**	**$ 4,524,573**	**$ (750,534)**
Excess of Revenues Over (Under) Expenditures	**$ -**	**$ -**	**$ 3,763**	**$ 3,763**
Other Financing Sources (Uses)				
Transfers in	$ -	$ -	$ 4,787	$ 4,787
Transfers out	-	-	(21,519)	(21,519)
Total Other Financing Sources (Uses)	**$ -**	**$ -**	**$ (16,732)**	**$ (16,732)**
Net Change in Fund Balance	**$ -**	**$ -**	**$ (12,969)**	**$ (12,969)**
Fund Balance - January 1	**2,562,298**	**2,562,298**	**2,562,298**	**-**
Increase (decrease) in reserved for inventories	**-**	**-**	**57,402**	**57,402**
Fund Balance - December 31	**$ 2,562,298**	**$ 2,562,298**	**$ 2,606,731**	**$ 44,433**

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

LINCOLN COUNTY
IVANHOE, MINNESOTA

Schedule 3

BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 806,868	$ 806,868	$ 807,207	$ 339
Intergovernmental	110,000	110,000	108,415	(1,585)
Total Revenues	**$ 916,868**	**$ 916,868**	**$ 915,622**	**$ (1,246)**
Expenditures				
Intergovernmental				
Human services	916,868	916,868	915,622	1,246
Net Change in Fund Balance	**$ -**	**$ -**	**$ -**	**$ -**
Fund Balance - January 1	**-**	**-**	**-**	**-**
Fund Balance - December 31	**$ -**	**$ -**	**$ -**	**$ -**

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

Schedule 4

BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Special assessments	$ 27,345	$ 72,745	$ 33,096	$ (39,649)
Charges for services	18,496	18,496	-	(18,496)
Miscellaneous	-	12,000	1,531	(10,469)
Total Revenues	**$ 45,841**	**$ 103,241**	**$ 34,627**	**$ (68,614)**
Expenditures				
Current				
Conservation of natural resources				
Other	$ -	$ 12,000	$ 50,539	$ (38,539)
Debt service				
Principal	12,000	12,000	12,000	-
Interest	345	345	345	-
Total Expenditures	**$ 12,345**	**$ 24,345**	**$ 62,884**	**$ (38,539)**
Excess of Revenues Over (Under) Expenditures	**$ 33,496**	**$ 78,896**	**$ (28,257)**	**$ (107,153)**
Other Financing Sources (Uses)				
Transfers in	3,700	5,850	3,238	(2,612)
Net Change in Fund Balance	**$ 37,196**	**$ 84,746**	**$ (25,019)**	**$ (109,765)**
Fund Balance - January 1	**287,941**	**287,941**	**287,941**	**-**
Fund Balance - December 31	**$ 325,137**	**$ 372,687**	**$ 262,922**	**$ (109,765)**

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

LINCOLN COUNTY
IVANHOE, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2007

1. General Budget Policies

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

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

Expenditure budgets were amended in the following funds:

	Original Budget	Increase (Decrease)	Final Budget
General Fund	$ 3,602,520	$ 87,096	$ 3,689,616
Ditch Special Revenue Fund	12,345	12,000	24,345

Over the course of the year, the County Board revised these budgets several times. The budget amendments fall into three categories: new information changing original budget estimates, greater than anticipated revenues or costs, and new grant awards.

4. Excess of Expenditures Over Budget

Fund	Expenditures	Final Budget	Excess
General Fund	$ 4,016,023	$ 3,689,616	$ 326,407
Special Revenue Funds			
Road and Bridge	4,524,573	3,774,039	750,534
Ditch	62,884	24,345	38,539

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SUPPLEMENTARY INFORMATION

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LINCOLN COUNTY
IVANHOE, MINNESOTA

Schedule 5

BUDGETARY COMPARISON SCHEDULE
JAIL FACILITY DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 163,800	$ 163,800	$ 168,566	$ 4,766
Intergovernmental	27,500	27,500	22,608	(4,892)
Total Revenues	**$ 191,300**	**$ 191,300**	**$ 191,174**	**$ (126)**
Expenditures				
Debt service				
Principal	$ 105,000	$ 105,000	$ 105,000	$ -
Interest	65,973	65,973	65,973	-
Administrative (fiscal) fees	20,327	20,327	403	19,924
Total Expenditures	**$ 191,300**	**$ 191,300**	**$ 171,376**	**$ 19,924**
Net Change in Fund Balance	**$ -**	**$ -**	**$ 19,798**	**$ 19,798**
Fund Balance - January 1	**267,293**	**267,293**	**267,293**	**-**
Fund Balance - December 31	**$ 267,293**	**$ 267,293**	**$ 287,091**	**$ 19,798**

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LINCOLN COUNTY
IVANHOE, MINNESOTA

AGENCY FUNDS

Southwest Regional Solid Waste Commission - to account for the receipts and disbursements of the Southwest Regional Solid Waste Commission.

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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LINCOLN COUNTY
IVANHOE, MINNESOTA

Statement 1

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Balance January 1	Additions	Deductions	Balance December 31
SOUTHWEST REGIONAL SOLID WASTE COMMISSION				
Assets				
Cash and pooled investments	$ 5,284	$ 32,556	$ 37,840	$ -
Due from other governments	-	977	-	977
Total Assets	**$ 5,284**	**$ 33,533**	**$ 37,840**	**$ 977**
Liabilities				
Due to other governments	$ 5,284	$ 32,556	$ 37,840	$ -
Advance from other funds	-	977	-	977
Total Liabilities	**$ 5,284**	**$ 33,533**	**$ 37,840**	**$ 977**
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	**$ 51,850**	**$ 9,936,628**	**$ 9,874,757**	**$ 113,721**
Liabilities				
Due to other governments	**$ 51,850**	**$ 9,936,628**	**$ 9,874,757**	**$ 113,721**
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 57,134	$ 9,969,184	$ 9,912,597	$ 113,721
Due from other governments	-	977	-	977
Total Assets	**$ 57,134**	**$ 9,970,161**	**$ 9,912,597**	**$ 114,698**
Liabilities				
Due to other governments	$ 57,134	$ 9,969,184	$ 9,912,597	$ 113,721
Advance from other funds	-	977	-	977
Total Liabilities	**$ 57,134**	**$ 9,970,161**	**$ 9,912,597**	**$ 114,698**

LINCOLN COUNTY
IVANHOE, MINNESOTA

Statement 2

LAKE BENTON LAKE IMPROVEMENT DISTRICT
GENERAL FUND BALANCE SHEET AND STATEMENT OF NET ASSETS
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2007

	General Fund	Adjustments	Statement of Net Assets
Assets			
Taxes receivable			
Prior	$ 1,418	$ -	$ 1,418
Special assessments receivable			
Prior	135	-	135
Due from other governments	11,452	-	11,452
Total Assets	**$ 13,005**	**$ -**	**$ 13,005**
Liabilities and Fund Balance/Net Assets			
Liabilities			
Due to primary government	$ 9,565	$ -	$ 9,565
Accrued interest payable	-	4,000	4,000
Deferred revenue - unavailable	571	(571)	-
Long-term liabilities			
Due within one year	-	21,840	21,840
Due in more than one year	-	178,160	178,160
Total Liabilities	**$ 10,136**	**$ 203,429**	**$ 213,565**
Fund Balance			
Unreserved			
Undesignated	2,869	(2,869)	
Net Assets			
Unrestricted		(200,560)	(200,560)
Total Liabilities and Fund Balance/Net Assets	**$ 13,005**	**$ -**	**$ 13,005**

Fund balance - total governmental fund		**$ 2,869**
Amounts reported in the statement of net assets are different because:		
Certain long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		571
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund.		
Advance from primary government	$ (200,000)	
Accrued interest payable	(4,000)	(204,000)
Net Assets of Governmental Activities (Exhibit 1)		**$ (200,560)**

Statement 3

LAKE BENTON LAKE IMPROVEMENT DISTRICT
GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE AND STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

	General Fund	Adjustments	Statement of Activities
Revenues			
Taxes	$ 23,238	$ (76)	$ 23,162
Special assessments	6,215	-	6,215
Intergovernmental	49,952	-	49,952
Miscellaneous	206	-	206
Total Revenues	**$ 79,611**	**$ (76)**	**$ 79,535**
Expenditures/Expenses			
Current			
Conservation of natural resources	$ 155,120	$ -	$ 155,120
Debt service			
Interest	-	4,000	4,000
Total Expenditures/Expenses	**$ 155,120**	**$ 4,000**	**$ 159,120**
Excess of Revenues Over (Under) Expenditures/Expenses	**$ (75,509)**	**$ (4,076)**	**$ (79,585)**
Other Financing Sources (Uses)			
Loans issued	60,000	(60,000)	-
Change in Fund Balance/Net Assets	**$ (15,509)**	**$ (64,076)**	**$ (79,585)**
Fund Balance/Net Assets - January 1	**18,378**	**(139,353)**	**(120,975)**
Fund Balance/Net Assets - December 31	**$ 2,869**	**$ (203,429)**	**$ (200,560)**

Net change in fund balance - total governmental fund		**$ (15,509)**
Amounts reported in the statement of activities are different because:		
In the funds, under the modified accrual basis, receivables not available for expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues is the increase or decrease in revenues deferred as unavailable.		
Deferred revenue - December 31	$ 571	
Deferred revenue - January 1	(647)	(76)
Governmental funds report advances from primary government as other financing sources. However, in the statement of activities, the loans are reported as a liability.		(60,000)
The increase in accrued interest payable does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental fund.		(4,000)
Change in Net Assets of Governmental Activities		**$ (79,585)**

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OTHER SCHEDULE

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LINCOLN COUNTY
IVANHOE, MINNESOTA

Schedule 6

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2007

	Primary Government	Component Unit
Shared Revenue		
State		
Highway users tax	$ 3,363,218	$ -
County program aid	555,623	-
PERA rate reimbursement	9,428	-
Disparity reduction aid	34,903	-
Police aid	16,563	-
Enhanced 911	77,248	-
Market value credit	382,664	6,452
Total shared revenue	**$ 4,439,647**	**$ 6,452**
Payments		
Local		
Payments in lieu of taxes	$ 65,330	$ -
Local grants	-	13,500
Total payments	**$ 65,330**	**$ 13,500**
Grants		
State		
Minnesota Department of		
Corrections	$ 6,895	$ -
Natural Resources	25,359	30,000
Public Safety	6,174	-
Transportation	75,585	-
Veterans Affairs	1,400	-
Peace Officer Standards and Training Board	1,608	-
Pollution Control Agency	52,039	-
Total state	**$ 169,060**	**$ 30,000**
Federal		
Department of		
Housing and Urban Development	$ 74,794	$ -
Transportation	54,925	-
Homeland Security	15,114	-
Total federal	**$ 144,833**	**$ -**
Total state and federal grants	**$ 313,893**	**$ 30,000**
Total Intergovernmental Revenue	**$ 4,818,870**	**$ 49,952**

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SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

98-1 Departmental Internal Accounting Controls

One basic objective of internal control is to provide for segregation of incompatible duties. In other words, responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction.

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

We recommend the County Board segregate accounting duties as much as possible. When it is not feasible to segregate certain duties, Lincoln County management should be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being followed by staff.

Client's Response:

The County is aware of the lack of segregation of accounting functions. The County continues to segregate duties whenever possible and within reason.

00-3 Budgeting Procedures

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

The Board-approved budget does not agree with the revenue and expenditure budgets on the County's accounting system. The original budget in the County's accounting system for General Fund revenues and expenditures exceeded the Board-approved budgets by $615,924 and $392,663, respectively. For the Ditch Special Revenue Fund, revenues and expenditures exceeded the Board-approved budgets by $57,400 and $12,000, respectively. The original budget in the County's accounting system was materially misstated. Approval for various budget amendments was not noted in the Board minutes. The published budget also did not agree with the approved budget for revenues and expenditures.

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

We recommend that the County implement procedures to improve its budgetary accounting by including in the County Board minutes the amounts approved for each fund's revenue and expenditure budget. We also recommend that any changes to the original budget be approved by formal Board resolution and be so documented. In addition, we recommend that the County review the information to be published for accuracy and agreement with the approved budget.

Client's Response:

The County will continue to improve on its budgetary accounting process.

05-1 <u>Financial Reporting</u>

The County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal control over recording, processing, and summarizing accounting data (maintaining internal books and records) and preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

As is the case with many small and medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the County's internal control. This condition was caused by the County's decision that it is more cost effective to have its auditors prepare its basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the County lacks internal controls over the preparation of financial statements in accordance with GAAP.

The County's accounting system has been upgraded to accommodate the modified accrual and full accrual bases of accounting in separate general ledger systems to allow for the preparation of the annual financial statements in accordance with generally accepted accounting principles for governments. During our audit, we noted several deficiencies that prevented the accounting system from providing accurate modified and full accrual financial statements. These deficiencies resulted in additional audit time because significant audit adjustments were required to correct the financial statements prepared by the County.

Although Lincoln County has identified and has been training individuals to obtain the expertise to improve its preparation of financial statements, we recommend the County continue to obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP, including preparing and reporting appropriate government-wide and fund financial statements and including the related notes to the financial statements. Also, this process should be monitored by a knowledgeable person to ensure that the accounts are correctly summarized for financial statement purposes. As part of the financial statement preparation, summary schedules and worksheets should be prepared by County staff to document the various accrual adjusting journal entries and to demonstrate how the accounts in the financial records are classified or summarized for the annual financial statements. When the financial statements are completed by the accounting system, County staff should review the statements to ensure that reported amounts can be traced back to the prepared supporting schedules and worksheets.

Client's Response:

The County will continue to seek training and expertise, when and where possible, to prepare its financial statements.

06-4 Audit Adjustments

A control deficiency 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 misstatements of the financial statements on a timely basis. Two control deficiencies that typically are considered significant are the restatement of previously issued financial statements to reflect the correction of a material misstatement or identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls.

During our audit, we made adjustments that resulted in significant changes to the County's financial statements. The adjustments resulted from: County staff needing continued guidance on accounting principles and oversight to provide accurate and reliable information; accounting staff not keeping current on accounting and reporting requirements; errors made in recording transactions and with mapping of various account codes; control over calculating the proper amounts of assets and liabilities that did not detect a number of errors, resulting in the client's records understating assets, liabilities, fund balance, expenditures, and other financing sources and overstating revenues; and the County not considering the need for controls over the recording of certain accounting transactions. The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements may not be fairly presented.

We recommend that the County review internal controls currently in place, then design and implement procedures to improve internal controls over financial reporting to detect misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

Client's Response:

The County continues to work toward compliance.

06-7 Accounting Policies and Procedures Manual

County 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.

All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures that make up the County's internal control system.

Written policies and procedures should exist to set forth requirements to account for such matters as:

- receipt and deposit of funds;
- cash and investment activities;
- investment practices and restrictions;
- collections on accounts, including when to involve a collection agency;
- purchases of goods and services;
- contracting practices;
- authorizing credit cards or establishing charge accounts at local businesses;
- approval and payment of bills;
- accounting for payroll activities;
- accounting for capital assets [capitalization process (including disposal of infrastructure), related depreciation, and the redetermination of useful lives];
- physical counts of capital assets and inventory items;
- creating, approving, and amending budgets;
- upgrades to software;
- access to applications and the network;
- creating, changing, and updating passwords;
- data back-ups; and
- annual financial reporting practices.

These policies should be designed to help detect and deter fraud and include procedures for monitoring the internal controls. Written policies and procedures should exist to ensure the County's practices are followed as intended by management. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

A formalized manual will also enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, improve compliance with established policies, and provide a standard for management to monitor compliance against. It can also help to prevent deterioration of key elements in the County's internal control system and can help to avoid circumvention of County policies.

Management should periodically evaluate its policies and procedures to assess whether internal controls that have been established 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.

We recommend the County establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. We recommend the policies and procedures manual document significant internal controls in the accounting system, including a risk assessment and the processes used to minimize the risks. We also recommend that a formal plan be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

The County already has a number of policies in place and continues to establish additional policies and enhance current policies.

ITEMS ARISING THIS YEAR

07-1 Segregation of Duties - Payroll

During our review of the County's payroll function, we noted the person who processes payroll also has the ability to change pay rates and add new employees. These duties should ideally be segregated. However, if that is not practical, changes to pay rates and additions of new employees should be monitored by someone independent of payroll processing on a monthly basis.

We recommend the County re-evaluate whether payroll staff need to have the ability to change pay rates and add new employees. In addition, to strengthen internal controls, someone independent of the payroll processing function should review payroll edit reports to monitor that any pay rate changes made or new employees added were authorized.

Client's Response:

The County Auditor will monitor payroll reports on a monthly basis.

07-2 Timely Remittance

During our review of the Recorder's Office and Solid Waste Department, we noted that monies were not remitted to the County for deposit on a timely basis.

For the Recorder's Office, we noted that the January 2007 receipts were not remitted to the County until March 8, 2007; the October 2007 receipts were not remitted until November 26, 2007; and the November 2007 receipts were not deposited until December 21, 2007.

For the Solid Waste Department, we noted that the October 2007 receipts were not remitted to the County until December 11, 2007.

We recommend that funds be remitted for deposit at least monthly. The remittance should occur within a few days of the start of a new period. Failing to make timely deposits increases the risk of error and the risk of misappropriation of funds. Funds should be maintained in a secure location until they are deposited.

Client's Response:

The Recorder's Office and the Solid Waste Department will be notified that receipts will be due to the Auditor's Office no later than the 15th of each month so that they may be deposited in a timely manner.

07-3 Access to Computer Programs and Functions

Proper controls should be maintained over the computer system to allow for proper financial reporting. The County does not limit access to accounting system programs and functions, such as payroll, journal entries, vendor files, and user maintenance, to those employees whose job duties require them to have this access.

In one case, a former employee that left service in 2003 is still shown as having access to various functions in the computer system.

We recommend the County take steps to improve the control over its computer systems by limiting access to various accounting system functions to select County employees. We also recommend access to programs and functions be reviewed when employee duties change and disabled upon employee termination.

Client's Response:

We are reviewing computer profiles. Employees who no longer need access will be removed.

PREVIOUSLY REPORTED ITEMS RESOLVED

Untimely Transaction Recording (04-2)

Personnel in the County Auditor's Office were late in recording various transactions in the general ledger. Interest income earned on the Minnesota Association of Governments Investing for Counties (MAGIC) account for January through November was not receipted until December 26, 2006, and interest on the main checking account for the period July through December 2006 was not receipted until January 12, 2007.

Resolution

The County is receipting interest timely, usually within a five-day period.

Antifraud Programs and Controls (06-1)

Responses of management and staff regarding the risks of fraud and how Lincoln County responds to those risks indicated deficiencies in antifraud programs and controls.

Resolution

The County improved awareness of internal controls over antifraud programs and controls.

Computer Risk Management (06-2) and Capital Assets Policies and Procedures (06-5)

We recommended the County address risks associated with its computer system and that it develop policies and procedures for accounting for capital assets, including policies on estimating and reconsidering useful lives.

Resolution

These findings were combined with finding 06-7.

Adding New Vendors to the Accounting System (06-3)

The County does not have any procedures for determining how new vendors are added to the accounts payable system or if the new vendors added are legitimate vendors.

Resolution

The County Financial Accountant now reviews a listing of all new vendors.

Controls Over the Accounting System Journal Entry Function (06-6)

The County does not limit access to the accounting system journal entry function to select County employees. Not all journal entries made to the accounting system were reviewed or approved.

Resolution

The County now has a policy to review and approve the journal entries made.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. <u>MANAGEMENT PRACTICES</u>

<u>ITEMS ARISING THIS YEAR</u>

07-4 <u>Disaster Recovery and Business Continuity Plans</u>

Lincoln County does not have disaster recovery and business continuity plans that would direct its response if a disaster or major computer breakdown were to occur. The County would need to continue to provide services to County residents after a disaster and during a major computer breakdown. Services that need to be addressed include the continuance of several important applications processed by its computer system, including the preparation of payroll, the calculation of tax assessments and settlements, and the recording of receipts and disbursements.

Disaster recovery and business continuity plans should include, but not be limited to, the following:

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;

- a description of the responsibilities of each member of the recovery team and of all other County employees;

- a plan of how the County will continue operations until normal operations are re-established--this should include the use of alternative computer facilities and/or the use of manual procedures, a list of master operating schedules, and critical job schedules;

- a list of materials the County needs to continue operations and how they would be obtained;

- hardware configurations and minimum equipment requirements;

- information relative to off-site back-up storage facilities;

- a list of vendor contracts;

- identification of what space should be used; and

- a schedule for developing and periodically reviewing and updating the plans.

We recommend the County develop and implement disaster recovery and business continuity plans. The Board should approve the formal plans. A copy should be stored at an off-site facility and with the leader of each recovery team. All County employees should detail the steps to be taken to continue operations in the event of a disaster. We also recommend the County periodically determine if the alternative computer system is compatible with the County's system and test the disaster recovery plan.

Client's Response:

The County is in the process of gathering information in order to compile a disaster recovery plan.

07-5 Difficulties Encountered While Performing the Audit

The Office of the State Auditor (OSA) encountered difficulties while performing the audit. These items made it difficult to obtain the necessary information for the audit and to complete the audit in an efficient, effective, and timely manner.

- Account classification and mapping adjustments provided to the County following the prior year audit were not posted to the accounting system, resulting in many accounts that required audit adjustments during 2006 to again be adjusted for 2007.

- A number of items were not completed and available for audit by the dates identified in the Schedule of Completion Dates as agreed upon by the County and the OSA.

- We encountered delays getting responses and documents from County personnel. In many cases, we needed to ask for documents numerous times.

- The County made adjustments to the accounting records and capital assets listings after providing the OSA with final financial information from the accounting and capital assets systems. The OSA was not informed of the changes before or when the changes were made and only became aware of the changes when inquiring about specific issues that happened to be part of the County’s adjustments.

- Management responses were, at times, very untimely. For example, we noticed the original budget in the accounting system differed from what was approved by the County Board. In November 2008, the OSA requested a reconciliation between the amounts and the reasons for the differences, but we were not provided any documentation until February 2009, at which point County personnel still could not fully reconcile the differences.

- A County employee told the OSA auditors to talk to a vendor directly to obtain the needed information for an installment purchase made by the County. When we informed that employee that it was his responsibility to provide the information, he contacted the vendor and directed the vendor to call us.

- As of February 2009, the County did not know the December 31, 2007, balance of its long-term liabilities for an installment lease purchase contract. A County employee stated he was not sure how to handle capital leases as he had not worked with capital leases in the past. We were not consulted for accounting advice when the lease was entered into.

- When the OSA asked County personnel to provide an explanation of the reasons for the financial variances between the prior year and the current year financial statements or from current year financial statements to the final budget as shown in the accounting system, the individual responded that he did not know the answer.

Even though the primary audit contact has worked for Lincoln County since 2004, he has stated to us that he does not understand the County's accounting system or governmental accounting and reporting. A person in that position should have a good understanding of the County's accounting system and be knowledgeable about governmental accounting and reporting standards, the role of auditors, and the responsibilities of Lincoln County personnel as it relates to an audit.

As stated in our engagement letter dated February 14, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free from material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. The County's management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. Management is responsible for making all financial records and information available to us and for the accuracy and completeness of that information. Communicating with County personnel on issues multiple times before getting answers adds to audit costs and impacts the timeliness of the audit.

We recommend the County Board address the above issues so future audits can be completed in a more efficient, effective, and timely manner. When a new accounting issue arises, we recommend County personnel consult with the OSA if unsure how to record the item in the accounting system. We further recommend management ensure personnel are meeting the established dates as agreed upon with the OSA for completing certain financial information.

Client's Response:

The County will work with the employee to understand the issues and correct deficiencies.

PREVIOUSLY REPORTED ITEM RESOLVED

Board Minute Omission (06-8)

During our audit, we noted that the Board minutes were not always complete. The County Board minutes from December 20, 2005, note that an insert for the adopted 2006 budget was to be placed in the file with the Board minutes. The County Auditor did not include the detail for the approved budget with the official minutes and was unable to provide line-item detail of the County's 2006 budget before it was amended during 2006.

Resolution

The County Board minutes included a detail of the approved budget.

B. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

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

In 2008, the legislature enacted a new law, Minn. Stat. § 471.6175, intended to help counties address their OPEB liability in at least three important ways:

- it allows counties to create both revocable and irrevocable OPEB trusts;

- it authorizes the use of a different list of permissible investments for both revocable and irrevocable OPEB trusts; and

- it also permits counties to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

Some of the issues that the County Board will need to address in order to comply with GASB Statements 43 and 45 are:

- determine if employees are provided OPEB;

- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;

- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;

- if an OPEB trust will be established, the County will have to decide whether to establish a revocable or an irrevocable trust, and report that trust appropriately in the financial statements; and

- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

GASB Statements 43 and 45 would be applicable to Lincoln County for the years ended December 31, 2008 and 2009, respectively.

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

Board of County Commissioners
Lincoln County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lincoln County as of and for the year ended December 31, 2007, and have issued our report thereon dated April 21, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lincoln County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 98-1, 00-3, 05-1, 06-4, 06-7, and 07-1 through 07-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Lincoln County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 06-4 to be a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Lincoln County complied with the material terms and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Recommendations are management practices comments and an other item for consideration. We believe these recommendations and information to be of benefit to Lincoln County, and they are reported for that purpose.

Lincoln County’s written responses to the significant deficiencies, material weakness, and management practices findings identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, and others within Lincoln County and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 21, 2009