

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

McLEOD COUNTY
GLENCOE, 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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**McLEOD COUNTY
GLENCOE, MINNESOTA**

Year Ended December 31, 2007



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

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

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GLENCOE, MINNESOTA**

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

**ORGANIZATION
2007**

Office	Name	Term of Office	
		From	To
Commissioners			
1st District	Ray Bayerl	June 1990	January 2009
2nd District	Kermit Terlinden	January 1995	January 2011
3rd District	Grant Knutson*	January 1997	January 2009
4th District	Sheldon Nies	January 1995	January 2011
5th District	Beverly Wangerin	January 1989	January 2009
Officers			
Elected			
Attorney	Michael K. Junge	May 1987	January 2011
Auditor	Cindy Schultz	January 1995	January 2011
District Judge	Michael Savre	May 2004	January 2011
District Judge	Terrence E. Conkel	August 1998	January 2011
Recorder	Lynnette Schrupp	January 2003	January 2011
Sheriff	Scott Rehmann	January 1999	January 2011
Treasurer	Linda Radtke	January 1987	January 2011
Appointed			
Assessor	Sue Schulz	March 2005	January 2009
Court Administrator	Robert Schmidt	February 2000	Indefinite
Coroner	Dr. Amatuzio	January 2006	Indefinite
Highway Engineer	John Brunkhorst	November 2001	May 2010
Surveyor	Jeff Rausch	February 1996	January 2009
Veterans Service Officer	James Lauer	November 2004	January 2009
County Administrator	Nan Crary	January 1996	March 30, 2008
Human Resources	Mary Jo Wieseler	March 2005	Indefinite
Human Services Director	Gary Sprynczynatyk	August 1995	Indefinite
Regional Extension Director	Sarah Berg	January 2006	Indefinite
Public Health Nursing Service Director	Becky Felling	August 1994	April 30, 2008
Zoning Administrator	Larry Gasow	February 2000	January 2008
Park Superintendent	Allan Koglin	August 1979	Indefinite
Agriculture and Weed Inspector	Allan Koglin	January 1997	January 2008
Building Services Supervisor	Wayne Rosenfeld	December 1989	Indefinite

*Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
McLeod County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of McLeod County, Minnesota, as of and for the year ended December 31, 2007, including the McLeod County Housing and Redevelopment Authority (HRA) as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of McLeod County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the McLeod County HRA, which is the discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the McLeod County HRA, is based solely upon the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the 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 McLeod County as of December 31, 2007, and the McLeod County HRA as of June 30, 2007, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) and the required supplementary information other than the MD&A, as listed in the table of contents 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 financial statements that collectively comprise McLeod County's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements of McLeod 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 a report dated October 22, 2008, on our consideration of McLeod County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

October 22, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

The financial management of McLeod County offers the readers of McLeod County's financial statements this narrative overview and analysis of the financial activities of McLeod County for the fiscal year ended December 31, 2007. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The assets of McLeod County exceeded liabilities at the end of the current fiscal year by \$126,590,010 (net assets). Of this amount, \$18,569,392 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$6,563,955 (five percent). The increase is a combination of additional capital assets and budget savings from operations.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$10,112,221 or 71 percent, of total 2007 General Fund expenditures.
- Governmental funds' fund balances increased by \$601,556.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to McLeod County's basic financial statements. The basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements; and (3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves, including the MD&A (this section) and budgetary comparison schedules.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business. They consist of a Statement of Net Assets and Statement of Activities.

The Statement of Net Assets presents information on all of McLeod County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may be an indicator of whether the financial position of McLeod 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).

Both of the government-wide financial statements report the primary government's governmental activities. Governmental activities include functions of the County that are principally supported by taxes and intergovernmental revenues. The governmental activities of the County include: general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development.

The government-wide financial statements include McLeod County (primary government) and its discretely presented component unit. The McLeod County Housing and Redevelopment Authority (HRA) is a discretely presented component unit of McLeod County. More information on the component unit can be found in Note 7 to the financial statements.

The government-wide financial statements are Exhibits 1 and 2 of this report.

Fund Financial Statements

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

Governmental Funds

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. This allows readers to better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

McLeod County maintains four fund types within the governmental funds: General, Special Revenue, Debt Service, and Capital Projects. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Solid Waste Special Revenue Fund, and Capital Projects Fund, all of which are considered to be major funds. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

McLeod County adopts an annual budget for the following governmental funds: General, Road and Bridge Special Revenue, Human Services Special Revenue, Solid Waste Special Revenue, and Debt Service Funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with their budgets.

The basic governmental fund financial statements are Exhibits 3 through 6 of this report.

General Fund - used to account for all financial resources not required to be accounted for in another fund.

Special Revenue Funds - used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The special revenue funds include Road and Bridge, Human Services, Solid Waste, Ditch, and Forfeited Tax.

Debt Service Fund - used to account for the payment of principal, interest, and fiscal charges on long-term debt obligations of McLeod County.

Capital Projects Fund - used to track proceeds from capital improvement bonds and capital equipment notes and expenditures related to the use of those funds.

Fiduciary Funds

Fiduciary funds (agency funds) are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support McLeod County's own programs.

The basic fiduciary fund financial statement is Exhibit 7 of this report.

Notes to the Financial Statements

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements may be found immediately following the exhibits.

Other Information

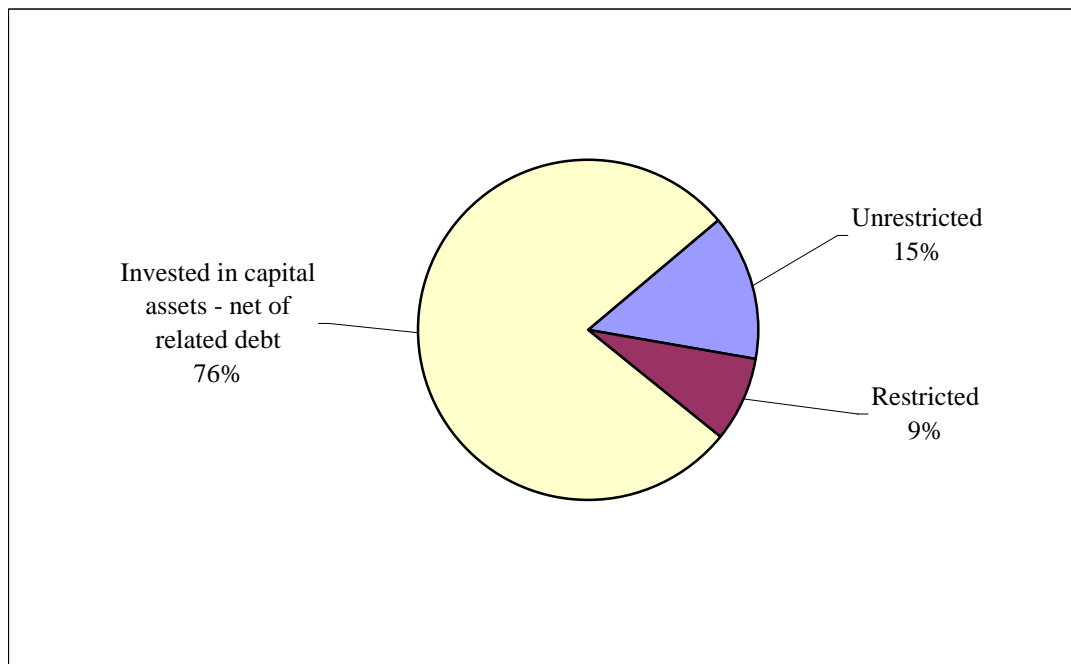
In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of McLeod County, assets exceeded liabilities by \$126,590,010 as of December 31, 2007. The investment in capital assets, net of related debt, is the largest portion of McLeod County's net assets at 76 percent. These capital assets are used to provide services to citizens and are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Approximately nine percent of McLeod County's net assets are subject to external restrictions on how they may be used and, therefore, are considered restricted. The remaining 15 percent or \$18,569,392 is unrestricted and available to be used to meet the government's ongoing obligations to citizens and creditors.

Net Assets



Net Assets

	<u>Governmental Activities</u>		<u>Discretely Presented Component Unit</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 34,238,328	\$ 33,294,931	\$ 193,976	\$ 210,515
Capital assets	<u>97,615,568</u>	<u>94,248,618</u>	<u>3,755,728</u>	<u>3,879,997</u>
Total Assets	<u>\$ 131,853,896</u>	<u>\$ 127,543,549</u>	<u>\$ 3,949,704</u>	<u>\$ 4,090,512</u>
Current and other liabilities	\$ 2,472,663	\$ 2,588,518	\$ 93,119	\$ 125,245
Long-term liabilities - due within one year	1,090,242	3,171,353	111,056	105,398
Long-term liabilities - due in more than one year	<u>1,700,981</u>	<u>1,757,623</u>	<u>4,057,750</u>	<u>4,161,882</u>
Total Liabilities	<u>\$ 5,263,886</u>	<u>\$ 7,517,494</u>	<u>\$ 4,261,925</u>	<u>\$ 4,392,525</u>
Net Assets				
Invested in capital assets - net of related debt	\$ 96,340,568	\$ 93,068,618	\$ (413,078)	\$ (387,283)
Restricted	11,680,050	9,331,089	-	-
Unrestricted	<u>18,569,392</u>	<u>17,626,348</u>	<u>100,857</u>	<u>85,270</u>
Total Net Assets	<u>\$ 126,590,010</u>	<u>\$ 120,026,055</u>	<u>\$ (312,221)</u>	<u>\$ (302,013)</u>

GOVERNMENTAL ACTIVITIES

McLeod County's governmental activities increased net assets by \$6,563,955 during the current fiscal year. This increase is primarily due to the increase in capital assets, which included the following major items: highway and bridge construction, purchases of property, construction of the Hutchinson Area Transportation Services (HATS) tempered storage building, and other improvement projects.

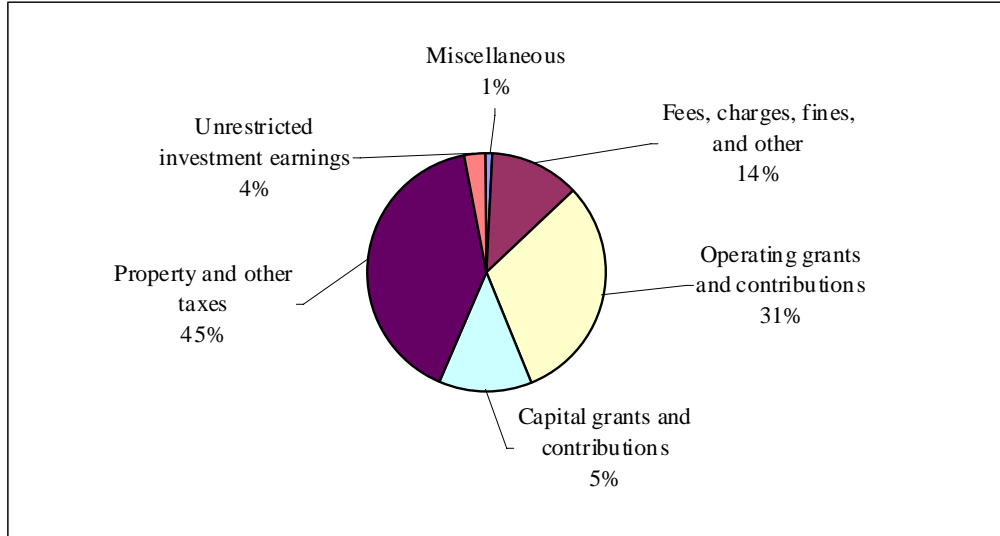
The McLeod County HRA is a discretely presented component unit of McLeod County. As of June 30, 2007, liabilities exceeded assets by \$312,221, and there was a decrease in net assets of \$10,208 (net of a prior period adjustment) from the prior year. The decrease is primarily due to decreased revenues and increased expenses.

Changes in Net Assets

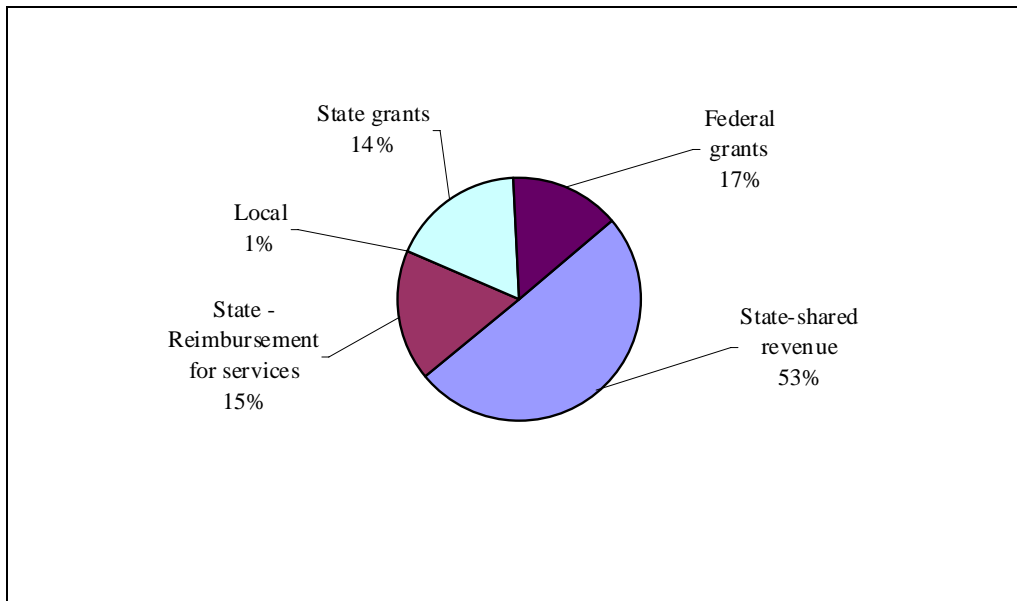
	Governmental Activities		Discretely Presented Component Unit (Restated)	
	2007	2006	2007	2006
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues				
Program revenues				
Charges for services, fees, fines, and other	\$ 5,186,871	\$ 4,487,125	\$ 776,592	\$ 821,413
Operating grants and contributions	7,732,754	8,070,380	-	-
Capital grants and contributions	1,748,769	1,740,943	-	-
General revenues				
Property taxes	16,547,691	15,223,422	-	-
Other taxes	102,815	112,781	-	-
Grants and contributions not restricted to specific programs	3,468,247	3,487,862	-	-
Unrestricted investment earnings	1,339,913	1,270,363	2,582	2,200
Other	300,880	277,539	-	-
Total Revenues	\$ 36,427,940	\$ 34,670,415	\$ 779,174	\$ 823,613
Expenses				
General government	\$ 4,983,930	\$ 4,796,850	\$ -	\$ -
Public safety	6,510,323	5,876,447	-	-
Highways and streets	5,397,887	7,166,960	-	-
Sanitation	1,694,866	1,739,396	-	-
Human services	8,173,671	8,171,679	-	-
Health	1,729,525	1,776,809	-	-
Culture and recreation	503,376	524,668	-	-
Conservation of natural resources	799,251	609,150	-	-
Economic development	2,449	1,850	-	-
Interest	68,707	156,020	-	-
HRA	-	-	826,900	790,819
Total Expenses	\$ 29,863,985	\$ 30,819,829	\$ 826,900	\$ 790,819
Increase (Decrease) in Net Assets	\$ 6,563,955	\$ 3,850,586	\$ (47,726)	\$ 32,794
Net Assets - January 1, restated	120,026,055	116,175,469	(264,495)	(334,807)
Net Assets - December 31	\$ 126,590,010	\$ 120,026,055	\$ (312,221)	\$ (302,013)

The following charts show additional information on the revenues of McLeod County for the year ended December 31, 2007.

Revenues by Source - Governmental Activities



Intergovernmental Revenue



FINANCIAL ANALYSIS

Governmental Funds

At the end of 2007, McLeod County's governmental funds reported a combined fund balance of \$27,930,751. This is an increase of \$601,556 from the prior year. The General Fund fund balance increased by \$3,590,030 due to increased revenues. The fund balance in the Road and Bridge Special Revenue Fund decreased by \$860,180 due to decreased revenues and increased expenditures. The fund balance in the Human Services Special Revenue Fund increased by \$201,977 due to increased revenues. There was also a decrease in the nonmajor governmental funds of \$2,172,643.

General Fund Budgetary Highlights

In total, General Fund revenues for 2007 exceeded the amounts budgeted by \$287,451. Charges for services, fines and forfeits, intergovernmental, gifts and contributions, investment earnings, and miscellaneous charges came in higher than anticipated. Total General Fund expenditures were \$855,240 less than the final budget. This variance is attributed to the areas of general government and public safety.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

At the end of 2007, McLeod County had \$97,615,568 invested in capital assets, including land, infrastructure, buildings, improvements other than buildings, and equipment. The table below shows a summary of McLeod County's capital assets as of December 31.

	Capital Assets (Net of Depreciation)	
	2007	2006
Land, including right-of-way	\$ 6,443,662	\$ 5,549,204
Infrastructure	73,459,187	72,907,646
Buildings	11,492,351	11,024,585
Improvements other than buildings	353,793	371,005
Machinery and equipment	3,271,674	3,321,937
Construction in progress	2,594,901	1,074,241
Total	<u>\$ 97,615,568</u>	<u>\$ 94,248,618</u>

Major capital asset events during the year included the following:

- construction of the HATS tempered storage building,
- several purchases of property, and
- infrastructure construction continued in 2007.

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

Long-Term Debt

At the end of the current fiscal year, McLeod County had bonded debt and capital notes outstanding of \$1,558,738. This is a decrease of \$2,173,552 from the beginning of the year. The decrease is due to: (1) the calling and redemption of the 2000A Capital Improvement Bonds and (2) the maturing of the 2003 Capital Improvement Bonds.

Current and future County tax levies are used to finance the County's debt obligations. State statutes limit the amount of general obligation debt a county can incur to no more than two percent of the market value of taxable property in the county. The current debt limitation for McLeod County is \$61,539,572, which is significantly in excess of McLeod County's outstanding general obligation debt.

Additional information on McLeod County's long-term debt can be found in Note 3.C. of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The unemployment rate for McLeod County is currently 5.7 percent. McLeod County's unemployment rate is more than the state unemployment rate of 4.9 and the United States unemployment rate of 4.8 percent.
- Property tax levy increases have occurred over the past several years and are likely to continue. However, the tax base in McLeod County is also expanding, which diminishes the effect to the individual taxpayer.

All of these factors were considered in preparing McLeod County's budget for the 2008 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of McLeod County's finances for those with an interest in the government finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the McLeod County Auditor, 2385 Hennepin Avenue North, Glencoe, Minnesota 55336.

The Housing and Redevelopment Authority (HRA) discretely presented component unit prepares separate financial statements. Complete financial statements of the HRA can be obtained by writing to McLeod County HRA, 2200 - 23rd Street N.E., Suite 2090, Willmar, Minnesota 56201.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

	<u>Primary Government Governmental Activities</u>	<u>Discretely Presented Component Unit</u>
<u>Assets</u>		
Cash and pooled investments	\$ 27,924,671	\$ 106,187
Petty cash and change funds	23,005	-
Departmental cash	8,192	-
Cash with fiscal agent	904,103	-
Taxes receivable		
Prior - net	415,715	-
Special assessments receivable		
Noncurrent - net	375,005	-
Prior	1,298	-
Accounts receivable - net	362,581	104
Accrued interest receivable	160,992	-
Due from other governments	3,621,698	-
Deferred charges - current	4,121	-
Inventories	420,460	-
Prepaid items	-	7,142
Restricted assets		
Cash and pooled investments	-	37,586
Deferred charges	16,487	42,957
Capital assets		
Non-depreciable	9,038,563	197,000
Depreciable - net of accumulated depreciation	88,577,005	3,558,728
Total Assets	<u>\$ 131,853,896</u>	<u>\$ 3,949,704</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Liabilities</u>		
Accounts payable	\$ 995,689	\$ 7,437
Salaries payable	752,434	-
Accrued payroll taxes	53,127	-
Other accrued liabilities	115,772	45,485
Retainage payable	107,770	-
Due to other governments	271,502	-
Accrued interest payable	18,040	-
Claims payable	78,256	-
Unavailable revenue	-	3,562
Unearned revenue	80,073	-
Long-term liabilities		
Due within one year	1,090,242	111,056
Due in more than one year	1,700,981	4,057,750
Liabilities payable from restricted assets (security deposits)	-	36,635
Total Liabilities	\$ 5,263,886	\$ 4,261,925
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 96,340,568	\$ (413,078)
Restricted for		
General government	2,942,650	-
Public safety	207,329	-
Conservation of natural resources	47,274	-
Sanitation	4,144,773	-
Capital projects	3,656,077	-
Debt service	681,947	-
Unrestricted	18,569,392	100,857
Total Net Assets	\$ 126,590,010	\$ (312,221)

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 4,983,930	\$ 1,004,361
Public safety	6,510,323	265,481
Highways and streets	5,397,887	184,296
Sanitation	1,694,866	1,925,124
Human services	8,173,671	979,915
Health	1,729,525	445,138
Culture and recreation	503,376	76,899
Conservation of natural resources	799,251	305,657
Economic development	2,449	-
Interest	68,707	-
	\$ 29,863,985	\$ 5,186,871
Total Primary Government		
Component Unit		
Housing and Redevelopment Authority	\$ 826,900	\$ 776,592

General Revenues

Property taxes
Mortgage registry and deed tax
Payments in lieu of tax
Grants and contributions not restricted to
specific programs
Investment income
Miscellaneous

Total general revenues

Change in Net Assets

Net Assets - Beginning, restated (Note 7)

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Discretely Presented Component Unit
\$ 114,434	\$ -	\$ (3,865,135)	
464,659	-	(5,780,183)	
2,692,708	1,748,769	(772,114)	
-	-	230,258	
3,570,354	-	(3,623,402)	
674,952	-	(609,435)	
-	-	(426,477)	
215,647	-	(277,947)	
-	-	(2,449)	
-	-	(68,707)	
\$ 7,732,754	\$ 1,748,769	\$ (15,195,591)	
\$ -	\$ -		\$ (50,308)
		\$ 16,547,691	\$ -
		30,425	-
		72,390	-
		3,468,247	-
		1,339,913	2,582
		300,880	-
		\$ 21,759,546	\$ 2,582
		\$ 6,563,955	\$ (47,726)
		120,026,055	(264,495)
		\$ 126,590,010	\$ (312,221)

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 14,163,496	\$ 4,373,362
Petty cash and change funds	2,855	100
Departmental cash	8,192	-
Cash with fiscal agent	904,103	-
Taxes receivable		
Prior	208,760	56,728
Special assessments receivable		
Prior	-	-
Noncurrent	273,724	-
Accounts receivable	86,975	1,887
Accrued interest receivable	160,902	-
Due from other funds	11,274	5,690
Due from other governments	293,010	2,856,254
Inventories	11,481	408,979
Advances to other funds	94,550	-
	\$ 16,219,322	\$ 7,703,000
 <u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 157,893	\$ 173,040
Salaries payable	442,156	76,412
Accrued payroll taxes	30,272	5,630
Accrued interest payable	-	-
Accrued expenses	55,586	6,707
Advances from other funds	-	-
Retainage payable	-	107,770
Due to other funds	2,077	-
Due to other governments	179,847	30,847
Deferred revenue - unavailable	599,677	2,869,750
Deferred revenue - unearned	34,454	-
Claims payable	22,033	-
	\$ 1,523,995	\$ 3,270,156

EXHIBIT 3

<u>Human Services</u>	<u>Solid Waste</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 4,242,305	\$ 4,161,978	\$ 173,156	\$ 810,374	\$ 27,924,671
-	20,050	-	-	23,005
-	-	-	-	8,192
-	-	-	-	904,103
93,790	-	55,029	1,408	415,715
-	-	-	1,298	1,298
-	-	-	101,281	375,005
77,608	195,361	750	-	362,581
-	-	-	90	160,992
527	-	-	-	17,491
471,699	426	-	309	3,621,698
-	-	-	-	420,460
-	-	-	-	94,550
<u>\$ 4,885,929</u>	<u>\$ 4,377,815</u>	<u>\$ 228,935</u>	<u>\$ 914,760</u>	<u>\$ 34,329,761</u>
\$ 383,504	\$ 104,346	\$ 173,906	\$ 3,000	\$ 995,689
211,538	22,328	-	-	752,434
15,516	1,709	-	-	53,127
-	-	-	269	269
50,433	3,046	-	-	115,772
-	-	-	94,550	94,550
-	-	-	-	107,770
9,724	5,690	-	-	17,491
36,072	15,477	-	9,259	271,502
244,862	14,777	55,029	104,205	3,888,300
-	45,619	-	-	80,073
-	-	-	-	22,033
<u>\$ 951,649</u>	<u>\$ 212,992</u>	<u>\$ 228,935</u>	<u>\$ 211,283</u>	<u>\$ 6,399,010</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
(Continued)		
Fund Balances		
Reserved for		
Advances to other funds	\$ 94,550	\$ -
Law library	160,598	-
Recorder's equipment	304,925	-
Inventories	11,481	408,979
Encumbrances	1,276,967	2,379,110
Law enforcement	69,339	-
Land records technology	488	-
E-911	42,820	-
Veterans van	27,668	-
Drug enforcement	8,906	-
Conservation of natural resources	47,274	-
Petty cash	2,855	100
HAVA equipment	62,028	-
Capital assets	2,295,997	-
Court services	86,264	-
Records compliance	33,582	-
Records preservation	57,364	-
Landfill	-	-
Solid waste abatement	-	-
Unreserved		
Designated for future expenditures	5,124,252	1,644,655
Undesignated	4,987,969	-
Unreserved, reported in nonmajor		
Special revenue fund	-	-
Debt service fund	-	-
Total Fund Balances	\$ 14,695,327	\$ 4,432,844
Total Liabilities and Fund Balances	\$ 16,219,322	\$ 7,703,000

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>Solid Waste</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 94,550
-	-	-	-	160,598
-	-	-	-	304,925
-	-	-	-	420,460
-	-	-	-	3,656,077
-	-	-	-	69,339
-	-	-	-	488
-	-	-	-	42,820
-	-	-	-	27,668
-	-	-	-	8,906
-	-	-	-	47,274
-	20,050	-	-	23,005
-	-	-	-	62,028
-	-	-	-	2,295,997
-	-	-	-	86,264
-	-	-	-	33,582
-	-	-	-	57,364
-	370,878	-	-	370,878
-	3,773,895	-	-	3,773,895
2,679,694	-	-	-	9,448,601
1,254,586	-	-	-	6,242,555
-	-	-	21,530	21,530
-	-	-	681,947	681,947
<u>\$ 3,934,280</u>	<u>\$ 4,164,823</u>	<u>\$ -</u>	<u>\$ 703,477</u>	<u>\$ 27,930,751</u>
<u>\$ 4,885,929</u>	<u>\$ 4,377,815</u>	<u>\$ 228,935</u>	<u>\$ 914,760</u>	<u>\$ 34,329,761</u>

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT 4

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

Fund balance - total governmental funds (Exhibit 3)		\$	27,930,751
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.			97,615,568
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			3,888,300
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.			
General obligation bonds	\$	(1,275,000)	
Loans payable		(288,520)	
Additional claims payable		(56,223)	
Compensated absences		(1,232,485)	
Accrued interest payable		(17,771)	
Deferred debt issuance charges		20,608	
Unamortized discount on bonds		4,782	
		<u> </u>	<u>(2,844,609)</u>
Net Assets of Governmental Activities (Exhibit 1)		\$	<u>126,590,010</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

	General	Road and Bridge
Revenues		
Taxes	\$ 8,122,178	\$ 2,304,928
Special assessments	779	-
Licenses and permits	94,502	5,575
Intergovernmental	3,918,586	4,718,666
Charges for services	1,689,941	105,138
Fines and forfeits	32,114	-
Gifts and contributions	19,016	-
Investment earnings	1,333,038	-
Miscellaneous	461,388	24,082
	\$ 15,671,542	\$ 7,158,389
Expenditures		
Current		
General government	\$ 5,462,662	\$ -
Public safety	5,673,962	-
Highways and streets	-	8,151,867
Sanitation	-	-
Human services	-	-
Health	1,707,826	-
Culture and recreation	616,772	-
Conservation of natural resources	722,645	-
Economic development	2,449	-
Capital outlay	-	-
Debt service		
Principal	-	-
Interest	-	-
Administrative charges	-	-
	\$ 14,186,316	\$ 8,151,867
Excess of Revenues Over (Under) Expenditures	\$ 1,485,226	\$ (993,478)
Other Financing Sources (Uses)		
Transfers in	\$ 1,903,786	\$ 124,105
Transfers out	(542)	-
Loan issued	185,492	-
Proceeds from the sale of capital assets	18,236	-
	\$ 2,106,972	\$ 124,105
Net Change in Fund Balance	\$ 3,592,198	\$ (869,373)
Fund Balance - January 1	11,105,297	5,293,024
Increase (decrease) in reserved for inventories	(2,168)	9,193
Fund Balance - December 31	\$ 14,695,327	\$ 4,432,844

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

EXHIBIT 5

Human Services	Solid Waste	Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 3,584,367	\$ -	\$ 4,628	\$ 2,491,257	\$ 16,507,358
-	-	-	60,880	61,659
-	9,640	-	-	109,717
3,862,801	81,074	-	250,588	12,831,715
799,856	1,878,189	-	-	4,473,124
-	-	-	-	32,114
336	-	-	-	19,352
-	-	1,624	5,251	1,339,913
180,959	32,758	1,310	-	700,497
\$ 8,428,319	\$ 2,001,661	\$ 7,562	\$ 2,807,976	\$ 36,075,449
\$ -	\$ -	\$ -	\$ 542	\$ 5,463,204
-	-	-	-	5,673,962
-	-	-	-	8,151,867
-	1,695,698	-	-	1,695,698
8,226,342	-	-	-	8,226,342
-	-	-	-	1,707,826
-	-	-	-	616,772
-	-	-	70,498	793,143
-	-	-	-	2,449
-	-	866,667	-	866,667
-	-	-	2,360,000	2,360,000
-	-	-	97,470	97,470
-	-	-	1,000	1,000
\$ 8,226,342	\$ 1,695,698	\$ 866,667	\$ 2,529,510	\$ 35,656,400
\$ 201,977	\$ 305,963	\$ (859,105)	\$ 278,466	\$ 419,049
\$ -	\$ -	\$ 609,009	\$ 542	\$ 2,637,442
-	-	(185,249)	(2,451,651)	(2,637,442)
-	-	-	-	185,492
-	-	-	-	18,236
\$ -	\$ -	\$ 423,760	\$ (2,451,109)	\$ 203,728
\$ 201,977	\$ 305,963	\$ (435,345)	\$ (2,172,643)	\$ 622,777
3,732,303	3,887,106	435,345	2,876,120	27,329,195
-	(28,246)	-	-	(21,221)
\$ 3,934,280	\$ 4,164,823	\$ -	\$ 703,477	\$ 27,930,751

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT 6

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

Net change in fund balance - total governmental funds (Exhibit 5) \$ 622,777

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

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

Deferred revenue - December 31	\$	3,888,300	
Deferred revenue - January 1		(3,414,483)	473,817

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

Expenditures for general capital assets and infrastructure	\$	6,856,284	
Net book value of disposed assets		(175,524)	
Current year depreciation		(3,313,810)	3,366,950

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Loans issued			(185,492)
Principal repayments - general obligation bonds			2,360,000

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	\$	35,524	
Amortization of deferred issuance charges		(4,805)	
Amortization discount on bonds		(956)	
Change in compensated absences		(35,799)	
Change in claims payable		(46,840)	
Change in inventories		(21,221)	(74,097)

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 6,563,955

FIDUCIARY FUNDS

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McLEOD COUNTY
GLENCOE, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2007

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ 945,731
Departmental cash	2,519
Accounts receivable	1,976
Due from other governments	<u>275,339</u>
Total Assets	<u>\$ 1,225,565</u>
<u>Liabilities</u>	
Accounts payable	\$ 21,723
Salaries payable	9,496
Accrued payroll taxes	975
Accrued expenses	699
Due to other governments	<u>1,192,672</u>
Total Liabilities	<u>\$ 1,225,565</u>

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 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. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

McLeod County was established March 1, 1856, 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 McLeod County (primary government) and its component unit for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Discretely Presented Component 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. The following component unit of McLeod County is discretely presented:

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
McLeod County Housing and Redevelopment Authority (HRA) provides services pursuant to Minn. Stat. §§ 469.001-469.047.	County appoints members, and the HRA is a financial burden.	McLeod County HRA 2200 - 23rd Street N.E., Suite 2090 Willmar, Minnesota 56201

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in several joint ventures described in Note 6.D. The County also participates in the jointly-governed organizations described in Note 6.E.

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.

In the government-wide statement of net assets, the governmental activities: (a) are presented on a consolidated basis by column; and (b) 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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds. 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. All remaining governmental funds are aggregated and reported as nonmajor 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 Solid Waste Special Revenue Fund is used to account for costs associated with waste management; recycling; disposal of hazardous materials; and landfill abatement, closure, and postclosure.

The Capital Projects Fund is used to account for financial resources to be used for capital acquisition, construction, or improvement of capital facilities.

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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Debt Service Fund - used to account for payment of principal, interest, and fiscal charges on long-term debt obligations of McLeod County.

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. McLeod 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.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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 \$1,333,038.

McLeod 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, including those of the discretely presented component unit, are shown net of an allowance for uncollectibles.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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.

3. Inventories

Inventories in the General Fund are valued at cost using the first in/first out (FIFO) method. Inventories in the Road and Bridge Special Revenue Fund are valued using the weighted average 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.

4. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

5. Capital Assets

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Threshold</u>	<u>Years</u>
Buildings	\$ 25,000	20 - 40
Improvements other than buildings	25,000	5 - 30
Infrastructure	50,000	25 - 75
Furniture, equipment, and vehicles	5,000	3 - 20

6. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid accumulated, vacation, comp time, vested sick leave balances, and sick leave balances in excess of maximum balance. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Deferred Revenue

All County funds and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

8. Long-Term Obligations (Continued)

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 other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts 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.

10. Use of Estimates

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

E. Revenues

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs. The modified accrual basis of

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues (Continued)

accounting is used by all governmental fund types. Under this basis, revenue is not recognized in the financial statements unless it is available to finance current expenditures.

Imposed Nonexchange Transactions

Imposed nonexchange transactions result from assessments by governments on nongovernmental entities and individuals. Property taxes, fines and penalties, and property forfeitures are imposed nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes were levied. Fines and penalties and property forfeitures are recognized in the period received.

Intergovernmental

Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose. The provider government establishes purpose restrictions and also may establish time requirements. Federal and state grants mandating the County perform particular programs are government-mandated nonexchange transactions. Revenues are recognized when eligibility and time requirements are met, usually when the corresponding expenditure is incurred.

Voluntary nonexchange transactions result from legislative or contractual agreements, such as grants, entitlements, appropriations, and donations. The provider may establish purpose restrictions or eligibility requirements. Revenues are recognized in the year to which they apply according to the statute or contract. Gifts and contributions from individuals are also considered voluntary nonexchange transactions and are generally recognized when received.

Tax credits paid by the state are included in intergovernmental revenues and are recognized as revenue in the tax year they apply to. State-aid highway allotments for highway maintenance and construction are recognized as revenue in the year of allotment.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues (Continued)

Exchange Transactions

Special assessments levied against benefiting properties are recognized when levied. Other revenues, such as licenses and permits, charges for services, and investment income, are recognized as revenue when earned.

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The Ditch Special Revenue Fund had a fund balance of \$21,530 as of December 31, 2007. Ditch system deficits will be eliminated in future years with special assessment levies against benefited properties. Following is a summary of the individual ditch systems:

37 ditches with positive balances	\$ 123,204
19 ditches with deficit balances	<u>(101,674)</u>
Net Fund Balance	<u>\$ 21,530</u>

B. Component Unit Deficit

The McLeod County HRA at June 30, 2007, had deficit net assets of \$312,221, an increase from the previous year's deficit balance of \$302,013. The decrease in net assets is due in part to decreased revenues and increased expenses.

C. Excess of Expenditures Over Appropriations

In the Debt Service Fund, the expenditures exceeded appropriations for the year ended December 31, 2007, by \$1,256,811.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Governmental funds	
Cash and pooled investments	\$ 27,924,671
Petty cash and change funds	23,055
Cash with fiscal agent	904,103
Departmental cash	8,192
Agency fund	
Cash and pooled investments	945,731
Total Cash and Investments	\$ 29,805,752
Deposits	\$ 18,642,744
Petty cash and change funds	23,055
Departmental cash	8,192
Investments	11,131,761
Total Deposits, Cash on Hand, and Investments	\$ 29,805,752

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 or revenue obligations rated “AA” or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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 deposits may not be returned to it. The County does not have a policy on custodial credit risk for deposits. As of December 31, 2007, McLeod 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;
- (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;

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (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 minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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. Currently, the County has a mutual fund with Wells Fargo rated AAAM by Standard and Poor's and Aaa by Moody's.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy regarding custodial credit risk. At December 31, 2007, all of the investments held in the fiscal agent account listed on the next page totaled \$904,103 and 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. agency securities may be held without limit.

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

<u>Investment - Issuer</u>	<u>Concentration Risk Percent (%)</u>	<u>Interest Rate Risk Maturity Date</u>	<u>Fair Value</u>
McLeod County			
Mutual fund - Public Financial Management			
Cash Management Fund (MAGIC Fund)	91.88	N/A	\$ <u>10,227,658</u>
Fiscal agent			
Money market			
M&I Bank	0.26	N/A	\$ <u>29,460</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Investment - Issuer	Concentration Risk Percent (%)	Interest Rate Risk Maturity Date	Fair Value
Negotiable certificates of deposit			
Wells Fargo			
Riverside Bank of Gulf Coast, FL	0.53	01/28/2008	\$ 58,906
Silver State Bank	0.53	02/19/2008	59,518
Washington Mutual Bank	0.53	03/17/2008	59,518
Lasalle Bank - Chicago, IL	0.53	04/11/2008	58,906
Copper Star Bank - Scottsdale, AZ	0.55	05/19/2008	60,746
Integra Bank Evansville, IN	0.52	06/27/2008	58,291
First State Bank Conway, AZ	0.55	07/17/2008	60,746
Eastside Commercial Bank Conyers, GA	0.55	08/18/2008	60,746
GMAC Bank	0.52	09/05/2008	58,291
Discover Bank Greenwood, DE	0.53	10/14/2008	59,518
Great Southern-Reeds Spring, MT	0.52	12/12/2008	58,291
Total negotiable certificates of deposit			<u>\$ 653,477</u>
Mutual fund			
Wells Fargo Advantage Government MMF Service*	2.00	N/A	\$ 221,166
Total fiscal agent			<u>\$ 904,103</u>
Total Investments			<u><u>\$ 11,131,761</u></u>

*This money market fund is rated AAAM by Standard & Poor's and Aaa by Moody's.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2007, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 415,715	\$ -
Special assessments	376,303	375,005
Due from other governments	3,621,698	-
Accounts	362,581	-
Interest	160,992	-
Total Governmental Activities	\$ 4,937,289	\$ 375,005

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	\$ 3,174,575	\$ 567,968	\$ -	\$ 3,742,543
Construction in progress	1,074,241	2,594,901	1,074,241	2,594,901
Infrastructure - right-of-way	2,374,629	326,490	-	2,701,119
Total capital assets not depreciated	\$ 6,623,445	\$ 3,489,359	\$ 1,074,241	\$ 9,038,563
Capital assets depreciated				
Buildings	\$ 16,721,438	\$ 1,008,729	\$ -	\$ 17,730,167
Machinery, furniture, and equipment	8,440,216	995,715	763,153	8,672,778
Improvements other than buildings	628,884	14,353	-	643,237
Infrastructure	95,712,415	2,422,369	-	98,134,784
Total capital assets depreciated	\$ 121,502,953	\$ 4,441,166	\$ 763,153	\$ 125,180,966

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings	\$ 5,696,853	\$ 540,963	\$ -	\$ 6,237,816
Machinery, furniture, and equipment	5,118,279	870,454	587,629	5,401,104
Improvements other than buildings	257,879	31,565	-	289,444
Infrastructure	<u>22,804,769</u>	<u>1,870,828</u>	<u>-</u>	<u>24,675,597</u>
 Total accumulated depreciation	 <u>\$ 33,877,780</u>	 <u>\$ 3,313,810</u>	 <u>\$ 587,629</u>	 <u>\$ 36,603,961</u>
 Total capital assets depreciated, net	 <u>\$ 87,625,173</u>	 <u>\$ 1,127,356</u>	 <u>\$ 175,524</u>	 <u>\$ 88,577,005</u>
 Governmental Activities				
Capital Assets, Net	<u>\$ 94,248,618</u>	<u>\$ 4,616,715</u>	<u>\$ 1,249,765</u>	<u>\$ 97,615,568</u>

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

Governmental Activities	
General government	\$ 525,617
Public safety	256,323
Highways and streets, including depreciation of infrastructure assets	2,226,604
Human services	47,503
Health	9,395
Culture and recreation	11,626
Conservation of natural resources	4,948
Sanitation	<u>231,794</u>
 Total Depreciation Expense - Governmental Activities	 <u>\$ 3,313,810</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. The composition of interfund balances as of December 31, 2007, is as follows:

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Human Services	\$ 9,724
Human Services	General	527
Road and Bridge	Solid Waste	5,690
General	General	1,550
Total Due To/From Other Funds		<u>\$ 17,491</u>

Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Ditch	<u>\$ 94,550</u>

These balances due to/from other funds reflect the interfund goods and services provided and not paid at year-end but expected to be paid in the subsequent year. Advances from/to other funds are for cash flow purposes.

2. Interfund Transfers

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

Transfer to Capital Projects Fund from Debt Service Fund	\$ 609,009	Jail project
Transfer to Road and Bridge Fund from Capital Projects Fund	124,105	Highway road projects
Transfer to General Fund from Debt Service Fund	1,842,642	Designated for capital assets
Transfer to General Fund from Capital Projects Fund	61,144	Reserves for capital assets
Transfer to Forfeited Tax Fund from General Fund	<u>542</u>	Cover negative balance
Total Interfund Transfers	<u>\$ 2,637,442</u>	

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2007, were as follows:

Accounts	\$	995,689
Salaries		752,434
Accrued payroll taxes		53,127
Other accrued liabilities		115,772
Retainage		107,770
Due to other governments		271,502
Claims		78,256
		2,374,550
Total Payables	\$	2,374,550

2. Construction Commitments

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

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Honeywell project	\$ 547,272	\$ 1,276,967
Roads and bridges	2,047,629	2,379,110

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2007
General obligation bonds					
2005 Capital Improvement		\$245,000 -	2.45 -		
Refunding Bonds	2012	\$270,000	3.10	\$ 1,275,000	\$ 1,275,000
Less: unamortized discount					(4,782)
Net General Obligation Bonds					\$ 1,270,218
 Minnesota Pollution Control					
Agency (MnPCA) loans	2016	N/A	2.00	\$ 288,520	\$ 288,520

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Payments on the general obligation bonds are made from the Debt Service Fund. Compensated absences are liquidated by each fund based on actual direct labor hours incurred.

In 2004, the County entered into a loan agreement with the Minnesota Pollution Control Agency for High Island Creek Watershed septic system loans. According to the agreement, the County could borrow as much as \$191,000. The total amount disbursed through December 31, 2007, was \$103,643. Repayment of the loans is scheduled to begin in June 2008.

In 2007, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Buffalo Creek Watershed septic system loans. According to the agreement, the County can borrow as much as \$215,000. The total amount disbursed through December 31, 2007, was \$184,877. Repayment of the principal will not begin until 2010. Since the County is uncertain as to how much it will have borrowed by that time, a repayment schedule is not being published here.

4. Debt Service Requirements

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

Governmental Activities

Year Ending December 31	General Obligation Bonds		High Island Creek Watershed Septic System Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 245,000	\$ 32,541	\$ 9,617	\$ 2,059	\$ 254,617	\$ 34,600
2009	250,000	26,290	9,810	1,866	259,810	28,156
2010	250,000	19,540	10,007	1,669	260,007	21,209
2011	260,000	12,205	10,207	1,467	270,207	13,672
2012	270,000	4,185	10,413	1,262	280,413	5,447
2013 - 2016	-	-	53,589	3,086	53,589	3,086
Total	\$ 1,275,000	\$ 94,761	\$ 103,643	\$ 11,409	\$ 1,378,643	\$ 106,170

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. 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					
General obligation bonds	\$ 3,635,000	\$ -	\$ 2,360,000	\$ 1,275,000	\$ 245,000
MnPCA loans	103,028	185,492	-	288,520	9,617
Less: discounts	(5,738)	956	-	(4,782)	-
Total bonds and loans payable	\$ 3,732,290	\$ 186,448	\$ 2,360,000	\$ 1,558,738	\$ 254,617
Compensated absences	1,196,686	35,799	-	1,232,485	835,625
Long-Term Liabilities	\$ 4,928,976	\$ 222,247	\$ 2,360,000	\$ 2,791,223	\$ 1,090,242

6. Bond Refunding

In 2005, the County issued \$1,275,000 General Obligation Capital Improvement Refunding Bonds to refund the 2000A General Obligation Capital Improvement Bonds. This is a crossover refunding with the proceeds deposited with an escrow agent. The 2000A Series was called on February 1, 2007, and redeemed with proceeds from the escrow account. On February 1, 2008, the County will “crossover” and begin making payments on the 2005 General Obligation Capital Improvement Refunding Bonds. This refunding resulted in an economic gain of \$43,805 and reduced future debt service payments by \$50,012.

4. Risk Management

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

4. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$400,000 and \$410,000 per claim in 2007 and 2008, respectively. 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. Premiums are paid by the General Fund and are reimbursed from other funds for their share.

In 2000, the County entered into an agreement with Sibley County to provide a mechanism for utilizing a pooled, self-funded health insurance program under the authority granted to counties in Minn. Stat. § 471.59. Premiums are paid to MCIT, which provides bookkeeping services to the counties, including the payment of claims. For both 2007 and 2008, the County has retained risk up to a \$125,000 stop-loss per covered person per year (\$1,000,000 aggregate) for the health plan.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended December 31	
	2007	2006
Unpaid claims, beginning of fiscal year	\$ 96,997	\$ 158,616
Incurred claims (including IBNRs)	1,044,922	1,099,063
Claims payments	(1,063,663)	(1,160,682)
Unpaid Claims, End of Fiscal Year	\$ 78,256	\$ 96,997

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of McLeod 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 (Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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.

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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

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:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2007	\$ 520,741	\$ 156,865	\$ 72,309
2006	430,409	132,045	60,613
2005	399,704	103,470	53,925

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

B. Defined Contribution Plan

Four commissioners of McLeod County are 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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

B. Defined Contribution Plan (Continued)

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.

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

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 5,498	\$ 5,498
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

6. Summary of Significant Contingencies and Other Items

A. Secondary Liability for Bonds

The Essential Function Housing Development Revenue Bond of 1996 was issued by the Housing and Redevelopment Authority of McLeod County (HRA) for \$1,200,000. McLeod County is secondarily liable for up to \$120,000, or ten percent of the total principal amount drawn against the bond, whichever is less, if the HRA would fail to pay.

The Essential Function Housing Development Revenue Bond of 1997 was issued by the HRA for \$1,200,000. McLeod County is secondarily liable for up to \$120,000, or ten percent of the total principal amount drawn against the bond, whichever is less, if the HRA would fail to pay.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Secondary Liability for Bonds (Continued)

The Essential Function Housing Development Revenue Bond of 1999 was issued by the HRA for \$1,119,000. McLeod County is secondarily liable for up to \$75,000 each calendar year if the HRA would fail to pay.

The Essential Function Housing Development Revenue Bond of 2001 was issued by the HRA for \$1,235,000. McLeod County is secondarily liable for up to \$75,000 in the aggregate.

B. Contingent Liabilities

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

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

C. Conduit Debt Obligation

The County has issued Commercial Development Revenue Bonds (Southwest Minnesota Foundation Project) for the purpose of financing all or a portion of the costs of acquisition of land and the construction of an administration building. The bonds are secured by the financed property and are payable solely from the revenue of the project. The bonds do not constitute a charge, lien, or encumbrance, legal or equitable, upon any property or funds of the County, nor is the County subject to any liability thereon. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The amount of outstanding principal was \$3,500,000 as of December 31, 2007.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

D. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the County entered into a joint powers agreement with Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, Meeker, Nobles, Pipestone, Redwood, Renville, Rock, Swift, and Yellow Medicine Counties; and Lincoln, Lyon, and Murray Counties, represented by the Lincoln, Lyon, and Murray Human Services Board, creating and operating the Southwestern Minnesota Adult Mental Health Consortium Board under the authority of Minn. Stat. § 471.59. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host. The Board shall take actions and enter into such agreements as may be necessary to plan and develop within the Board's geographic jurisdiction, a system of care that will serve the needs of adults with serious and persistent mental illness. The governing board is composed of one board member from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

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

Meeker-McLeod-Sibley Community Health Services Board

The Meeker-McLeod-Sibley Community Health Services Board was established pursuant to Minn. Stat. §§ 145A.09 to 145A.16, Minn. Stat. § 471.59, and a joint powers agreement, effective April 19, 1990. The Community Health Services Board consists of 15 members, five each from Meeker, McLeod, and Sibley Counties. McLeod County is the fiscal agent. The primary function of the joint venture is to provide health services and to promote efficiency and economy in the delivery of health services. The joint venture is financed primarily from state and federal grants.

Current financial statements are available at its offices at P. O. Box 398, Hutchinson, Minnesota 55350.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Minnesota River Basin

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

The management of the Joint Powers Board is vested in the Board of Directors consisting of one member and an alternate from each County Board of Commissioners included in this agreement. According to the latest information available, 37 counties are members under this agreement.

Complete financial statements for the Joint Powers Board can be obtained from its administrative office at 184 Trafton Science Center, Minnesota State University at Mankato, Mankato, Minnesota 56001.

Regional Library

Western Plains merged with the Crow River Library System in 1983 to become the Pioneerland Library System (Minn. Stat. ch. 134).

McLeod County is a signatory along with 32 cities and 9 other counties to a joint powers agreement (revised in 2001) that forms the Pioneerland Library System. Funding provided by McLeod County to the Pioneerland Library System is used to operate four public libraries in McLeod County (Brownton, Glencoe, Hutchinson, and Winsted) and to provide efficiencies and improvements in those libraries and to library services to the citizens of the County.

Pioneerland Library System is audited annually, and copies of the audit are provided to the McLeod County Administrator's Office and to the Minnesota Department of Education.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Southwest Metro Drug Task Force

The Southwest Metro Drug Task Force was established in 2000 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Carver, McLeod, and Scott Counties, and the Cities of Belle Plaine, Glencoe, Hutchinson, South Lake Minnetonka, Lester Prairie, Minnetrista, Shakopee, Stewart, and Winsted. The Drug Task Force's objectives are to detect, investigate, and apprehend controlled substance offenders in the three-county area.

Control of the Drug Task Force is vested in the Southwest Metro Drug Task Force Executive Committee. The Executive Committee consists of one designated official from each of the three counties and nine cities. In the event of dissolution of the Drug Task Force, the remaining net assets will be distributed among the agencies based on their level of participation. However, if only one agency terminates the agreement and the Drug Task Force continues, all equipment will remain with the Drug Task Force.

Financing is provided by grants, forfeiture money, and appropriations from members. Complete financial information can be obtained from Jason Bullard, Assistant Finance Director, 129 Holmes Street South, Shakopee, Minnesota 55379.

Prime West Health System

In December 1998, McLeod County became a member of the Prime West Central County-Based Purchasing Initiative Joint Powers Board (since renamed Prime West Health System) with Big Stone, Douglas, Grant, Meeker, Pipestone, Pope, Renville, Stevens, and Traverse Counties. McLeod County, in partnership with these nine counties, is organized to directly purchase health care services for county residents who are eligible for Medical Assistance and General Assistance Medical Care. County-based purchasing is the local control alternative favored for improved coordination of services to prepaid Medical Assistance programs in complying with Minnesota Department of Health requirements as set forth in Minn. Stat. chs. 62D and 62N.

Funding from the state is the revenue source for this program.

Douglas County acts as fiscal agent for the Prime West Health System and reports the cash transactions as an investment trust fund on its financial statements.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Prime West Health System (Continued)

Complete financial information can be obtained from its administrative office from Jim Przybilla, CEO, Prime West Health System, Douglas County Courthouse, 305 - 8th Avenue West, Alexandria, Minnesota 56308.

Crow River Joint Powers Agreement

In April 1999, McLeod County entered into a joint powers agreement with Carver, Hennepin, Kandiyohi, Meeker, Pope, Renville, Sibley, Stearns, and Wright Counties, creating the Crow River Joint Powers Agreement. The agreement is authorized by Minn. Stat. §§ 103B.311, 103B.315, and 471.59. The Prairie County Resource Conservation and Development Council is the fiscal agent for this joint powers agreement. The Board of Directors meets at least two times per year, or more often if needed, at the location to be set by the chair of the Board. The purpose of this agreement is the joint exercise of powers by the member counties to promote the orderly water quality improvement and management of the Crow River Watershed through information sharing, education, coordination, and related support to the member counties by assisting in the implementation and goal achievement of comprehensive water plans which counties may develop and implement.

The governing board is composed of one board member from each of the participating counties. Financing is provided by state proceeds. Current financial statements are not available.

Trailblazer Transit Board

McLeod County entered into a joint powers agreement creating and operating the Trailblazer Transit Board, pursuant to Minn. Stat. § 471.59 and a joint powers agreement, effective June 8, 1999. Management of the Transit Board is vested in the Joint Powers Board consisting of two members appointed by McLeod and Sibley Counties from each County Board of Commissioners.

McLeod County appoints an additional member, bringing the Transit Board membership size to five. The primary purpose of the Transit Board is to provide centralized planning and implementation of needed public transit services.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Trailblazer Transit Board (Continued)

Financing is primarily provided from state and federal grants. Member counties are committed to providing the local match necessary to meet the requirements for state and federal funding. Current financial statements can be obtained with a one-day notice from the administrative office at Trailblazer Transit, Gary Ludwig, Director, 112 - 5th Street, Gaylord, Minnesota 55334.

Supporting Hands Nurse Family Partnership Board

The Supporting Hands Nurse Family Partnership Board was established pursuant to Minn. Stat. §§ 471.59, Minn. Stat. 145A.17, and a joint powers agreement, effective June 5, 2007. The board consists of 12 members, which include an appointed commissioner from each participating county. McLeod County is the fiscal agent. The primary purpose of the joint venture is to improve the health and life-course of low-income, first-time mothers and their children. The joint venture is financed primarily by contributions from participating counties.

Audited financial statements are available at the McLeod County Auditor's Office, 2385 Hennepin Avenue N., Glencoe, Minnesota 55336.

E. Jointly-Governed Organizations

McLeod Family Connection Collaborative

McLeod County, in conjunction with other local governments and various private organizations, has formed the McLeod Family Connection Collaborative. The Collaborative was established to provide leadership and facilitation to families, youth, and providers. The goals are to provide increased education and support services to children, families, and communities; meet the educational, health, safety, emotional, and cultural needs of children through increased collaboration between agencies in McLeod County; and redesign inter-agency service delivery systems. McLeod County is the fiscal agent of the Collaborative.

McLeod County has no operational or financial control over the Collaborative. Complete financial information can be obtained from its administrative office at McLeod Family Connection Collaborative, Health and Human Services Building, 1805 Ford Avenue, Suite 100, Glencoe, Minnesota 55336.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Aitkin, Beltrami, Clay, Clearwater, Cook, Crow Wing, Itasca, Kittson, Lake, Lake of the Woods, Mahnomen, Marshall, McLeod, Norman, Otter Tail, Pennington, Polk, Red Lake, Roseau, Stevens, and Wadena Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, which is currently composed of seven delegates and six alternates, who are appointed annually by member counties by Association of Minnesota Counties district.

7. Housing and Redevelopment Authority - Discretely Presented Component Unit Disclosures

A. Summary of Significant Accounting Policies

The Housing and Redevelopment Authority (HRA) was created under the laws of the State of Minnesota and serves McLeod County. The purpose of the HRA is to administer the public housing programs authorized by the United States Housing Act of 1937, as amended. These programs are subsidized by the Federal Government through the U.S. Department of Housing and Urban Development (HUD). The HRA provides assistance grants to eligible families of the Section 8 Housing Choice Vouchers Program. Also, the HRA operates 18 four-plex rental units in McLeod County for families with moderate income.

The accounting policies of the HRA conform to accounting principles generally accepted in the United States of America as applicable to governmental units. For its proprietary activities, the HRA applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Property and Equipment

Property and equipment are stated at historical or estimated historical cost and are depreciated using the straight-line method over their estimated useful lives ranging from 6 to 40 years.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Housing and Redevelopment Authority - Discretely Presented Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Bond Issuance Costs

Bond issuance costs are stated at historical cost and are depreciated using the straight-line method over 30 years.

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.

B. Cash and Investments

The HRA's cash and investments at June 30, 2007, are summarized as follows:

Cash on deposit	
Restricted	\$ 7,871
Unrestricted	<u>106,187</u>
Total cash on deposit	\$ 114,058
Certificates of deposit, due within one year	
Restricted	<u>29,715</u>
Total Cash and Investments	<u>\$ 143,773</u>

Deposits

In accordance with Minnesota statutes, the HRA maintains deposits at depository banks authorized by the HRA Board. All such depositories are federally insured. The entire bank balance throughout the year was covered by federal depository insurance or by collateral held by the HRA's agent in the HRA's name.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Housing and Redevelopment Authority - Discretely Presented Component Unit Disclosures

B. Cash and Investments

Deposits (Continued)

The carrying amount of the HRA's deposits with financial institutions was \$143,773 as of June 30, 2007. Bank balances were \$160,571 as of June 30, 2007; \$123,106 was insured by the FDIC, and the remainder was covered by qualified collateral held in safekeeping.

Minnesota statutes require that all HRA deposits be protected by insurance, surety bond, or collateral and that securities pledged as collateral be legal instruments and be held in safekeeping by the HRA treasurer or in a financial institution other than that furnishing the collateral. The market value of collateral pledged must generally exceed deposits not covered by insurance or bonds by at least ten percent. The HRA was in compliance with these Minnesota statutes at all times during the year ended June 30, 2007.

Investments

The HRA is authorized to invest available funds as described in Minn. Stat. ch. 118A. The following types of investments are allowed by Minnesota statutes:

- direct obligations or obligations guaranteed by the United States or its agencies;
- shares of investment companies registered under the Federal Investment Company Act of 1940 whose only investments are in securities described in Minnesota statutes;
- general obligations of the State of Minnesota or any of its municipalities and other state and local government obligations as listed in Minnesota statutes;
- bankers' acceptances of United States banks, eligible for purchase by the Federal Reserve System;
- commercial paper issued by United States corporations or their Canadian subsidiaries that is of the highest quality and matures in 270 days or less;

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Housing and Redevelopment Authority - Discretely Presented Component Unit Disclosures

B. Cash and Investments

Investments (Continued)

- repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in United States government securities reporting to the Federal Reserve Bank of New York, certain Minnesota securities broker-dealers, or a bank qualified as a depository; and
- guaranteed investment contracts issued or guaranteed by a United States commercial bank or domestic branch of a foreign bank or a United States insurance company or its Canadian or United States subsidiary, provided it ranks on a parity with the senior unsecured debt obligations of the issuer or guarantor and meets other requirements as stated in Minnesota statutes.

C. Property and Equipment

The following is a summary of property and equipment transactions:

	<u>July 1, 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2007</u>
Land	\$ 197,000	\$ -	\$ -	\$ 197,000
Site improvements	159,549	7,335	-	166,884
Building	4,343,003	-	-	4,343,003
Appliances	117,433	-	-	117,433
 Total	 \$ 4,816,985	 \$ 7,335	 \$ -	 \$ 4,824,320
Accumulated depreciation	(936,988)	(131,604)	-	(1,068,592)
 Totals	 \$ 3,879,997	 \$ (124,269)	 \$ -	 \$ 3,755,728

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Housing and Redevelopment Authority - Discretely Presented Component Unit Disclosures
(Continued)

D. Long-Term Debt Payable

The following is a summary of long-term debt transactions for the year ended June 30, 2007:

	<u>July 1, 2006</u>	<u>Issued</u>	<u>Payments</u>	<u>June 30, 2007</u>
Essential Function Housing Development Bond of 1996	\$ 1,028,364	\$ -	\$ 27,447	\$ 1,000,917
Essential Function Housing Development Bond of 1997	1,047,181	-	27,162	1,020,019
Essential Function Housing Development Bond of 1999	1,013,773	-	23,003	990,770
Essential Function Housing Development Bond of 2001	1,154,823	-	19,636	1,135,187
Assessments payable	<u>23,140</u>	<u>7,336</u>	<u>8,563</u>	<u>21,913</u>
Totals	<u>\$ 4,267,281</u>	<u>\$ 7,336</u>	<u>\$ 105,811</u>	<u>\$ 4,168,806</u>

The Essential Function Housing Development Revenue Bond of 1996 matures on September 1, 2027. The bond currently bears an interest rate of 5.000 percent per annum until July 1, 2008, at which time the rate becomes 6.125 percent per annum; the interest rate is thereafter adjustable periodically over the life of the bond. Principal and interest are payable monthly. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are insufficient to meet the bond obligations, the HRA may request funds from the McLeod County General Fund by ordering a County-wide tax levy not to exceed \$120,000. The HRA agrees to repay the funds to McLeod County from any subsequent excess cash flows.

The Essential Function Housing Development Revenue Bond of 1997 matures on April 1, 2028. The bond currently bears an interest rate of 5.000 percent per annum until July 1, 2008, at which time the rate becomes 6.125 percent per annum; the interest rate is thereafter adjustable periodically over the life of the bond. Principal and interest are payable monthly. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are insufficient to meet the bond obligations, the HRA may request funds from the McLeod County General Fund by ordering a County-wide tax levy not to exceed \$120,000. The HRA agrees to repay the funds to McLeod County from any subsequent excess cash flows.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Housing and Redevelopment Authority - Discretely Presented Component Unit Disclosures

D. Long-Term Debt Payable (Continued)

The Essential Function Housing Development Revenue Bond of 1999 matures on May 1, 2030. The bond bears an interest rate of 5.000 percent per annum until July 1, 2008, at which time the rate becomes 6.125 percent per annum; the interest rate is thereafter adjustable periodically over the life of the bond. Principal and interest are payable monthly. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are insufficient to meet the operation and maintenance costs, the HRA may request funds from the McLeod County General Fund by ordering a County-wide tax levy not to exceed \$75,000 each calendar year. The HRA agrees to repay the funds to McLeod County after bond obligations have been fulfilled.

The Essential Function Housing Development Revenue Bond of 2001 matures on June 1, 2022. The bond bears an interest rate of 5.400 percent per annum payable monthly; the interest rate shall be adjusted periodically over the life of the bond. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are insufficient to meet the operation and maintenance costs, the HRA may request funds from the McLeod County General Fund by ordering a County-wide tax levy not to exceed \$75,000 each calendar year. The HRA agrees to repay the funds to McLeod County after bond obligations have been fulfilled.

The assessment is payable to the City of Glencoe for the installation of sewer and water facilities. The debt matures April 1, 2009, and bears interest at the rate of 5.00 percent. Payments of \$2,369, including principal and interest, are payable quarterly beginning January 1, 2005. The debt is secured by the property in Glencoe.

The assessment is payable to the City of Brownton for street upgrades. The debt matures October 15, 2026, and bears interest at the rate of 7.50 percent. Payments of \$359.80, including principal and interest, are payable semi-annually beginning May 15, 2007.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Housing and Redevelopment Authority - Discretely Presented Component Unit Disclosures

D. Long-Term Debt Payable (Continued)

The estimated debt service requirements as of June 30, 2007, are as follows:

<u>Years Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 111,056	\$ 210,388	\$ 321,444
2009	116,752	204,692	321,444
2010	116,714	198,766	315,480
2011	121,610	192,726	314,336
2012	127,948	186,387	314,335
2013 - 2017	747,039	824,634	1,571,673
2018 - 2022	963,239	608,462	1,571,701
2023 - 2027	1,241,512	329,560	1,571,072
2028 - 2032	622,936	61,785	684,721
Totals	<u>\$ 4,168,806</u>	<u>\$ 2,817,400</u>	<u>\$ 6,986,206</u>

E. Risk Management

The HRA is insured by commercial property and liability insurance. There have been no significant reductions in coverage. There have been no settlements in excess of the HRA's insurance coverage in any of the immediately preceding three years.

F. Prior Period Adjustment

The HRA had a reclassification of amounts payable to HUD pursuant to Notice 2006-3, totaling \$37,518.

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REQUIRED SUPPLEMENTARY INFORMATION

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 9,005,979	\$ 9,005,979	\$ 8,122,178	\$ (883,801)
Special assessments	-	-	779	779
Licenses and permits	99,825	107,825	94,502	(13,323)
Intergovernmental	2,832,640	2,991,216	3,918,586	927,370
Charges for services	1,545,273	1,618,273	1,689,941	71,668
Fines and forfeits	20,775	25,775	32,114	6,339
Gifts and contributions	7,900	7,900	19,016	11,116
Investment earnings	510,650	1,310,650	1,333,038	22,388
Miscellaneous	291,073	316,473	461,388	144,915
Total Revenues	\$ 14,314,115	\$ 15,384,091	\$ 15,671,542	\$ 287,451
Expenditures				
Current				
General government				
Commissioners	\$ 274,397	\$ 262,397	\$ 250,125	\$ 12,272
County-wide	410,892	477,039	243,692	233,347
Courts	74,000	127,000	118,701	8,299
Law library	40,000	40,000	42,984	(2,984)
County administrator	209,978	209,978	213,601	(3,623)
County auditor	528,490	493,354	471,781	21,573
County treasurer	202,902	202,902	198,106	4,796
County assessor	347,833	347,833	331,976	15,857
Elections	63,675	63,675	6,675	57,000
Data processing	723,681	723,681	664,709	58,972
Central services	253,290	253,290	190,560	62,730
Attorney	448,761	448,761	485,446	(36,685)
Recorder	606,993	575,993	557,441	18,552
Planning and zoning	211,827	211,827	198,179	13,648
Buildings	661,453	709,453	611,671	97,782
County insurance	238,105	238,105	246,484	(8,379)
Veterans service officer	126,674	126,674	121,176	5,498
Fairgrounds	227,397	227,397	228,902	(1,505)
Safety	2,277	2,277	531	1,746
Other general government	1,500	279,500	279,922	(422)
Total general government	\$ 5,654,125	\$ 6,021,136	\$ 5,462,662	\$ 558,474

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**Schedule 1
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 3,418,534	\$ 3,365,988	\$ 3,105,930	\$ 260,058
Inmate account	-	-	8,040	(8,040)
Probation officer	356,459	341,389	357,763	(16,374)
County jail	2,245,980	2,024,980	1,915,238	109,742
Juvenile detention	2,300	2,300	8,536	(6,236)
Sheriff posse	36,000	36,000	49,541	(13,541)
Sheriff radio	-	31,300	31,373	(73)
Coroner	99,861	99,861	91,917	7,944
Emergency services	99,487	99,487	105,624	(6,137)
Total public safety	\$ 6,258,621	\$ 6,001,305	\$ 5,673,962	\$ 327,343
Health				
Nursing service	\$ 1,787,888	\$ 1,696,878	\$ 1,707,826	\$ (10,948)
Culture and recreation				
Historical society	\$ 35,000	\$ 35,000	\$ 35,000	\$ -
Regional library	160,000	162,541	162,541	-
Other	24,200	25,100	24,400	700
Parks	335,497	335,497	351,028	(15,531)
Snowmobile trail grant	30,000	30,000	43,803	(13,803)
Total culture and recreation	\$ 584,697	\$ 588,138	\$ 616,772	\$ (28,634)
Conservation of natural resources				
Soil and water conservation	\$ 56,000	\$ 56,000	\$ 56,000	\$ -
County extension	201,537	221,537	202,389	19,148
Agriculture ditch inspector	18,543	18,543	13,615	4,928
Water planning	34,509	34,509	31,140	3,369
Wetland	21,781	21,781	33,971	(12,190)
Shoreland	7,062	7,062	6,808	254
Board of adjustment	3,101	3,101	3,615	(514)
Feedlot	53,159	53,159	64,629	(11,470)
Environmental services	123,650	123,650	116,306	7,344
Other	7,294	7,294	6,328	966
Ag programming	-	-	2,352	(2,352)
Septic loans	16,000	184,987	185,492	(505)
Total conservation of natural resources	\$ 542,636	\$ 731,623	\$ 722,645	\$ 8,978

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 1
(Continued)

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Housing and redevelopment authority	\$ 2,476	\$ 2,476	\$ 2,449	\$ 27
Total Expenditures	\$ 14,830,443	\$ 15,041,556	\$ 14,186,316	\$ 855,240
Excess of Revenues Over (Under)				
Expenditures	\$ (516,328)	\$ 342,535	\$ 1,485,226	\$ 1,142,691
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 1,903,786	\$ 1,903,786
Transfers out	-	-	(542)	(542)
Loan issued	16,000	184,987	185,492	505
Proceeds from the sale of capital assets	7,000	7,000	18,236	11,236
Total Other Financing Sources (Uses)	\$ 23,000	\$ 191,987	\$ 2,106,972	\$ 1,914,985
Net Change in Fund Balance	\$ (493,328)	\$ 534,522	\$ 3,592,198	\$ 3,057,676
Fund Balance - January 1	11,105,297	11,105,297	11,105,297	-
Increase (decrease) in reserved for inventories	-	-	(2,168)	(2,168)
Fund Balance - December 31	\$ 10,611,969	\$ 11,639,819	\$ 14,695,327	\$ 3,055,508

**McLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 2

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,565,085	\$ 2,565,085	\$ 2,304,928	\$ (260,157)
Licenses and permits	6,000	6,000	5,575	(425)
Intergovernmental	9,177,000	7,802,000	4,718,666	(3,083,334)
Charges for services	135,000	135,000	105,138	(29,862)
Miscellaneous	34,000	34,000	24,082	(9,918)
Total Revenues	\$ 11,917,085	\$ 10,542,085	\$ 7,158,389	\$ (3,383,696)
Expenditures				
Current				
Highways and streets				
Administration	\$ 773,904	\$ 953,904	\$ 816,207	\$ 137,697
GIS	420,650	420,650	474,348	(53,698)
Maintenance	1,686,036	1,686,036	1,609,479	76,557
Engineering/construction	8,333,000	7,993,000	4,559,167	3,433,833
Equipment, maintenance, and shop	703,495	703,495	692,666	10,829
Total Expenditures	\$ 11,917,085	\$ 11,757,085	\$ 8,151,867	\$ 3,605,218
Excess of Revenues Over (Under) Expenditures	\$ -	\$ (1,215,000)	\$ (993,478)	\$ 221,522
Other Financing Sources (Uses)				
Transfers in	-	124,105	124,105	-
Net Change in Fund Balance	\$ -	\$ (1,090,895)	\$ (869,373)	\$ 221,522
Fund Balance - January 1	5,293,024	5,293,024	5,293,024	-
Increase (decrease) in reserved for inventories	-	-	9,193	9,193
Fund Balance - December 31	\$ 5,293,024	\$ 4,202,129	\$ 4,432,844	\$ 230,715

**McLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 3

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,984,969	\$ 3,984,969	\$ 3,584,367	\$ (400,602)
Intergovernmental	3,568,147	3,568,147	3,862,801	294,654
Charges for services	625,229	625,229	799,856	174,627
Gifts and contributions	-	-	336	336
Miscellaneous	296,246	296,246	180,959	(115,287)
Total Revenues	\$ 8,474,591	\$ 8,474,591	\$ 8,428,319	\$ (46,272)
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,918,753	\$ 1,918,753	\$ 1,822,552	\$ 96,201
Social services	6,307,077	6,307,077	5,992,563	314,514
Transit authority	248,761	402,344	411,227	(8,883)
Total Expenditures	\$ 8,474,591	\$ 8,628,174	\$ 8,226,342	\$ 401,832
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ (153,583)	\$ 201,977	\$ 355,560
Fund Balance - January 1	3,732,303	3,732,303	3,732,303	-
Fund Balance - December 31	\$ 3,732,303	\$ 3,578,720	\$ 3,934,280	\$ 355,560

**McLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 5,000	\$ 5,000	\$ 9,640	\$ 4,640
Intergovernmental	80,000	80,000	81,074	1,074
Charges for services	1,060,000	1,864,500	1,878,189	13,689
Investment earnings	152,600	2,600	-	(2,600)
Miscellaneous	20,001	36,001	32,758	(3,243)
Total Revenues	\$ 1,317,601	\$ 1,988,101	\$ 2,001,661	\$ 13,560
Expenditures				
Current				
Sanitation				
Recycling	1,763,560	1,855,060	1,695,698	159,362
Excess of Revenues Over (Under) Expenditures	\$ (445,959)	\$ 133,041	\$ 305,963	\$ 172,922
Other Financing Sources (Uses)				
Transfers in	\$ 1,035,259	\$ 600,000	\$ -	\$ (600,000)
Transfers out	(1,035,259)	(600,000)	-	600,000
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ -
Net Change in Fund Balance	\$ (445,959)	\$ 133,041	\$ 305,963	\$ 172,922
Fund Balance - January 1	3,887,106	3,887,106	3,887,106	-
Increase (decrease) in reserved for inventories	-	-	(28,246)	(28,246)
Fund Balance - December 31	\$ 3,441,147	\$ 4,020,147	\$ 4,164,823	\$ 144,676

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Solid Waste Special Revenue Fund, and the Debt Service Fund. The County Board can amend budgets during the year.

On December 19, 2006, the Board approved the budgets for the General Fund, Road and Bridge Special Revenue Fund, Solid Waste Special Revenue Fund, Human Services Special Revenue Fund, and the Debt Service Fund.

The appropriated budget is prepared by fund, function, and department.

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SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	Ditch Special Revenue	Debt Service	Total
<u>Assets</u>			
Cash and pooled investments	\$ 128,427	\$ 681,947	\$ 810,374
Taxes receivable			
Prior	-	1,408	1,408
Special assessments receivable			
Prior	1,298	-	1,298
Noncurrent	101,281	-	101,281
Accrued interest receivable	90	-	90
Due from other governments	309	-	309
	\$ 231,405	\$ 683,355	\$ 914,760
Total Assets	\$ 231,405	\$ 683,355	\$ 914,760
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 3,000	\$ -	\$ 3,000
Accrued interest payable	269	-	269
Advance from other funds	94,550	-	94,550
Due to other governments	9,259	-	9,259
Deferred revenue - unavailable	102,797	1,408	104,205
	\$ 209,875	\$ 1,408	\$ 211,283
Total Liabilities	\$ 209,875	\$ 1,408	\$ 211,283
Fund Balances			
Unreserved			
Designated for debt service	\$ -	\$ 681,947	\$ 681,947
Undesignated	21,530	-	21,530
	\$ 21,530	\$ 681,947	\$ 703,477
Total Fund Balances	\$ 21,530	\$ 681,947	\$ 703,477
Total Liabilities and Fund Balances	\$ 231,405	\$ 683,355	\$ 914,760

**McLEOD COUNTY
GLENCOE, MINNESOTA**

Statement 2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Total</u>
	<u>Ditch</u>	<u>Forfeited Tax</u>		
Revenues				
Taxes	\$ -	\$ -	\$ 2,491,257	\$ 2,491,257
Special assessments	60,880	-	-	60,880
Intergovernmental	-	-	250,588	250,588
Investment earnings	5,251	-	-	5,251
Total Revenues	\$ 66,131	\$ -	\$ 2,741,845	\$ 2,807,976
Expenditures				
Current				
General government	\$ -	\$ 542	\$ -	\$ 542
Conservation of natural resources	70,498	-	-	70,498
Debt service				
Principal	-	-	2,360,000	2,360,000
Interest	4,508	-	92,962	97,470
Administrative - fiscal charges	-	-	1,000	1,000
Total Expenditures	\$ 75,006	\$ 542	\$ 2,453,962	\$ 2,529,510
Excess of Revenues Over (Under) Expenditures	\$ (8,875)	\$ (542)	\$ 287,883	\$ 278,466
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ 542	\$ -	\$ 542
Transfers out	-	-	(2,451,651)	(2,451,651)
Total Other Financing Sources (Uses)	\$ -	\$ 542	\$ (2,451,651)	\$ (2,451,109)
Net Change in Fund Balance	\$ (8,875)	\$ -	\$ (2,163,768)	\$ (2,172,643)
Fund Balance - January 1	30,405	-	2,845,715	2,876,120
Fund Balance - December 31	\$ 21,530	\$ -	\$ 681,947	\$ 703,477

DEBT SERVICE FUND

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 5

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,775,781	\$ 2,775,781	\$ 2,491,257	\$ (284,524)
Intergovernmental	-	-	250,588	250,588
Total Revenues	\$ 2,775,781	\$ 2,775,781	\$ 2,741,845	\$ (33,936)
Expenditures				
Debt service				
Principal	\$ 1,548,231	\$ 1,133,231	\$ 2,360,000	\$ (1,226,769)
Interest	1,106,220	63,420	92,962	(29,542)
Administrative charges	500	500	1,000	(500)
Total Expenditures	\$ 2,654,951	\$ 1,197,151	\$ 2,453,962	\$ (1,256,811)
Excess of Revenues Over (Under) Expenditures	\$ 120,830	\$ 1,578,630	\$ 287,883	\$ (1,290,747)
Other Financing Sources (Uses)				
Transfers out	-	(2,451,651)	(2,451,651)	-
Net Change in Fund Balance	\$ 120,830	\$ (873,021)	\$ (2,163,768)	\$ (1,290,747)
Fund Balance - January 1	2,845,715	2,845,715	2,845,715	-
Fund Balance - December 31	\$ 2,966,545	\$ 1,972,694	\$ 681,947	\$ (1,290,747)

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AGENCY FUNDS

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

Statement 3

**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
<u>MEEKER-MCLEOD-SIBLEY</u>				
<u>COMMUNITY HEALTH SERVICES</u>				
<u>FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 196,434	\$ 1,753,864	\$ 1,799,869	\$ 150,429
Due from other governments	228,352	256,660	228,352	256,660
Total Assets	\$ 424,786	\$ 2,010,524	\$ 2,028,221	\$ 407,089
<u>Liabilities</u>				
Accounts payable	\$ 4,733	\$ 13,042	\$ 4,733	\$ 13,042
Due to other governments	420,053	394,047	420,053	394,047
Total Liabilities	\$ 424,786	\$ 407,089	\$ 424,786	\$ 407,089
<u>SUPPORTING HANDS NURSE</u>				
<u>FAMILY PARTNERSHIP FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 162,434	\$ 41,192	\$ 121,242
Due from other governments	-	15,000	-	15,000
Total Assets	\$ -	\$ 177,434	\$ 41,192	\$ 136,242
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 332	\$ -	\$ 332
Salaries payable	-	9,496	-	9,496
Accrued payroll taxes	-	975	-	975
Accrued expenses	-	699	-	699
Due to other governments	-	124,740	-	124,740
Total Liabilities	\$ -	\$ 136,242	\$ -	\$ 136,242

**McLEOD COUNTY
GLENCOE, MINNESOTA**

Statement 3
(Continued)

**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
<u>TAXES AND PENALTIES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 311,794	\$ 38,413,968	\$ 38,430,414	\$ 295,348
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 1,900	\$ -	\$ 1,900
Due to other governments	311,794	293,448	311,794	293,448
Total Liabilities	\$ 311,794	\$ 295,348	\$ 311,794	\$ 295,348
 <u>STATE AGENCY FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 127,495	\$ 3,649,235	\$ 3,686,385	\$ 90,345
Departmental cash	2,333	2,519	2,333	2,519
Accounts receivable	815	1,976	815	1,976
Due from other governments	480	1,031	480	1,031
Total Assets	\$ 131,123	\$ 3,654,761	\$ 3,690,013	\$ 95,871
<u>Liabilities</u>				
Due to other governments	\$ 131,123	\$ 95,871	\$ 131,123	\$ 95,871

**McLEOD COUNTY
GLENCOE, MINNESOTA**

Statement 3
(Continued)

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>COUNTY COLLABORATIVE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 509,280	\$ 36,635	\$ 257,548	\$ 288,367
Due from other governments	-	2,648	-	2,648
Total Assets	\$ 509,280	\$ 39,283	\$ 257,548	\$ 291,015
<u>Liabilities</u>				
Accounts payable	\$ 14,875	\$ 6,449	\$ 14,875	\$ 6,449
Due to other governments	494,405	284,566	494,405	284,566
Total Assets	\$ 509,280	\$ 291,015	\$ 509,280	\$ 291,015
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,145,003	\$ 44,016,136	\$ 44,215,408	\$ 945,731
Departmental cash	2,333	2,519	2,333	2,519
Accounts receivable	815	1,976	815	1,976
Due from other governments	228,832	275,339	228,832	275,339
Total Assets	\$ 1,376,983	\$ 44,295,970	\$ 44,447,388	\$ 1,225,565
<u>Liabilities</u>				
Accounts payable	\$ 19,608	\$ 21,723	\$ 19,608	\$ 21,723
Salaries payable	-	9,496	-	9,496
Accrued payroll taxes	-	975	-	975
Accrued expenses	-	699	-	699
Due to other governments	1,357,375	1,192,672	1,357,375	1,192,672
Total Liabilities	\$ 1,376,983	\$ 1,225,565	\$ 1,376,983	\$ 1,225,565

**McLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 6

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

Shared Revenue

State

Highway users tax	\$	3,014,574
Market value credit		1,651,889
PERA rate reimbursement		36,151
Disparity reduction aid		60,762
County program aid		1,719,445
Police aid		142,058
E-911		73,013
		73,013

Total Shared Revenue

\$ 6,697,892

Reimbursement for Services

State

Minnesota Department of Human Services	\$	1,909,964
		1,909,964

Payments

Local

Payments in lieu of taxes	\$	72,390
		72,390

Grants

Local

Highway	\$	106,403
		106,403

State

Minnesota Department/Board of		
Corrections	\$	95,551
Public Safety		11,653
Transportation		66,214
Health		221,458
Natural Resources		43,803
Human Services		1,231,733
Water and Soil Resources		87,845
Veterans Affairs		2,100
Office of Environmental Assistance		81,074
		81,074

Total State

\$ 1,841,431

Federal

Department of		
Agriculture	\$	183,080
Justice		63,255
Transportation		1,308,589
Health and Human Services		634,288
Homeland Security		14,423
		14,423

Total Federal

\$ 2,203,635

Total Local, State, and Federal Grants

\$ 4,151,469

Total Intergovernmental Revenue

\$ 12,831,715

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**MCLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 7

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

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of McLeod County.
- B. Deficiencies in internal control were disclosed by the audit of financial statements of McLeod County and are reported in the "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*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of McLeod County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for McLeod County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:
 - Highway Planning and Construction
 - CFDA #20.205
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. McLeod County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

99-1 Accounting Policies and Procedures

Previous reports have recommended that a comprehensive manual of accounting policies and procedures be developed. The County Board has shown substantial progress in establishing accounting policies and procedures, including the adoption of a fund balance and journal entry policy in 2007. The Board also approved revisions to its credit card and investment policies in 2007. Of importance to the County's overall internal controls are written procedures covering the cash receipting process, revenue recognition, cash disbursement process, payroll process, and financial reporting. These areas are significant to the County's financial operations and should help in providing consistency over time and guidance to new officials and staff.

We commend the County for its progress to date. We recommend that, as part of its current policies and procedures, the County include the cash receipting process, revenue recognition, cash disbursement process, payroll process, and financial reporting.

Client's Response:

McLeod County recognizes the importance and the need for formal policies and procedures for all accounting functions. McLeod County will continue to work towards completion of these policies.

ITEM ARISING THIS YEAR

07-1 Monitoring Internal Controls

County management is responsible for monitoring the County's internal controls. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The assessment is intended to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

At a minimum, the following significant internal control areas should be documented:

- cash and investment activities;
- capital assets (capitalization process and related depreciation);
- major funding sources (taxes, intergovernmental revenues, charges for services, and miscellaneous items);
- expenditure processing; and
- payroll.

We recommend that County management document the significant internal controls in its accounting system, including a risk assessment and the process 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 be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

McLeod County understands the need for monitoring the internal controls of the financial system. The McLeod County Auditor will assess the internal controls periodically throughout the year.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

00-7 Business Continuity Plan

In previous years, McLeod County has acknowledged a need for a business continuity plan, but had not yet developed a plan to ensure continued operations if a disaster or major computer breakdown were to occur. McLeod County has since developed a business continuity plan; however, this plan has not yet been approved by the County Board.

We recommend that the County Board review and approve the business continuity plan.

Client's Response:

McLeod County has written a business continuity plan and is working towards getting it approved by the McLeod County Board of Commissioners.

06-1 Solid Waste Department - Contracting for Services

The Solid Waste Department collects recyclable materials and pays a private hauler to transport them to a recycling center. On the return trip, the private hauler transports materials for the recycler to its other customers. McLeod County pays the hauler for this return trip on behalf of the recycler and then is reimbursed by the recycler. No written agreements were in place for either of these transactions. During 2008, the Solid Waste Department worked with the County Board and the County Attorney to draft agreements for both the hauling of the recyclables and the return trips made by the hauler from the recycler to its customers.

We recommend that the County finalize the draft agreements and begin using them when entering into these activities.

Client's Response:

The Solid Waste Department recognizes the importance of written contracts with its hauling vendors. A sample contract has been approved by the McLeod County Attorney. Once the contracts have been established between the Solid Waste Department and its hauling vendors, final approval will be given by the McLeod County Board of Commissioners.

B. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for government employee pension benefits and plans, provides the accounting and reporting standards for the various 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 statement, accounting for OPEB is now similar to the accounting used by governments for pension plans.

This year, the legislature enacted a new law, Minn. Stat § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- it allows governments to create both irrevocable and revocable OPEB trusts;
- it authorizes the use of a different list of permissible investments for both irrevocable and revocable OPEB trusts; and
- it also permits governments 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 the statement are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to comply with 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 Board will have to decide whether to establish an irrevocable or a revocable 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.

If applicable for McLeod County, GASB Statement 45 would be implemented for the year ending December 31, 2008.



REBECCA OTTO
STATE AUDITOR

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

Board of County Commissioners
McLeod 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 McLeod County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 22, 2008. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the McLeod County Housing and Redevelopment Authority (HRA), as described in our report on McLeod County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered McLeod 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 a 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 Questioned Costs as items 99-1 and 07-1 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 McLeod 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, we believe neither of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether McLeod 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, McLeod County complied with the material terms and conditions of applicable legal provisions.

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

McLeod County's written responses to the significant deficiencies and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within McLeod County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

October 22, 2008

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

Board of County Commissioners
McLeod County

Compliance

We have audited the compliance of McLeod County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2007. McLeod County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

McLeod County's financial statements include the operations of the Housing and Redevelopment Authority (HRA) discretely presented component unit, which expended \$314,274 in federal awards during the year ended June 30, 2007, which are not included in the accompanying Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the McLeod County HRA because the McLeod County HRA was audited by other auditors.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about McLeod County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, McLeod County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

Internal Control Over Compliance

The management of McLeod County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by McLeod County's internal control.

Our consideration of internal control over compliance 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 or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

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 McLeod County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 22, 2008. We did not audit the financial statements of the McLeod County HRA, a component unit of McLeod County. Our audit was performed for the purpose of forming opinions on McLeod County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of County Commissioners, management and others within the County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

October 22, 2008

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 8

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Meeker-McLeod-Sibley Community Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 174,724
Passed Through Minnesota Department of Human Services Matching Grants for Food Stamp Program	10.561	<u>8,356</u>
Total U.S. Department of Agriculture		<u>\$ 183,080</u>
U.S. Department of Justice		
Direct Criminal Alien Assistance Program	16.606	\$ 20,304
Passed Through Meeker-McLeod-Sibley Community Health Services Drug-Free Communities Support Program	16.729	<u>42,951</u>
Total U.S. Department of Justice		<u>\$ 63,255</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,303,093
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	<u>5,496</u>
Total U.S. Department of Transportation		<u>\$ 1,308,589</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 5,777
Temporary Assistance for Needy Families (TANF)	93.558	127,966
Child Care and Development Block Grant	93.596	12,251
Foster Care Title IV-E	93.658	164,658
Social Services Block Grant Title XX	93.667	193,983
Chafee Foster Care Independent Living	93.674	1,666
Community Mental Health Block Grant	93.958	5,682
Passed Through Meeker-McLeod-Sibley Community Health Services Immunization Grants	93.268	2,000
Center for Disease Control and Prevention Block Grant	93.283	59,068
Comprehensive Breast/Cervical Cancer Control Program	93.919	3,500
Block Grant for Prevention and Treatment of Substance Abuse	93.959	25,695
Maternal and Child Health Services Block Grant	93.994	<u>32,042</u>
Total U.S. Department of Health and Human Services		<u>\$ 634,288</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 8
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	<u>\$ 14,423</u>
Total Federal Awards		<u><u>\$ 2,203,635</u></u>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by McLeod County. The County's reporting entity is defined in Note 1 to the financial statements. The schedule does not include the McLeod County Housing and Redevelopment Authority's federal awards.
2. Pass-through grant numbers were not assigned by the pass-through agencies.
3. During 2007, McLeod County did not pass any federal money to subrecipients.