

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

McLEOD COUNTY
GLENCOE, MINNESOTA

YEAR ENDED DECEMBER 31, 2011

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, 2011



**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
2011

Office	Name	Term of Office	
		From	To
Commissioners			
1st District	Ray Bayerl	June 1990	January 2013
2nd District	Kermit Terlinden	January 1995	January 2015
3rd District	Paul Wright	January 2009	January 2013
4th District	Sheldon Nies	January 1995	January 2015
5th District	Beverly Wangerin*	January 1989	January 2013
Officers			
Elected			
Attorney	Michael K. Junge	May 1987	January 2015
Auditor-Treasurer	Cindy Schultz	January 1995	January 2015
District Judge	Michael Savre	May 2004	January 2013
District Judge	Terrence E. Conkel	August 1998	January 2013
Recorder	Lynnette Schrupp	January 2003	January 2015
Sheriff	Scott Rehmann	January 1999	January 2015
Appointed			
Assessor	Sue Schulz	March 2005	January 2012
Court Administrator	Karen Messner	January 2008	Indefinite
Coroner	Dr. Quinn Strobl	January 2011	December 2014
Highway Engineer	John Brunkhorst	November 2001	May 2012
Surveyor	Jeff Rausch	February 1996	January 2012
Veterans Service Officer	James Lauer	November 2004	January 2012
County Administrator	Pat Melvin	November 2008	Indefinite
Human Resources	Mary Jo Wieseler	March 2005	Indefinite
Human Services Director	Gary Sprynczynatyk	August 1995	Indefinite
Regional Extension Director	Sarah Chur	January 2006	Indefinite
Public Health Nursing Service			
Director	Kathy Nowak	May 2008	Indefinite
Zoning Administrator	Larry Gasow	February 2000	January 2012
Park Superintendent	Allan Koglin	August 1979	Indefinite
Agriculture and Weed Inspector	Allan Koglin	January 1997	January 2012

*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, 2011, including the McLeod County Housing and Redevelopment Authority (HRA) as of and for the year ended June 30, 2011, 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, 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; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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, 2011, including the McLeod County HRA as of June 30, 2011, 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.

As discussed in Note 1.D.9. to the financial statements, during the year ended December 31, 2011, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise McLeod County's basic financial statements as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 24, 2012, 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, 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. It does not include the McLeod County HRA, which was audited by other auditors.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 24, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011
(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, 2011. 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 \$153,575,003 (net assets). Of this amount, \$32,038,602 (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 \$2,876,261 (two percent). The increase is a combination of additional capital assets and budget savings from operations.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$11,704,453, or 82 percent, of total 2011 General Fund expenditures.
- Governmental funds' fund balances increased by \$446,140.

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 8 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 Ditch Special Revenue 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. 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

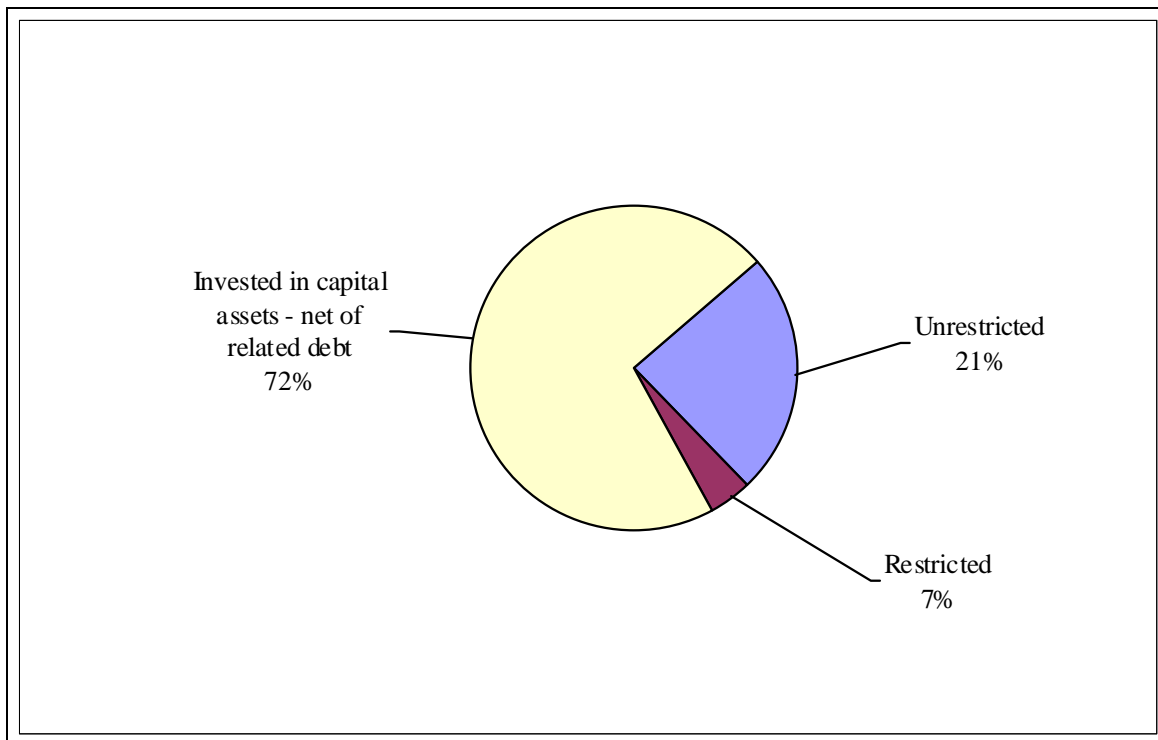
In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

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 \$153,575,003 as of December 31, 2011. The investment in capital assets, net of related debt, is the largest portion of McLeod County's net assets at 72 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 7 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 21 percent, or \$32,038,602, is unrestricted and available to be used to meet the government's ongoing obligations to citizens and creditors.

Net Assets



(Unaudited)

Net Assets

	Governmental Activities		Discretely Presented Component Unit	
	2011	2010	2011	2010
Current and other assets	\$ 48,308,737	\$ 47,595,123	\$ 198,694	\$ 157,341
Capital assets	112,143,785	110,215,941	3,302,274	3,426,942
Total Assets	\$ 160,452,522	\$ 157,811,064	\$ 3,500,968	\$ 3,584,283
Current and other liabilities	\$ 2,820,995	\$ 2,157,118	\$ 84,651	\$ 91,600
Long-term liabilities - due within one year	2,228,143	2,143,279	128,990	127,732
Long-term liabilities - due in more than one year	1,828,381	2,811,925	3,569,440	3,698,451
Total Liabilities	\$ 6,877,519	\$ 7,112,322	\$ 3,783,081	\$ 3,917,783
Net Assets				
Invested in capital assets - net of related debt	\$ 110,822,743	\$ 107,603,855	\$ (396,156)	\$ (399,241)
Restricted	10,713,658	14,525,693	84,793	38,705
Unrestricted	32,038,602	28,569,194	29,250	27,036
Total Net Assets	\$ 153,575,003	\$ 150,698,742	\$ (282,113)	\$ (333,500)

GOVERNMENTAL ACTIVITIES

McLeod County's governmental activities increased net assets by \$2,876,261 during the current fiscal year. This increase is primarily due to a donation from the estate of Annamarie Tudhope of \$150,000, and an increase in capital assets, which included the following major items: highway and bridge construction, a new baler for solid waste, and other improvement projects.

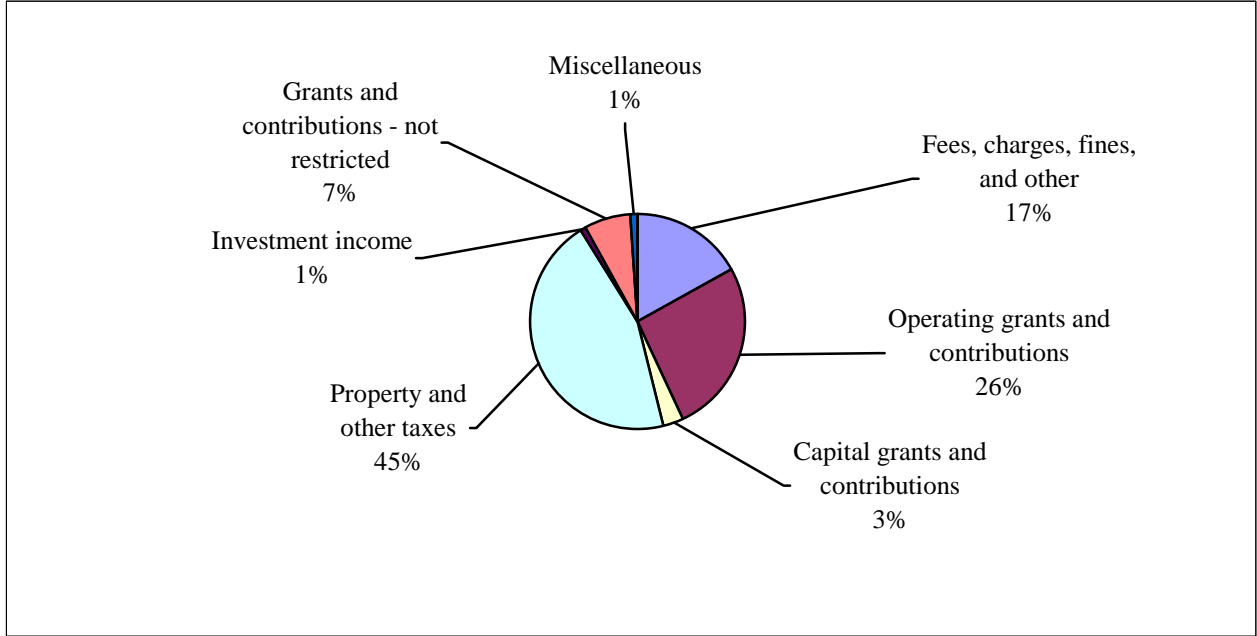
The McLeod County HRA is a discretely presented component unit of McLeod County. As of June 30, 2011, liabilities exceeded assets by \$282,113, and there was an increase in net assets of \$51,387 from the prior year. The increase is primarily due to revenues in excess of expenses.

Changes in Net Assets

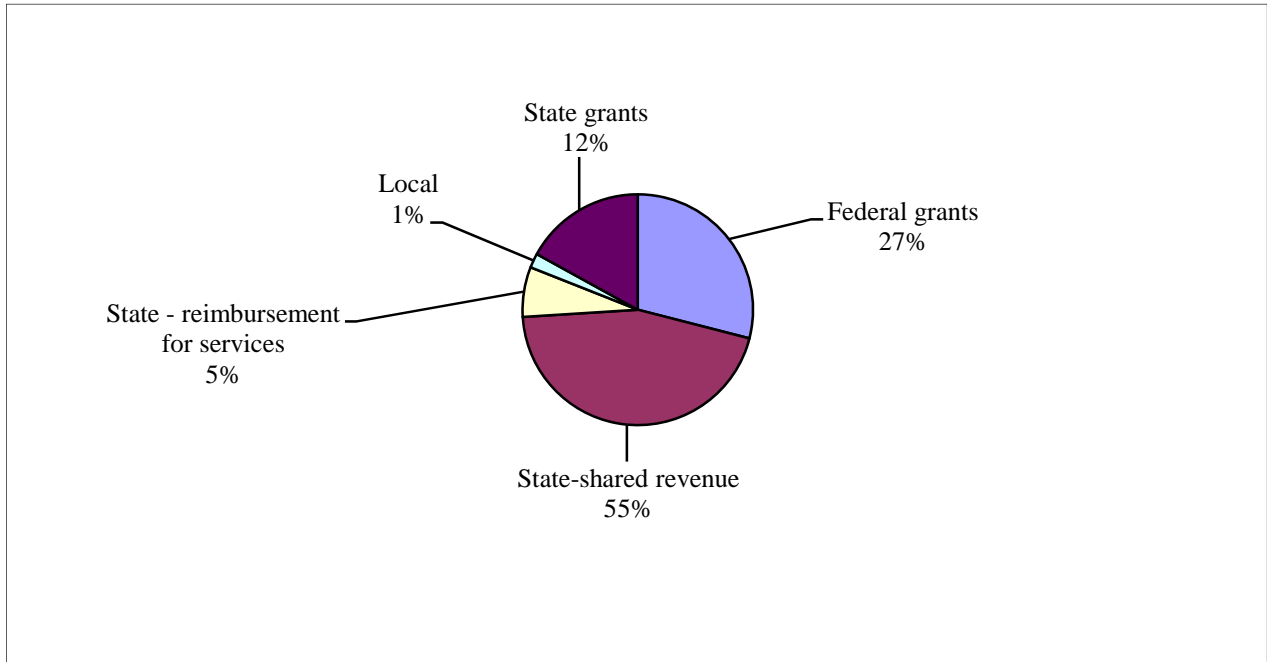
	Governmental Activities		Discretely Presented Component Unit	
	2011	2010	2011	2010
Revenues				
Program revenues				
Fees, charges, fines, and other	\$ 6,467,953	\$ 5,810,236	\$ 460,152	\$ 844,672
Operating grants and contributions	9,751,907	13,588,159	433,769	-
Capital grants and contributions	965,342	3,294,619	-	-
General revenues				
Property taxes	16,900,338	17,475,252	-	-
Other taxes	60,505	92,099	-	-
Grants and contributions not restricted to specific programs	2,663,446	2,665,924	-	-
Investment income	355,788	286,868	549	923
Gain on disposal of assets	18,978	27,655	-	-
Other	112,658	135,154	-	-
Total Revenues	\$ 37,296,915	\$ 43,375,966	\$ 894,470	\$ 845,595
Expenses				
General government	\$ 5,381,204	\$ 5,457,902	\$ -	\$ -
Public safety	5,801,038	5,927,716	-	-
Highways and streets	7,279,491	7,247,016	-	-
Sanitation	2,065,478	1,728,134	-	-
Human services	9,618,166	8,855,182	-	-
Health	2,194,400	2,227,372	-	-
Culture and recreation	658,001	592,176	-	-
Conservation of natural resources	1,367,348	1,008,831	-	-
Economic development	1,895	1,895	-	-
Interest	53,633	67,922	-	-
HRA	-	-	843,083	828,597
Total Expenses	\$ 34,420,654	\$ 33,114,146	\$ 843,083	\$ 828,597
Increase (Decrease) in Net Assets	\$ 2,876,261	\$ 10,261,820	\$ 51,387	\$ 16,998
Net Assets - January 1	150,698,742	140,436,922	(333,500)	(350,498)
Net Assets - December 31	\$ 153,575,003	\$ 150,698,742	\$ (282,113)	\$ (333,500)

The following charts show additional information on the revenues of McLeod County for the year ended December 31, 2011.

Revenues by Source - Governmental Activities



Intergovernmental Revenue



FINANCIAL ANALYSIS

Governmental Funds

At the end of 2011, McLeod County's governmental funds reported a combined fund balance of \$42,056,309. This is an increase of \$446,140 from the prior year. The fund balance in the General Fund increased by \$1,360,323 due to postponing expenses for the ARMER project until 2012. The fund balance in the Road and Bridge Special Revenue Fund increased by \$49,296 due to a transfer from the Capital Projects Fund and an increase in inventory at year-end. The fund balance in the Human Services Special Revenue Fund decreased by \$292,958 due to increased expenses. The fund balance in the Solid Waste Special Revenue Fund increased by \$383,029 due to increased revenues. The fund balance in the Ditch Special Revenue Fund decreased by \$422,338 due to an increase in expenditures. There was also a decrease in the nonmajor governmental funds of \$631,212.

General Fund Budgetary Highlights

In total, General Fund revenues for 2011 exceeded the amounts budgeted by \$133,928. Special assessments, intergovernmental, charges for services, and gifts and contributions came in higher than anticipated. Total General Fund expenditures were \$2,390,539 less than the final budget. This variance is attributed to the areas of general government and public safety. No significant amendments were made to the original budget during 2011.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

At the end of 2011, McLeod County had \$112,143,785 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)	
	2011	2010
Land	\$ 3,956,141	\$ 3,961,641
Right-of-way	3,166,233	3,166,233
Infrastructure	89,044,840	81,589,984
Buildings	12,599,135	13,330,602
Improvements other than buildings	796,441	860,963
Machinery and equipment	2,580,995	2,432,740
Construction in progress	-	4,873,778
Total	<u>\$ 112,143,785</u>	<u>\$ 110,215,941</u>

Major capital asset events during the year included the following:

- new baler for solid waste materials recovery facility and
- infrastructure construction continued in 2011.

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

Long-Term Debt

At the end of the current fiscal year, McLeod County had bonded debt, capital notes, and loans outstanding of \$2,422,718. This is a decrease of \$1,078,670 from the beginning of the year. The decrease is due to principal payments on general obligation bonds and notes.

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 three percent of the market value of taxable property in the county. The current debt limitation for McLeod County is \$94,188,114, 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 7.1 percent. McLeod County's unemployment rate is more than the state unemployment rate of 6.4 percent, but less than the United States unemployment rate of 8.9 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 2012 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-Treasurer, 2391 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 the 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, 2011**

	Primary Government Governmental Activities	Housing and Redevelopment Authority Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 41,895,455	\$ 20,333
Petty cash and change funds	22,505	-
Departmental cash	5,537	-
Cash with fiscal agent	1,265,011	-
Taxes receivable		
Prior - net	424,734	-
Special assessments receivable		
Noncurrent - net	963,734	-
Prior	944	-
Accounts receivable - net	331,670	14,775
Accrued interest receivable	52,327	-
Due from other governments	2,911,925	-
Deferred charges - current	9,974	-
Inventories	424,921	-
Restricted assets		
Cash and pooled investments	-	128,193
Deferred charges	-	35,393
Capital assets		
Non-depreciable	7,122,374	197,000
Depreciable - net of accumulated depreciation	105,021,411	3,105,274
Total Assets	\$ 160,452,522	\$ 3,500,968

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

	Primary Government Governmental Activities	Housing and Redevelopment Authority Component Unit
<u>Liabilities</u>		
Accounts payable	\$ 1,231,833	\$ -
Salaries payable	543,748	-
Accrued payroll taxes	35,773	-
Other accrued liabilities	205,933	45,901
Retainage payable	246,660	-
Due to other governments	388,610	-
Accrued interest payable	11,344	-
Claims payable	131,251	-
Unavailable revenue	-	580
Unearned revenue	25,843	-
Long-term liabilities		
Due within one year	2,228,143	128,990
Due in more than one year	1,828,381	3,569,440
Liabilities payable from restricted assets (security deposits)	-	38,170
	\$ 6,877,519	\$ 3,783,081
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 110,822,743	\$ (396,156)
Restricted for		
General government	764,616	-
Public safety	3,929,843	-
Highways and streets	111,788	-
Conservation of natural resources	364,529	-
Sanitation	4,206,326	-
Economic development	-	84,793
Debt service	1,336,556	-
Unrestricted	32,038,602	29,250
	\$ 153,575,003	\$ (282,113)

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 5,381,204	\$ 963,820
Public safety	5,801,038	202,909
Highways and streets	7,279,491	236,138
Sanitation	2,065,478	2,467,499
Human services	9,618,166	1,291,957
Health	2,194,400	592,901
Culture and recreation	658,001	84,930
Conservation of natural resources	1,367,348	627,799
Economic development	1,895	-
Interest	53,633	-
	\$ 34,420,654	\$ 6,467,953
Total Primary Government	\$ 34,420,654	\$ 6,467,953
 Component Unit		
Housing and Redevelopment Authority	\$ 843,083	\$ 460,152

General Revenues

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

Total general revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Discretely Presented Component Unit
\$ 23,952	\$ -	\$ (4,393,432)	
632,587	-	(4,965,542)	
3,935,372	965,342	(2,142,639)	
-	-	402,021	
4,109,843	-	(4,216,366)	
1,003,385	-	(598,114)	
3,000	-	(570,071)	
43,768	-	(695,781)	
-	-	(1,895)	
-	-	(53,633)	
\$ 9,751,907	\$ 965,342	\$ (17,235,452)	
\$ 433,769	\$ -		\$ 50,838
		\$ 16,900,338	\$ -
		20,563	-
		39,942	-
		2,663,446	-
		355,788	549
		18,978	-
		112,658	-
		\$ 20,111,713	\$ 549
		\$ 2,876,261	\$ 51,387
		150,698,742	(333,500)
		\$ 153,575,003	\$ (282,113)

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 21,488,358	\$ 7,829,896
Petty cash and change funds	2,355	100
Departmental cash	5,537	-
Cash with fiscal agent	1,265,011	-
Taxes receivable		
Prior	225,838	74,991
Special assessments receivable		
Prior	-	-
Noncurrent	869,440	-
Accounts receivable	29,461	13,261
Accrued interest receivable	52,327	-
Due from other funds	1,440	-
Due from other governments	475,396	1,484,667
Inventories	8,155	416,766
Advances to other funds	595,325	-
	\$ 25,018,643	\$ 9,819,681
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 178,666	\$ 454,645
Salaries payable	314,685	50,702
Accrued payroll taxes	19,306	3,755
Accrued interest payable	-	-
Accrued expenses	144,173	18,096
Advances from other funds	-	-
Retainage payable	-	246,660
Due to other funds	283	-
Due to other governments	263,762	20,136
Deferred revenue - unavailable	1,281,232	1,480,808
Deferred revenue - unearned	25,843	-
Claims payable	118,893	-
	\$ 2,346,843	\$ 2,274,802

EXHIBIT 3

<u>Human Services</u>	<u>Solid Waste</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 5,037,904	\$ 4,166,209	\$ 275,581	\$ 3,097,507	\$ 41,895,455
-	20,050	-	-	22,505
-	-	-	-	5,537
-	-	-	-	1,265,011
98,789	-	-	25,116	424,734
-	-	944	-	944
-	-	94,294	-	963,734
98,381	190,567	-	-	331,670
-	-	-	-	52,327
283	-	-	-	1,723
938,541	724	12,597	-	2,911,925
-	-	-	-	424,921
-	-	-	-	595,325
<u>\$ 6,173,898</u>	<u>\$ 4,377,550</u>	<u>\$ 383,416</u>	<u>\$ 3,122,623</u>	<u>\$ 48,895,811</u>
\$ 345,511	\$ 118,721	\$ 134,290	\$ -	\$ 1,231,833
162,978	15,383	-	-	543,748
11,640	1,072	-	-	35,773
-	-	1,847	-	1,847
37,897	5,767	-	-	205,933
-	-	595,325	-	595,325
-	-	-	-	246,660
1,440	-	-	-	1,723
64,593	10,231	29,888	-	388,610
549,097	-	107,061	25,116	3,443,314
-	-	-	-	25,843
-	-	-	-	118,893
<u>\$ 1,173,156</u>	<u>\$ 151,174</u>	<u>\$ 868,411</u>	<u>\$ 25,116</u>	<u>\$ 6,839,502</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
(Continued)		
Fund Balances		
Nonspendable		
Inventories	\$ 8,155	\$ 416,766
Advances to other funds	595,325	-
Restricted		
Restricted for E-911	121,411	-
Restricted for HAVA equipment	23,861	-
Restricted for records preservation	45,949	-
Restricted for law library	77,808	-
Restricted for recorder's equipment purchases	236,998	-
Restricted for new jail construction	3,690,448	-
Restricted for snowmobile enforcement	251	-
Restricted for law enforcement	69,704	-
Restricted for land records technology	78,375	-
Restricted for drug enforcement	8,218	-
Restricted for conservation	260,413	-
Restricted for court services	39,811	-
Restricted for records compliance	301,625	-
Restricted for road and bridge	-	111,788
Restricted for solid waste abatement	-	-
Restricted for debt service	-	-
Restricted for ditch maintenance and construction	-	-
Committed		
Committed for petty cash and change funds	2,355	100
Assigned		
Assigned for capital projects	5,313,112	-
Assigned for 4-H after school adventures	3,986	-
Assigned for McLeod for Tomorrow	6,808	-
Assigned for lidar and orthophotography	26,560	-
Assigned for veterans van	48,500	-
Assigned for new canine	5,901	-
Assigned for ag programing	1,773	-
Assigned for highways and streets	-	7,016,225
Assigned for human services	-	-
Assigned for debt services	-	-
Unassigned	11,704,453	-
Total Fund Balances	\$ 22,671,800	\$ 7,544,879
Total Liabilities and Fund Balances	\$ 25,018,643	\$ 9,819,681

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

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>Solid Waste</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 424,921
-	-	-	-	595,325
-	-	-	-	121,411
-	-	-	-	23,861
-	-	-	-	45,949
-	-	-	-	77,808
-	-	-	-	236,998
-	-	-	-	3,690,448
-	-	-	-	251
-	-	-	-	69,704
-	-	-	-	78,375
-	-	-	-	8,218
-	-	-	-	260,413
-	-	-	-	39,811
-	-	-	-	301,625
-	-	-	-	111,788
-	4,206,326	-	-	4,206,326
-	-	-	1,336,556	1,336,556
-	-	104,116	-	104,116
-	20,050	-	-	22,505
-	-	-	1,181,237	6,494,349
-	-	-	-	3,986
-	-	-	-	6,808
-	-	-	-	26,560
-	-	-	-	48,500
-	-	-	-	5,901
-	-	-	-	1,773
-	-	-	-	7,016,225
5,000,742	-	-	-	5,000,742
-	-	-	579,714	579,714
-	-	(589,111)	-	11,115,342
<u>\$ 5,000,742</u>	<u>\$ 4,226,376</u>	<u>\$ (484,995)</u>	<u>\$ 3,097,507</u>	<u>\$ 42,056,309</u>
<u>\$ 6,173,898</u>	<u>\$ 4,377,550</u>	<u>\$ 383,416</u>	<u>\$ 3,122,623</u>	<u>\$ 48,895,811</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, 2011**

Fund balance - total governmental funds (Exhibit 3)		\$	42,056,309
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.			112,143,785
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			3,443,314
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 and notes	\$		(1,325,000)
Loans payable			(1,101,676)
Additional claims payable			(12,358)
Compensated absences			(1,231,923)
OPEB liabilities			(401,883)
Accrued interest payable			(9,497)
Deferred debt issuance charges			9,974
Unamortized discount on bonds			3,958
			(4,068,405)
Net Assets of Governmental Activities (Exhibit 1)		\$	153,575,003

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Road and Bridge
Revenues		
Taxes	\$ 8,690,844	\$ 3,063,106
Special assessments	96,611	-
Licenses and permits	76,628	6,550
Intergovernmental	3,465,005	6,167,001
Charges for services	1,721,634	265,404
Fines and forfeits	19,273	-
Gifts and contributions	176,273	-
Investment earnings	308,805	-
Miscellaneous	350,437	44,500
	\$ 14,905,510	\$ 9,546,561
Expenditures		
Current		
General government	\$ 4,956,320	\$ -
Public safety	5,536,862	-
Highways and streets	-	9,653,309
Sanitation	-	-
Human services	-	-
Health	2,197,055	-
Culture and recreation	636,567	-
Conservation of natural resources	843,190	-
Economic development	1,895	-
Intergovernmental	-	214,820
Debt service		
Principal	56,456	-
Interest	10,944	-
Administrative charges	-	-
	\$ 14,239,289	\$ 9,868,129
Excess of Revenues Over (Under) Expenditures	\$ 666,221	\$ (321,568)
Other Financing Sources (Uses)		
Transfers in	\$ 421,377	\$ 216,816
Transfers out	(990)	-
Loan issued	268,830	-
Proceeds from the sale of capital assets	5,978	-
	\$ 695,195	\$ 216,816
Net Change in Fund Balance	\$ 1,361,416	\$ (104,752)
Fund Balance - January 1	21,311,477	7,495,583
Increase (decrease) in inventories	(1,093)	154,048
	\$ 22,671,800	\$ 7,544,879
Fund Balance - December 31	\$ 22,671,800	\$ 7,544,879

EXHIBIT 5

<u>Human Services</u>	<u>Solid Waste</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 3,903,731	\$ -	\$ -	\$ 1,287,803	\$ 16,945,484
-	-	92,675	-	189,286
-	1,465	-	-	84,643
4,314,637	90,826	-	80,090	14,117,559
824,333	2,423,754	-	-	5,235,125
-	-	-	2,200	21,473
-	-	-	-	176,273
-	-	2,342	2,620	313,767
274,995	42,282	-	-	712,214
\$ 9,317,696	\$ 2,558,327	\$ 95,017	\$ 1,372,713	\$ 37,795,824
\$ -	\$ -	\$ -	\$ 3,190	\$ 4,959,510
-	-	-	-	5,536,862
-	-	-	-	9,653,309
-	2,175,298	-	-	2,175,298
9,646,017	-	-	-	9,646,017
-	-	-	-	2,197,055
-	-	-	-	636,567
-	-	513,650	-	1,356,840
-	-	-	-	1,895
-	-	-	-	214,820
-	-	-	1,295,000	1,351,456
-	-	3,705	32,269	46,918
-	-	-	900	900
\$ 9,646,017	\$ 2,175,298	\$ 517,355	\$ 1,331,359	\$ 37,777,447
\$ (328,321)	\$ 383,029	\$ (422,338)	\$ 41,354	\$ 18,377
\$ 35,363	\$ -	\$ -	\$ 990	\$ 674,546
-	-	-	(673,556)	(674,546)
-	-	-	-	268,830
-	-	-	-	5,978
\$ 35,363	\$ -	\$ -	\$ (672,566)	\$ 274,808
\$ (292,958)	\$ 383,029	\$ (422,338)	\$ (631,212)	\$ 293,185
5,293,700	3,843,347	(62,657)	3,728,719	41,610,169
-	-	-	-	152,955
\$ 5,000,742	\$ 4,226,376	\$ (484,995)	\$ 3,097,507	\$ 42,056,309

**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, 2011**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 293,185

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 or decrease in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 3,443,314	
Deferred revenue - January 1	(3,829,467)	(386,153)

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	\$ 5,982,100	
Net book value of disposed assets	(5,500)	
Current year depreciation	(4,048,756)	1,927,844

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		(268,830)
Principal repayments - general obligation bonds and notes		1,295,000
Principal repayments - Minnesota Pollution Control Agency loans		56,456

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	\$ 8,112	
Amortization of deferred issuance charges	(9,971)	
Amortization discount on bonds	(3,956)	
Change in compensated absences	(64,043)	
Change in additional claims payable	(8,391)	
Change in OPEB liability	(115,947)	
Change in inventories	152,955	(41,241)

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 2,876,261

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

FIDUCIARY FUNDS

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McLEOD COUNTY
GLENCOE, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2011

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ 809,265
Accounts receivable	13,700
Due from other governments	<u>453,065</u>
Total Assets	<u>\$ 1,276,030</u>
<u>Liabilities</u>	
Accounts payable	\$ 5,140
Salaries payable	20,529
Accrued payroll taxes	1,282
Accrued expenses	6,721
Due to other governments	<u>1,242,358</u>
Total Liabilities	<u>\$ 1,276,030</u>

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011. 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.	The 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 7.D. The County also participates in the jointly-governed organizations described in Note 7.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 accounted for in another fund.

The Road and Bridge Special Revenue Fund is used to account for restricted revenues from the federal and state government 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 restricted revenue resources from the federal, state, and other oversight agencies used for economic assistance and community social services programs.

The Solid Waste Special Revenue Fund is used to account for restricted charges for accepting solid waste and costs associated with waste management; recycling; disposal of hazardous materials; and landfill abatement, closure, and postclosure.

The Ditch Special Revenue Fund is used to account for special assessment levies against benefitted property restricted for construction and maintenance of County ditches.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

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

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

The Debt Service Fund is 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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first and then unrestricted resources as needed. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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 Auditor-Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2011, 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 2011 were \$308,805.

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).

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

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.

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 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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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 governmental activities column in the government-wide financial statements. Capital assets are defined by the County 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 value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend 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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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 straight-line 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 2011, the County implemented the requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement requires retroactive restatement of fund balance for the reclassifications made to conform to this statement. Total fund balance did not change. Fund balance is divided into five classifications based primarily on the extent to which McLeod County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

9. Fund Equity (Continued)

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

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

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

Assigned - amounts the County intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Auditor-Treasurer who has been delegated that authority by Board resolution.

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

11. Reclassifications

Fund balance account balances were reclassified as of and for the year ended December 31, 2010, as previously reported due to implementation of GASB 54. Total fund balance did not change. These reclassifications were required for comparability to the financial statements as of and for the year ended December 31, 2011. Although comparative statements for 2010 are not presented here, these reclassifications must be considered when comparing the financial statements of this report with those of prior reports.

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 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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues (Continued)

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 to which they apply. State-aid highway allotments for highway maintenance and construction are recognized as revenue in the year of allotment.

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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The Ditch Special Revenue Fund had a negative fund balance of \$484,995 as of December 31, 2011. 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:

26 ditches with positive balances	\$	104,116
30 ditches with deficit balances		(589,111)
Net Fund Balance	\$	(484,995)

B. Component Unit Deficit

The McLeod County HRA, at June 30, 2011, had deficit net assets of \$282,113, a decrease from the previous year's deficit balance of \$333,500. The increase in net assets is due, in part, to revenues in excess of expenses.

C. Excess of Expenditures Over Appropriations

In the following funds, the expenditures exceeded appropriations for the year ended December 31, 2011:

	Expenditures	Budget	Excess
Major governmental funds			
Road and Bridge Special Revenue Fund	\$ 9,868,129	\$ 6,769,653	\$ 3,098,476
Human Services Special Revenue Fund	9,646,017	9,365,577	280,440
Solid Waste Special Revenue Fund	2,175,298	1,668,187	507,111

D. New Jail Construction

The net assets restricted for new jail construction were donated to McLeod County by the estate of Annamarie Tudhope. In 2009, the County received \$1,170,500 in donations and \$41,024 in interest. In 2010, the County received \$2,264,482 in donations and \$24,445 in interest. In 2011, the County received \$150,000 in donations and \$39,997 in interest. As of December 31, 2011, \$3,690,448 was restricted. This money can be used only for new construction of a jail.

**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	\$	41,895,455
Petty cash and change funds		22,505
Departmental cash		5,537
Cash with fiscal agent		1,265,011
Agency fund		
Cash and pooled investments		809,265
Total Cash and Investments	\$	43,997,773
Deposits	\$	36,595,820
Petty cash and change funds		22,505
Departmental cash		5,537
Investments		7,373,911
Total Deposits, Cash on Hand, and Investments	\$	43,997,773

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. County deposits are required by Minn. Stat. § 118A.03 to 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 at the close of the financial institution’s banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies, general obligations rated “A” or better and revenue obligations rated “AA” or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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, 2011, McLeod County's deposits were exposed to custodial credit risk in the amount of \$304 as uninsured and uncollateralized.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (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 AA+ by Standard and Poor's and Aaa by Moody's.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy regarding custodial credit risk. At December 31, 2011, all of the investments held in the fiscal agent account listed on pages 42 and 43 totaled \$1,265,011 and were subject to custodial credit risk.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. 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, 2011, and information relating to potential investment risks:

Investment - Issuer	Concentration Risk Percent (%)	Interest Rate Risk Maturity Date	Fair Value
Mutual fund - Public Financial Management			
Cash Management Fund (MAGIC Fund)	11.54		\$ 851,362
Federal Home Loan Securities	57.71		4,255,538
HH Bonds U.S. Treasury	13.58	N/A	1,002,000
Total mutual fund - Public Financial Management			<u>\$ 6,108,900</u>
Fiscal agent			
Money market			
M&I Bank	0.65	N/A	<u>\$ 48,883</u>
Negotiable certificates of deposit			
Wells Fargo			
Bank of America NA - Charlotte NC	0.85	02/14/2012	\$ 62,447
American Express Cent Int	0.85	03/26/2012	62,447
BMW Bank	0.85	05/21/2012	62,447
Bank of Baroda - NY	0.85	05/22/2012	62,447
Bank of China - NY	0.85	06/08/2012	62,447
Spirit Bank - OK	0.85	06/18/2012	62,447
State Bank India - NY	0.85	09/28/2012	62,447
Wilmington Trust	0.85	10/22/2012	62,447
Bank of China - NY	0.85	12/24/2012	62,447
GE Money Bank	0.85	02/05/2013	62,447
GE Capital Financial	0.85	04/29/2013	62,447
Community First - SC	0.85	06/03/2013	62,447

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

<u>Investment - Issuer</u>	<u>Concentration Risk Percent (%)</u>	<u>Interest Rate Risk Maturity Date</u>	<u>Fair Value</u>
Commerce State Bank	0.85	06/28/2013	62,447
Middleburg Bank	0.85	08/19/2013	62,447
Charter Bank - WI	0.85	09/30/2013	61,198
Discover Bank - DE	0.85	09/30/2013	62,447
GE Money Bank	0.85	02/05/2014	62,447
Total negotiable certificates of deposit			<u>\$ 1,060,350</u>
Mutual fund			
Wells Fargo Advantage Government MMF Service*	2.10	N/A	<u>\$ 155,778</u>
Total fiscal agent			<u>\$ 1,265,011</u>
Total Investments			<u><u>\$ 7,373,911</u></u>

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

2. Receivables

Receivables as of December 31, 2011, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities		
Taxes	\$ 424,734	\$ -
Special assessments	964,678	963,734
Accounts	331,670	-
Accrued interest	52,327	-
Due from other governments	<u>2,911,925</u>	<u>-</u>
Total Governmental Activities	<u>\$ 4,685,334</u>	<u>\$ 963,734</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 3,961,641	\$ -	\$ 5,500	\$ 3,956,141
Construction in progress	4,873,778	-	4,873,778	-
Infrastructure - right-of-way	3,166,233	-	-	3,166,233
Total capital assets not depreciated	<u>\$ 12,001,652</u>	<u>\$ -</u>	<u>\$ 4,879,278</u>	<u>\$ 7,122,374</u>
Capital assets depreciated				
Buildings	\$ 21,620,868	\$ 40,126	\$ -	\$ 21,660,994
Machinery, furniture, and equipment	9,674,206	1,167,329	311,919	10,529,616
Improvements other than buildings	1,326,953	-	-	1,326,953
Infrastructure	112,294,322	9,648,423	-	121,942,745
Total capital assets depreciated	<u>\$ 144,916,349</u>	<u>\$ 10,855,878</u>	<u>\$ 311,919</u>	<u>\$ 155,460,308</u>
Less: accumulated depreciation for				
Buildings	\$ 8,290,266	\$ 771,593	\$ -	\$ 9,061,859
Machinery, furniture, and equipment	7,241,466	1,019,074	311,919	7,948,621
Improvements other than buildings	465,990	64,522	-	530,512
Infrastructure	30,704,338	2,193,567	-	32,897,905
Total accumulated depreciation	<u>\$ 46,702,060</u>	<u>\$ 4,048,756</u>	<u>\$ 311,919</u>	<u>\$ 50,438,897</u>
Total capital assets depreciated, net	<u>\$ 98,214,289</u>	<u>\$ 6,807,122</u>	<u>\$ -</u>	<u>\$ 105,021,411</u>
Governmental Activities Capital Assets, Net	<u>\$ 110,215,941</u>	<u>\$ 6,807,122</u>	<u>\$ 4,879,278</u>	<u>\$ 112,143,785</u>

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

Governmental Activities	
General government	\$ 742,836
Public safety	351,121
Highways and streets, including depreciation of infrastructure assets	2,604,880
Human services	63,926
Health	12,619
Culture and recreation	34,987
Conservation of natural resources	4,014
Sanitation	234,373
Total Depreciation Expense - Governmental Activities	<u>\$ 4,048,756</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, 2011, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Human Services	\$ 1,440
Human Services	General	283
Total Due To/From Other Funds		\$ 1,723

Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch	\$ 595,325

The 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, 2011, consisted of the following:

Transfer to General Fund from Capital Projects Fund	\$ 421,377	Capital equipment
Transfer to Road and Bridge Fund from Capital Projects Fund	216,816	Capital equipment
Transfer to Human Services Fund from Capital Projects Fund	35,363	Capital equipment
Transfer to Forfeited Tax Fund from General Fund	990	Cover negative balance
Total Interfund Transfers	\$ 674,546	

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables in the governmental funds at December 31, 2011, were as follows:

Accounts	\$	1,231,833
Salaries		543,748
Accrued payroll taxes		35,773
Other accrued liabilities		205,933
Retainage		246,660
Due to other governments		388,610
Claims		118,893
		1,870,447
Total Payables	\$	2,771,450

2. Construction Commitments

The County has active construction projects as of December 31, 2011. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Roads and bridges	\$ 9,739,798	\$ 143,742

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
General obligation bonds					
2005 Capital Improvement Refunding Bonds	2012	\$245,000 - \$270,000	2.45 - 3.10	\$ 1,275,000	\$ 270,000
2009 Capital Equipment Notes	2012	\$910,000 - 1,055,000	0.90 - 1.35	3,000,000	1,055,000
Less: unamortized discount					(3,958)
Net General Obligation Bonds and Capital Notes					\$ 1,321,042
Minnesota Pollution Control Agency (MnPCA) loans	2021	N/A	2.00	1,181,058	\$ 1,101,676

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

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 started 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.

In 2009, the County issued \$3,000,000 of General Obligation Capital Notes. The proceeds of the notes were used to purchase capital equipment. The bonds have interest rates ranging from 0.90 to 1.35 percent and a final maturity date of February 1, 2012.

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, 2011, was \$103,643, which was the principal of the loan; accumulated interest is \$1,700. Principal payments of \$10,208 were made in 2011.

In 2008, 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 \$115,000. The total amount disbursed through December 31, 2011, was \$115,000; accumulated interest is \$2,352. Principal payments of \$10,712 were made in 2011.

In 2008, 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. In 2010, the loan amount was amended by an additional \$4,502. The total amount disbursed through December 31, 2011, was \$219,502; accumulated interest is \$10,429. Principal payments of \$21,411 were made in 2011.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

In 2008, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Crow River Watershed septic system loans. According to the agreement, the County can borrow as much as \$248,000. In 2010, the loan amount was amended by an additional \$50,000. The total amount disbursed through December 31, 2011, was \$298,000; accumulated interest is \$13,017. A principal payment of \$14,125 was made in 2011.

In 2009, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Crow River Watershed septic system loans. According to the agreement, the County can borrow as much as \$300,000. The total amount disbursed through December 31, 2011, was \$273,225. Repayment is estimated to begin in 2013.

In 2011, 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 \$200,000. The total amount disbursed through December 31, 2011, was \$171,688. Repayment is estimated to begin in 2014.

4. Debt Service Requirements

Debt service requirements at December 31, 2011, were as follows:

Year Ending December 31	General Obligation Bonds (2005)		General Obligation Capital Equipment Notes (2009)	
	Principal	Interest	Principal	Interest
2012	\$ 270,000	\$ 4,185	\$ 1,055,000	\$ 7,121

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements (Continued)

Year Ending December 31	High Island Creek Watershed Septic System Loans (2004)		High Island Creek Watershed Septic System Loans (2008)	
	Principal	Interest	Principal	Interest
2012	\$ 10,413	\$ 1,262	\$ 10,928	\$ 2,078
2013	10,622	1,053	11,147	1,859
2014	10,836	839	11,371	1,635
2015	11,054	621	11,600	1,406
2016	11,276	399	11,833	1,173
2017 - 2020	11,502	173	49,760	2,265
Total	\$ 65,703	\$ 4,347	\$ 106,639	\$ 10,416

Year Ending December 31	Crow River Watershed Septic System Loans (2008)		Buffalo Creek Watershed Septic System Loans (2006)	
	Principal	Interest	Principal	Interest
2012	\$ 28,675	\$ 5,795	\$ 21,841	\$ 3,643
2013	29,251	5,219	22,280	3,204
2014	29,839	4,631	22,728	2,756
2015	30,439	4,031	23,186	2,298
2016	31,051	3,419	23,651	1,832
2017 - 2021	147,636	7,480	73,844	2,606
Total	\$ 296,891	\$ 30,575	\$ 187,530	\$ 16,339

Year Ending December 31	Total	
	Principal	Interest
2012	\$ 1,396,857	\$ 24,084
2013	73,300	11,335
2014	74,774	9,861
2015	76,279	8,356
2016	77,811	6,823
2017 - 2021	282,742	12,524
Total	\$ 1,981,763	\$ 72,983

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements (Continued)

The 2009 Crow River Watershed Septic Loans that were issued in 2010 for \$176,083 and in 2011 for \$97,142 are not included in the debt service requirements because a fixed repayment schedule is not available.

The 2011 Buffalo Creek Watershed Septic Loans that were issued in 2011 for \$171,688 are not included in the debt service requirements because a fixed repayment schedule is not available.

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 530,000	\$ -	\$ 260,000	\$ 270,000	\$ 270,000
General obligation capital equipment notes	2,090,000	-	1,035,000	1,055,000	1,055,000
MnPCA loans	889,302	268,830	56,456	1,101,676	71,857
Less: discounts	(7,914)	3,956	-	(3,958)	(3,958)
Total bonds and loans payable	\$ 3,501,388	\$ 272,786	\$ 1,351,456	\$ 2,422,718	\$ 1,392,899
OPEB liability	285,936	115,947	-	401,883	-
Compensated absences	1,167,880	859,278	795,235	1,231,923	835,244
Long-Term Liabilities	<u>\$ 4,955,204</u>	<u>\$ 1,248,011</u>	<u>\$ 2,146,691</u>	<u>\$ 4,056,524</u>	<u>\$ 2,228,143</u>

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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 Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County self-insures for employee health and dental coverage. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of 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 \$450,000 per claim in 2011 and \$460,000 per claim in 2012. 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 2010 and 2011, 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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

4. Risk Management (Continued)

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	
	2011	2010
Unpaid claims, beginning of fiscal year	\$ 83,202	\$ 128,780
Incurred claims (including IBNRs)	1,871,219	1,497,086
Claims payments	(1,823,170)	(1,542,664)
Unpaid Claims, End of Fiscal Year	\$ 131,251	\$ 83,202

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 General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

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

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2011:

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
General Employees Retirement Fund	\$ 748,616	\$ 707,987	\$ 637,195
Public Employees Police and Fire Fund	199,415	202,817	197,092
Public Employees Correctional Fund	71,286	73,396	70,790

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

B. Defined Contribution Plan

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2011, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 6,927	\$ 6,927
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

6. Other Postemployment Benefits (OPEB)

A. Plan Description

The County provides a defined benefit health care plan to eligible retirees and their spouses. The plan offers medical, dental, and life coverage. Medical coverage is administered by Medica. Dental coverage is administered through the Midwest Dental Plan. Minnesota Life is the life insurance provider. The County is self-insured for medical coverage. Retirees pay 100 percent of the blended active/retiree premium rate, in accordance with Minn. Stat. § 471.61, subd. 2b. It is the County's policy to periodically review its medical, dental, and life insurance coverage in order to provide the most favorable benefits and premiums for County employees and retirees.

B. Funding Policy

Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the County, based on contract terms with Medica, Midwest Dental, and Minnesota Life. The required contributions are based on projected pay-as-you-go financing requirements. For fiscal year 2011, the County contributed \$46,383 to the plan. As of January 1, 2011, there were eight retirees receiving health benefits from the County's health plan.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

6. Other Postemployment Benefits (OPEB) (Continued)

C. Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost is calculated based on the annual required contribution (ARC) of the County, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	\$	166,885
Interest on net OPEB obligation		12,867
Adjustment to ARC		<u>(17,422)</u>
Annual OPEB cost	\$	162,330
Contributions made		<u>(46,383)</u>
Increase in net OPEB obligation	\$	115,947
Net OPEB Obligation - Beginning of Year		<u>285,936</u>
Net OPEB Obligation - End of Year	<u>\$</u>	<u>401,883</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009, 2010, and 2011 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2009	\$ 135,824	39.64	\$ 166,374
December 31, 2010	164,317	26.10	285,936
December 31, 2011	162,330	28.57	401,883

**McLEOD COUNTY
GLENCOE, MINNESOTA**

6. Other Postemployment Benefits (OPEB) (Continued)

D. Funded Status and Funding Progress

As of January 1, 2010, the most recent actuarial valuation date, the County had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$1,052,835, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,052,835. The covered payroll (annual payroll of active employees covered by the plan) was \$11,923,225, and the ratio of the UAAL to the covered payroll was 8.8 percent.

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

E. Actuarial Methods and Assumptions

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

For January 1, 2010, the actuarial valuation date, the projected unit credit cost method was used. The actuarial assumptions included a 4.5 percent discount rate, which is based on the investment yield expected to finance benefits. The County currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 8.5 percent initially, reduced incrementally to an ultimate rate of 5.0 percent.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. 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.

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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

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, 2011.

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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

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, 5 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 the McLeod County Auditor-Treasurer's Office, 2391 Hennepin Ave. N., Glencoe, Minnesota 55336.

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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

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.

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 Mark Williams, Southwest Metro Drug Force Commander, 600 East 4th Street, Chaska, Minnesota 55318.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

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.

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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Crow River Joint Powers Agreement (Continued)

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 with Sibley County, 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 three members appointed by McLeod County and two members appointed by Sibley County from each County Board of Commissioners.

The primary purpose of the Transit Board is to provide centralized planning and implementation of needed public transit services.

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, 207 - 11th Street West, Glencoe, Minnesota 55336.

Supporting Hands Nurse Family Partnership Board

The Supporting Hands Nurse Family Partnership Board was established pursuant to Minn. Stat. §§ 471.59 and 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-Treasurer's Office, 2391 Hennepin Avenue N., Glencoe, Minnesota 55336.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

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.

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, Mahnomon, 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.

South Central Minnesota Regional Radio Board

The South Central Minnesota Regional Radio Board was established pursuant to Minn. Stat. §§ 471.59 and 403.39 and a joint powers agreement effective May 27, 2008. The Board was formed for the planning, financing, development, design, construction, operation, management, control, and administration of the regional enhancement to the statewide public safety radio and communications system (ARMER) in accordance with the Statewide Public Safety Radio Plan and the operational standards of the

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations

South Central Minnesota Regional Radio Board (Continued)

Statewide Radio Board. The Regional Radio Board consists of one County Commissioner or City Council member of member organizations. The Chair of the Board is Kip Bruender, and the address is: P. O. Box 8608, Mankato, Minnesota 56002-8608.

Putting All Communities Together for Families Collaborative (PACT)

PACT was established in 1996 by a joint powers agreement among Kandiyohi, Meeker, Renville, and Yellow Medicine Counties. Effective January 1, 2011, an additional joint powers agreement was entered into to add McLeod County as a fifth County partner to PACT. As a result, the name was changed from PACT 4 Families Collaborative to PACT for Families Collaborative. The joint powers agreements were established to provide coordinated services to children and families. McLeod County has no operational or financial control over the Collaborative.

8. 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 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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

A. Summary of Significant Accounting Policies (Continued)

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.

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, 2011, are summarized as follows:

Cash on deposit	
Restricted	\$ 95,291
Unrestricted	<u>20,333</u>
Total cash on deposit	\$ 115,624
Certificates of deposit, due within one year	
Restricted	<u>32,902</u>
Total Cash and Investments	<u>\$ 148,526</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

B. Cash and Investments (Continued)

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.

The carrying amount of the HRA's deposits with financial institutions was \$148,526 as of June 30, 2011. Bank balances were \$149,232 as of June 30, 2011, which was insured by the FDIC.

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 in a restricted account at the Federal Reserve Bank 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, 2011.

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 registered investment companies through a mutual fund provided the mutual fund receives certain ratings depending on its investments;
- 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;
- commercial paper issued by United States corporations or their Canadian subsidiaries that is of the highest quality and matures in 270 days or less; and

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

B. Cash and Investments

Investments (Continued)

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

C. Property and Equipment

The following is a summary of property and equipment transactions:

	July 1, 2010	Additions	Disposals	June 30, 2011
Land	\$ 197,000	\$ -	\$ -	\$ 197,000
Site improvements	209,772	-	-	209,772
Building	4,343,003	-	-	4,343,003
Appliances	117,433	-	-	117,433
Total	\$ 4,867,208	\$ -	\$ -	\$ 4,867,208
Accumulated depreciation	(1,440,268)	(124,666)	-	(1,564,934)
Totals	\$ 3,426,940	\$ (124,666)	\$ -	\$ 3,302,274

D. Long-Term Debt Payable

The following is a summary of long-term debt transactions for the year ended June 30, 2011:

	July 1, 2010	Issued	Payments	June 30, 2011
Essential Function Housing Development Bond of 1996	\$ 907,995	\$ -	\$ 34,037	\$ 873,958
Essential Function Housing Development Bond of 1997	929,909	-	33,161	896,748
Essential Function Housing Development Bond of 1999	916,328	-	27,555	888,773
Essential Function Housing Development Bond of 2001	1,060,438	-	27,654	1,032,784
Assessments payable	6,414	-	247	6,167
Security Bank & Trust of Glencoe	5,098	-	5,098	-
Totals	\$ 3,826,182	\$ -	\$ 127,752	\$ 3,698,430

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

D. Long-Term Debt Payable (Continued)

The Essential Function Housing Development Revenue Bond of 1996 matures on September 1, 2027. The bond currently bears an interest rate of 5.0 percent per annum until July 1, 2013, at which time the rate is renegotiated according to the market interest rate and 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 5.0 percent per annum until July 1, 2013, at which time the rate is renegotiated according to the market interest rate and 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 1999 matures on May 1, 2030. The bond bears an interest rate of 5.0 percent per annum until July 1, 2013, at which time the rate is renegotiated according to the market interest rate and 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 \$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, 2032. The bond bears an interest rate of 5.4 percent per annum payable monthly; the interest rate shall be adjusted periodically over the life of the bond. The

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

D. Long-Term Debt Payable (Continued)

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 \$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 Brownton for street upgrades. The debt matures October 15, 2026, and bears interest at the rate of 7.5 percent. Payments of \$359.80, including principal and interest, are payable semi-annually beginning May 15, 2007.

The Security Bank & Trust of Glencoe loan was a single advance in the amount of \$15,000 to fund the roof replacement on HRA units in Stewart. The debt matured October 22, 2010, and bears interest at the rate of 6.5 percent per annum. During the fiscal year, the loan to Security Bank & Trust of Glencoe was paid in full.

The estimated debt service requirements as of June 30, 2011, are as follows:

<u>Years Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 128,990	\$ 184,919	\$ 313,909
2013	135,679	178,231	313,910
2014	142,714	171,197	313,911
2015	150,114	163,796	313,910
2016	157,898	156,013	313,911
2017 - 2021	921,143	646,631	1,567,774
2022 - 2026	1,186,104	383,446	1,569,550
2027 - 2031	848,618	93,677	942,295
2032 - 2036	27,170	299	27,469
Totals	<u>\$ 3,698,430</u>	<u>\$ 1,978,209</u>	<u>\$ 5,676,639</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.

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REQUIRED SUPPLEMENTARY INFORMATION

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 9,528,593	\$ 9,528,593	\$ 8,690,844	\$ (837,749)
Special assessments	59,007	59,007	96,611	37,604
Licenses and permits	60,045	60,045	76,628	16,583
Intergovernmental	2,835,556	2,835,556	3,465,005	629,449
Charges for services	1,616,239	1,616,239	1,721,634	105,395
Fines and forfeits	25,500	25,500	19,273	(6,227)
Gifts and contributions	21,100	21,100	176,273	155,173
Investment earnings	225,650	225,650	308,805	83,155
Miscellaneous	399,892	399,892	350,437	(49,455)
Total Revenues	\$ 14,771,582	\$ 14,771,582	\$ 14,905,510	\$ 133,928
Expenditures				
Current				
General government				
Commissioners	\$ 280,497	\$ 280,497	\$ 239,586	\$ 40,911
County-wide	517,424	517,424	-	517,424
Courts	128,000	128,000	121,276	6,724
Law library	45,000	45,000	103,382	(58,382)
County administrator	259,122	259,122	262,599	(3,477)
County auditor-treasurer	641,646	641,646	593,571	48,075
County assessor	418,688	418,688	407,219	11,469
Elections	94,304	94,304	17,285	77,019
Data processing	786,225	786,225	823,149	(36,924)
Central services	329,273	329,273	122,604	206,669
Attorney	581,275	581,275	525,248	56,027
Recorder	488,647	488,647	377,502	111,145
Planning and zoning	208,636	208,636	202,744	5,892
Buildings	605,415	605,415	718,031	(112,616)
County insurance	269,439	269,439	-	269,439
Veterans service officer	219,886	219,886	193,505	26,381
Fairgrounds	252,709	252,709	239,389	13,320
Safety	5,150	5,150	4,113	1,037
Other general government	1,069,650	1,069,650	5,117	1,064,533
Total general government	\$ 7,200,986	\$ 7,200,986	\$ 4,956,320	\$ 2,244,666

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<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	\$ 3,578,264	\$ 3,578,264	\$ 3,226,458	\$ 351,806
Inmate account	13,500	13,500	11,865	1,635
Probation officer	345,389	345,389	365,516	(20,127)
County jail	1,908,265	1,908,265	1,689,490	218,775
Juvenile detention	6,000	6,000	1,764	4,236
Sheriff posse	39,621	39,621	43,272	(3,651)
E-citation	-	-	382	(382)
Mounted posse	-	-	776	(776)
Coroner	100,810	100,810	98,535	2,275
Emergency services	106,986	106,986	98,804	8,182
Total public safety	\$ 6,098,835	\$ 6,098,835	\$ 5,536,862	\$ 561,973
Health				
Nursing service	\$ 2,051,283	\$ 2,051,283	\$ 2,197,055	\$ (145,772)
Culture and recreation				
Historical society	\$ 39,312	\$ 39,312	\$ 39,312	\$ -
Regional library	187,513	187,513	187,513	-
Other	30,624	30,624	29,919	705
Parks	321,093	321,093	335,182	(14,089)
Snowmobile trail grant	43,000	43,000	44,641	(1,641)
Total culture and recreation	\$ 621,542	\$ 621,542	\$ 636,567	\$ (15,025)
Conservation of natural resources				
Soil and water conservation	\$ 61,000	\$ 61,000	\$ 61,000	\$ -
County extension	225,249	225,249	218,830	6,419
Agriculture ditch inspector	19,700	19,700	13,978	5,722
Water planning	29,342	29,342	39,561	(10,219)
Wetland	27,340	27,340	27,091	249
Shoreland	5,876	5,876	5,657	219
Board of adjustment	2,509	2,509	1,007	1,502
Feedlot	54,044	54,044	68,895	(14,851)
Environmental services	132,868	132,868	86,269	46,599
Other	9,931	9,931	9,843	88
Ag programming	3,000	3,000	3,032	(32)
Septic loans	32,395	32,395	308,027	(275,632)
Total conservation of natural resources	\$ 603,254	\$ 603,254	\$ 843,190	\$ (239,936)

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<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	\$ 1,895	\$ 581
Debt service				
Principal	\$ 43,333	\$ 43,333	\$ 56,456	\$ (13,123)
Interest	8,119	8,119	10,944	(2,825)
Total debt service	<u>\$ 51,452</u>	<u>\$ 51,452</u>	<u>\$ 67,400</u>	<u>\$ (15,948)</u>
Total Expenditures	<u>\$ 16,629,828</u>	<u>\$ 16,629,828</u>	<u>\$ 14,239,289</u>	<u>\$ 2,390,539</u>
Excess of Revenues Over (Under)				
Expenditures	<u>\$ (1,858,246)</u>	<u>\$ (1,858,246)</u>	<u>\$ 666,221</u>	<u>\$ 2,524,467</u>
Other Financing Sources (Uses)				
Transfers in	\$ 376,594	\$ 376,594	\$ 421,377	\$ 44,783
Transfers out	-	-	(990)	(990)
Loan issued	-	-	268,830	268,830
Proceeds from the sale of capital assets	5,000	5,000	5,978	978
Total Other Financing Sources (Uses)	<u>\$ 381,594</u>	<u>\$ 381,594</u>	<u>\$ 695,195</u>	<u>\$ 313,601</u>
Net Change in Fund Balance	<u>\$ (1,476,652)</u>	<u>\$ (1,476,652)</u>	<u>\$ 1,361,416</u>	<u>\$ 2,838,068</u>
Fund Balance - January 1	21,311,477	21,311,477	21,311,477	-
Increase (decrease) in inventories	<u>-</u>	<u>-</u>	<u>(1,093)</u>	<u>(1,093)</u>
Fund Balance - December 31	<u>\$ 19,834,825</u>	<u>\$ 19,834,825</u>	<u>\$ 22,671,800</u>	<u>\$ 2,836,975</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,351,097	\$ 3,351,097	\$ 3,063,106	\$ (287,991)
Licenses and permits	4,000	4,000	6,550	2,550
Intergovernmental	3,655,447	3,655,447	6,167,001	2,511,554
Charges for services	207,500	207,500	265,404	57,904
Miscellaneous	6,500	6,500	44,500	38,000
Total Revenues	\$ 7,224,544	\$ 7,224,544	\$ 9,546,561	\$ 2,322,017
Expenditures				
Current				
Highways and streets				
Administration	\$ 873,421	\$ 873,421	\$ 788,782	\$ 84,639
GIS	140,863	140,863	136,612	4,251
Maintenance	2,097,723	2,097,723	2,342,492	(244,769)
Engineering/construction	2,939,447	2,939,447	5,271,758	(2,332,311)
Equipment, maintenance, and shop	718,199	718,199	1,113,665	(395,466)
Total highways and streets	\$ 6,769,653	\$ 6,769,653	\$ 9,653,309	\$ (2,883,656)
Intergovernmental	-	-	214,820	(214,820)
Total Expenditures	\$ 6,769,653	\$ 6,769,653	\$ 9,868,129	\$ (3,098,476)
Excess of Revenues Over (Under) Expenditures	\$ 454,891	\$ 454,891	\$ (321,568)	\$ (776,459)
Other Financing Sources (Uses)				
Transfers in	303,000	303,000	216,816	(86,184)
Net Change in Fund Balance	\$ 757,891	\$ 757,891	\$ (104,752)	\$ (862,643)
Fund Balance - January 1	7,495,583	7,495,583	7,495,583	-
Increase (decrease) in inventories	-	-	154,048	154,048
Fund Balance - December 31	\$ 8,253,474	\$ 8,253,474	\$ 7,544,879	\$ (708,595)

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 4,273,136	\$ 4,273,136	\$ 3,903,731	\$ (369,405)
Intergovernmental	3,995,613	3,995,613	4,314,637	319,024
Charges for services	793,533	793,533	824,333	30,800
Miscellaneous	159,500	159,500	274,995	115,495
Total Revenues	\$ 9,221,782	\$ 9,221,782	\$ 9,317,696	\$ 95,914
Expenditures				
Current				
Human services				
Income maintenance	\$ 2,223,810	\$ 2,223,810	\$ 2,446,916	\$ (223,106)
Social services	6,633,267	6,633,267	6,618,872	14,395
Transit authority	508,500	508,500	580,229	(71,729)
Total Expenditures	\$ 9,365,577	\$ 9,365,577	\$ 9,646,017	\$ (280,440)
Excess of Revenues Over (Under) Expenditures	\$ (143,795)	\$ (143,795)	\$ (328,321)	\$ (184,526)
Other Financing Sources (Uses)				
Transit authority	12,329	12,329	35,363	23,034
Net Change in Fund Balance	\$ (131,466)	\$ (131,466)	\$ (292,958)	\$ (161,492)
Fund Balance - January 1	5,293,700	5,293,700	5,293,700	-
Fund Balance - December 31	\$ 5,162,234	\$ 5,162,234	\$ 5,000,742	\$ (161,492)

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 6,000	\$ 6,000	\$ 1,465	\$ (4,535)
Intergovernmental	91,497	91,497	90,826	(671)
Charges for services	1,585,500	1,585,500	2,423,754	838,254
Miscellaneous	40,226	40,226	42,282	2,056
Total Revenues	\$ 1,723,223	\$ 1,723,223	\$ 2,558,327	\$ 835,104
Expenditures				
Current				
Sanitation				
Recycling	1,668,187	1,668,187	2,175,298	(507,111)
Excess of Revenues Over (Under) Expenditures	\$ 55,036	\$ 55,036	\$ 383,029	\$ 327,993
Other Financing Sources (Uses)				
Transfers in	\$ 943,664	\$ 943,664	\$ -	\$ (943,664)
Transfers out	(943,664)	(943,664)	-	943,664
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ -
Net Change in Fund Balance	\$ 55,036	\$ 55,036	\$ 383,029	\$ 327,993
Fund Balance - January 1	3,843,347	3,843,347	3,843,347	-
Fund Balance - December 31	\$ 3,898,383	\$ 3,898,383	\$ 4,226,376	\$ 327,993

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2008	\$ -	\$ 879,091	\$ 879,091	0.00%	\$ 9,700,378	9.1%
January 1, 2010	-	1,052,835	1,052,835	0.00	11,923,225	8.8

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. 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 21, 2010, the Board approved the budgets 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 appropriated budget is prepared by fund, function, and department.

2. Excess of Expenditures Over Appropriations

The following funds and departments had expenditures exceeding appropriations for the year ended December 31, 2011:

	Expenditures	Budget	Excess
Major governmental funds			
General Fund			
Current			
General government			
Law library	\$ 103,382	\$ 45,000	\$ 58,382
County administrator	262,599	259,122	3,477
Data processing	823,149	786,225	36,924
Buildings	718,031	605,415	112,616
Public safety			
Probation officer	365,516	345,389	20,127
Sheriff posse	43,272	39,621	3,651
E-citation	382	-	382
Mounted posse	776	-	776
Health			
Nursing service	2,197,055	2,051,283	145,772
Culture and recreation			
Parks	335,182	321,093	14,089
Snowmobile trail grant	44,641	43,000	1,641
Conservation of natural resources			
Water planning	39,561	29,342	10,219
Feedlot	68,895	54,044	14,851
Ag programming	3,032	3,000	32
Septic loans	308,027	32,395	275,632

**McLEOD COUNTY
GLENCOE, MINNESOTA**

2. Excess of Expenditures Over Appropriations (Continued)

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Major governmental funds			
General Fund (Continued)			
Debt service			
Principal	56,456	43,333	13,123
Interest	10,944	8,119	2,825
Road and Bridge Special Revenue Fund			
Current			
Highways and streets			
Maintenance	2,342,492	2,097,723	244,769
Engineering/construction	5,271,758	2,939,447	2,332,311
Equipment, maintenance, and shop	1,113,665	718,199	395,466
Intergovernmental			
Highways and streets	214,820	-	214,820
Human Services Special Revenue Fund			
Current			
Human services			
Income maintenance	2,446,916	2,223,810	223,106
Transit authority	580,229	508,500	71,729
Solid Waste Special Revenue Fund			
Current			
Sanitation			
Recycling	2,175,298	1,668,187	507,111

3. Other Postemployment Benefits

Beginning in 2008, McLeod County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

SUPPLEMENTARY INFORMATION

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

The Forfeited Tax Fund accounts for the revenues and expenditures associated with tax-forfeited property. Financing is provided by County Board authorization and the sale of property.

CAPITAL PROJECTS FUND

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

DEBT SERVICE FUND

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

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	Capital Projects	Debt Service	Total
<u>Assets</u>			
Cash and pooled investments	\$ 1,181,237	\$ 1,916,270	\$ 3,097,507
Taxes receivable			
Prior	25,035	81	25,116
Total Assets	\$ 1,206,272	\$ 1,916,351	\$ 3,122,623
<u>Liabilities and Fund Balances</u>			
Liabilities			
Deferred revenue - unavailable	\$ 25,035	\$ 81	\$ 25,116
Fund Balances			
Restricted for debt service	\$ -	\$ 1,336,556	\$ 1,336,556
Assigned			
Assigned for capital projects	1,181,237	-	1,181,237
Assigned for debt service	-	579,714	579,714
Total Fund Balances	\$ 1,181,237	\$ 1,916,270	\$ 3,097,507
Total Liabilities and Fund Balances	\$ 1,206,272	\$ 1,916,351	\$ 3,122,623

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Forfeited Tax Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
Revenues				
Taxes	\$ -	\$ -	\$ 1,287,803	\$ 1,287,803
Intergovernmental	-	-	80,090	80,090
Fines and forfeits	2,200	-	-	2,200
Investment earnings	-	2,620	-	2,620
Total Revenues	\$ 2,200	\$ 2,620	\$ 1,367,893	\$ 1,372,713
Expenditures				
Current				
General government	\$ 3,190	\$ -	\$ -	\$ 3,190
Debt service				
Principal	-	-	1,295,000	1,295,000
Interest	-	-	32,269	32,269
Administrative - fiscal charges	-	-	900	900
Total Expenditures	\$ 3,190	\$ -	\$ 1,328,169	\$ 1,331,359
Excess of Revenues Over (Under) Expenditures	\$ (990)	\$ 2,620	\$ 39,724	\$ 41,354
Other Financing Sources (Uses)				
Transfers in	\$ 990	\$ -	\$ -	\$ 990
Transfers out	-	(673,556)	-	(673,556)
Total Other Financing Sources (Uses)	\$ 990	\$ (673,556)	\$ -	\$ (672,566)
Net Change in Fund Balance	\$ -	\$ (670,936)	\$ 39,724	\$ (631,212)
Fund Balance - January 1	-	1,852,173	1,876,546	3,728,719
Fund Balance - December 31	\$ -	\$ 1,181,237	\$ 1,916,270	\$ 3,097,507

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,401,042	\$ 1,401,042	\$ 1,287,803	\$ (113,239)
Intergovernmental	-	-	80,090	80,090
Total Revenues	\$ 1,401,042	\$ 1,401,042	\$ 1,367,893	\$ (33,149)
Expenditures				
Debt service				
Principal	\$ 1,307,943	\$ 1,307,943	\$ 1,295,000	\$ 12,943
Interest	19,326	19,326	32,269	(12,943)
Administrative charges	5,400	5,400	900	4,500
Total Expenditures	\$ 1,332,669	\$ 1,332,669	\$ 1,328,169	\$ 4,500
Net Change in Fund Balance	\$ 68,373	\$ 68,373	\$ 39,724	\$ (28,649)
Fund Balance - January 1	1,876,546	1,876,546	1,876,546	-
Fund Balance - December 31	\$ 1,944,919	\$ 1,944,919	\$ 1,916,270	\$ (28,649)

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AGENCY FUNDS

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 323,855	\$ 1,705,597	\$ 1,823,802	\$ 205,650
Due from other governments	337,189	403,770	337,189	403,770
Total Assets	\$ 661,044	\$ 2,109,367	\$ 2,160,991	\$ 609,420
<u>Liabilities</u>				
Accounts payable	\$ 10,322	\$ -	\$ 10,322	\$ -
Salaries payable	-	5,168	-	5,168
Accrued payroll taxes	-	392	-	392
Accrued expenses	-	2,094	-	2,094
Due to other governments	650,722	601,766	650,722	601,766
Total Liabilities	\$ 661,044	\$ 609,420	\$ 661,044	\$ 609,420
<u>SUPPORTING HANDS NURSE FAMILY PARTNERSHIP FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 111,381	\$ 686,714	\$ 610,135	\$ 187,960
Accounts receivable	450	9,000	450	9,000
Due from other governments	46,333	49,165	46,333	49,165
Total Assets	\$ 158,164	\$ 744,879	\$ 656,918	\$ 246,125
<u>Liabilities</u>				
Accounts payable	\$ 4,114	\$ 5,140	\$ 4,114	\$ 5,140
Salaries payable	13,965	15,361	13,965	15,361
Accrued payroll taxes	998	890	998	890
Accrued expenses	2,052	4,627	2,052	4,627
Due to other governments	137,035	220,107	137,035	220,107
Total Liabilities	\$ 158,164	\$ 246,125	\$ 158,164	\$ 246,125

**McLEOD COUNTY
GLENCOE, MINNESOTA**

***EXHIBIT C-1
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TAXES AND PENALTIES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 173,102	\$ 43,233,311	\$ 43,123,052	\$ 283,361
<u>Liabilities</u>				
Due to other governments	\$ 173,102	\$ 283,361	\$ 173,102	\$ 283,361
 <u>STATE AGENCY FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 109,133	\$ 3,762,141	\$ 3,738,980	\$ 132,294
Departmental cash	1,358		1,358	-
Accounts receivable	2,078	4,700	2,078	4,700
Due from other governments	188	130	188	130
Total Assets	\$ 112,757	\$ 3,766,971	\$ 3,742,604	\$ 137,124
<u>Liabilities</u>				
Accounts payable	\$ 540	\$ -	\$ 540	\$ -
Due to other governments	112,217	137,124	112,217	137,124
Total Liabilities	\$ 112,757	\$ 137,124	\$ 112,757	\$ 137,124
 <u>COUNTY COLLABORATIVE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 206,537	\$ 3,529	\$ 210,066	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 206,537	\$ -	\$ 206,537	\$ -

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT C-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 924,008	\$ 49,391,292	\$ 49,506,035	\$ 809,265
Departmental cash	1,358	-	1,358	-
Accounts receivable	2,528	13,700	2,528	13,700
Due from other governments	383,710	453,065	383,710	453,065
Total Assets	<u>\$ 1,311,604</u>	<u>\$ 49,858,057</u>	<u>\$ 49,893,631</u>	<u>\$ 1,276,030</u>
<u>Liabilities</u>				
Accounts payable	\$ 14,976	\$ 5,140	\$ 14,976	\$ 5,140
Salaries payable	13,965	20,529	13,965	20,529
Accrued payroll taxes	998	1,282	998	1,282
Accrued expenses	2,052	6,721	2,052	6,721
Due to other governments	1,279,613	1,242,358	1,279,613	1,242,358
Total Liabilities	<u>\$ 1,311,604</u>	<u>\$ 1,276,030</u>	<u>\$ 1,311,604</u>	<u>\$ 1,276,030</u>

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OTHER SCHEDULES

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2011**

Shared Revenue

State

Highway users tax	\$ 4,938,323
Market value credit	1,055,296
PERA rate reimbursement	36,151
Disparity reduction aid	60,750
County program aid	1,511,249
Police aid	159,651
E-911	73,013
	<u>73,013</u>

Total shared revenue **\$ 7,834,433**

Reimbursement for Services

State - Minnesota Department of Human Services **\$ 855,197**

Payments

Local - Payments in lieu of taxes **\$ 39,942**

Grants

Local

Highway **\$ 64,284**

State

Minnesota Department/Board of	
Corrections	\$ 90,638
Public Safety	5,000
Transportation	727
Health	171,620
Natural Resources	30,130
Human Services	1,237,753
Water and Soil Resources	2,216
Pollution Control Agency	134,626
	<u>134,626</u>

Total state **\$ 1,672,710**

Federal

Department of	
Agriculture	\$ 482,773
Commerce	57,691
Justice	10,266
Transportation	994,063
Health and Human Services	2,094,213
Homeland Security	11,987
	<u>11,987</u>

Total federal **\$ 3,650,993**

Total local, state, and federal grants **\$ 5,387,987**

Total Intergovernmental Revenue **\$ 14,117,559**

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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	\$ 262,430
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	10.561	<u>228,076</u>
Total U.S. Department of Agriculture		\$ <u>490,506</u>
U.S. Department of Justice		
Direct		
State Criminal Alien Assistance Program	16.606	\$ 3,184
Bulletproof Vest Partnership Program	16.607	1,932
Passed Through Minnesota Department of Public Safety Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories - ARRA	16.803	<u>5,150</u>
Total U.S. Department of Justice		\$ <u>10,266</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 962,538
Passed Through Minnesota Department of Public Safety Highway Safety Cluster		
State and Community Highway Safety	20.600	14,545
Occupant Protection Incentive Grants	20.602	6,160
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>10,820</u>
Total U.S. Department of Transportation		\$ <u>994,063</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	\$ 15,840
Temporary Assistance for Needy Families Cluster		
Temporary Assistance for Needy Families	93.558	239,640
Emergency Contingency Fund for Temporary Assistance for Needy Families		
State Program - ARRA	93.714	4,172
Child Care Cluster		
Child Care Development Block Grant	93.575	8,365
Child Care Mandatory and Matching Funds of the Child Care and Development		
Fund	93.596	5,576
Child Support Enforcement	93.563	512,357
Stephanie Tubbs Jones Child Welfare Services Program	93.645	7,440
Foster Care - Title IV-E Cluster		
Foster Care - Title IV-E	93.658	162,961
Foster Care - Title IV-E - ARRA	93.658	743
Social Services Block Grant	93.667	190,026
Chafee Foster Care Independence Program	93.674	3,010
Children's Health Insurance Program	93.767	115
Medical Assistance Program	93.778	634,926
Block Grants for Community Mental Health Services	93.958	30,445
Passed Through Meeker-McLeod-Sibley Community Health Services		
Public Health Emergency Preparedness	93.069	18,497
Universal Newborn Hearing Screening	93.251	650
Drug-Free Communities Support Program Grants	93.276	79,503
Centers for Disease Control and Prevention - Investigations and Technical		
Assistance	93.283	20,731
Temporary Assistance for Needy Families Cluster		
Temporary Assistance for Needy Families	93.558	26,694
Medical Assistance Program	93.778	25,318
Block Grants for Prevention and Treatment of Substance Abuse	93.959	996
Maternal and Child Health Services Block Grant to the States	93.994	29,663
Total U.S. Department of Health and Human Services		\$ 2,017,668
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 8,652
Emergency Management Performance Grants	97.042	23,907
Total U.S. Department of Homeland Security		\$ 32,559
Total Federal Awards		\$ 3,545,062

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by McLeod County. The County's reporting entity is defined in Note 1 to the financial statements. McLeod County's financial statements include the operations of the McLeod County Housing and Redevelopment Authority component unit, which expended \$433,769 in federal awards during the year ended June 30, 2011, which are not included in the Schedule of Expenditures of Federal Awards.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of McLeod County under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of McLeod County, it is not intended to and does not present the financial position or changes in net assets of McLeod County.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 3,650,993
Grants received more than 60 days after year-end, deferred in 2011	
Child Care Development Block Grant	661
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	440
State Administrative Matching Grants for SNAP	7,733
Medical Assistance Program	15,267
Emergency Management Performance Grants	23,907

**McLEOD COUNTY
GLENCOE, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue (Continued)

Deferred in 2010, recognized as revenue in 2011	
Public Safety Interoperable Communications Grant Program	(57,691)
Universal Newborn Hearing Screening	(250)
Immunization Grants	(1,800)
Immunization Grants - ARRA	(6,575)
Medical Assistance Program	(50,280)
Emergency Management Performance Grants	(3,335)
Child Support Enforcement	(30,002)
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	(3,192)
Foster Care - Title IV-E	(814)
	\$ 3,545,062
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 3,545,062

5. Clusters

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

Highway Safety Cluster	\$ 20,705
Temporary Assistance for Needy Families Cluster	270,506
Child Care Development Fund Cluster	13,941
Foster Care Title IV-E Cluster	163,704

6. Subrecipients

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

CFDA Number	Program Name	Amount Provided to Subrecipients
20.600	State and Community Highway Safety	\$ 14,084

7. American Recovery and Reinvestment Act

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

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

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

The major program is:

Highway Planning and Construction

CFDA No. 20.205

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

McLeod County qualified as low-risk auditee? **Yes**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-1 Accounting Policies and Procedures

Criteria: Management is responsible for establishing and implementing internal controls over the accounting cycles and the system used for financial reporting.

Condition: The County has not documented written procedures covering the payroll process and financial reporting.

Context: Written policies and procedures over significant financial operations help in providing consistency over time and guidance to new officials and staff.

Effect: The County's practices may not be followed as intended by management and employees may not understand the purpose of internal controls.

Cause: The County has developed many policies and procedures relating to other transaction cycles but has not had the time to complete the documentation.

Recommendation: We recommend the County formalize the documentation of its policies and procedures related to payroll and financial reporting process and include these in its accounting procedures manual.

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. McLeod County does have a written procedure in place for payroll and accounts payable.

07-1 Monitoring Internal Controls

Criteria: Management is responsible for developing and monitoring its internal controls over the various accounting cycles. The monitoring process includes performing an annual risk assessment of existing controls over significant functions of its accounting system used to produce financial information, documenting the significant internal controls for each transaction cycle/account balance, monitoring those controls on a regular basis, and documenting the monitoring activity performed.

Condition: Management has not yet formalized its assessment of risks in its review of internal controls, nor has it documented the significant internal controls, performed monitoring of those controls on a regular basis, or documented the monitoring activity.

Context: Assessing risk and monitoring transaction cycles and account balances ensures activity is being properly recorded and reported in the financial statements.

Effect: Without monitoring of internal controls, management cannot be assured that internal controls are operating effectively and transactions are processed according to policy.

Cause: Limited time and resources.

Recommendation: We again recommend that the County document the significant internal controls in the accounting system and formalize a plan to assess and monitor these controls on a regular basis, no less than annually. Significant functions and internal controls include and cover such areas as cash, capital assets, major funding sources, expenditure processing, and payroll. The monitoring of these functions and areas should be documented to show the results of the review, changes required as a result of the risk assessment, and who performed the work.

Client's Response:

McLeod County recognized the importance for monitoring the internal controls of the financial system. The McLeod County Auditor-Treasurer will continue to assess the internal controls periodically throughout the year.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

11-1 Cash Management

Programs: Highway Planning and Construction (CFDA No. 20.205)

Criteria: OMB Circular A-133 § .300 (b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. The OMB Circular A-133 Compliance Supplement 2011, Part 3, C. Cash Management states that, when entities are funded on a reimbursement basis, the costs for which reimbursement was requested should be paid prior to the date of the reimbursement request.

Condition: Reimbursement for federal program expenditures was requested before full payment of the expenditure was made. The retainage withheld in a periodic payment to the contractor was included in the reimbursement request; however, the retainage was not paid to the contractor until the project was complete.

Questioned Costs: None

Context: This federally funded project was completed in 2011; overall reimbursement for project expenditures did not exceed actual costs paid to contractors.

Effect: The design of the internal controls over the requesting of reimbursement of federal program expenditures could affect the County's ability to comply with direct and material compliance requirements.

Cause: Policies and procedures have not been established to adequately ensure that expenditures are paid prior to the request for reimbursement.

Recommendation: We recommend the County establish and implement policies and procedures to provide reasonable assurance that expenditures are paid prior to the time the request for reimbursement occurs.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

The Highway Department Accountant

Corrective Action Planned:

In order to comply with grant agreements, the McLeod County Highway Department will work with its vendor to optimize category funding splits on retainage deductions to ensure that expenditures are paid prior to the time the request for reimbursement occurs.

Anticipated Completion Date:

The McLeod County Highway Department will take action immediately.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

09-2 Ditch Fund Balance Deficits

Criteria: As provided by Minn. Stat. § 103E.735, subd. 1, a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000 whichever is larger.

Condition: As of December 31, 2011, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balances.

Context: Thirty of the 56 individual ditch systems have deficit unassigned fund balances as of December 31, 2011, totaling \$589,111, the largest being \$151,751. These 30 ditches combined with the remaining ditch systems leave the Ditch Special Revenue Fund with a deficit unassigned fund balance of \$484,995.

Effect: Ditch systems with deficit fund balances indicate that measures have not been taken to ensure that an individual ditch system can meet financial obligations.

Cause: Assessments are levied annually; however, emergency repairs or natural disasters happen after the assessments and repairs are critical to the operation of the ditch system.

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

Client's Response:

McLeod County recognizes the importance of having fund balance available to provide for the repair and maintenance costs of a county drainage system. The principal understanding is that each drainage system belongs to the property owners located within that watershed. McLeod County Commissioners manage the drainage systems in their respected districts though the funds do not belong to the County. Annually in September, the Commissioners hold a public ditch meeting according to Minn. Stat § 103E.705, subd. 6, to determine a repair and maintenance assessment levy to be levied on each county drainage system in the new year. Four criteria are used to determine the

assessment levy: (1) fund balance, (2) previous expenditures, (3) future expenditures, and (4) outstanding loan balances. Nevertheless, after the assessment is levied on a drainage system emergency tile, culvert, bridge, and ditch repairs happen or natural disasters which are unforeseen. These emergency ditch repairs are critical to the operation of a drainage system.

The Commissioners realize Minn. Stat. § 103E.735, subd. 1, gives the authority to establish a fund balance not to exceed 20 percent of the assessed benefits for the drainage system or \$100,000, whichever is larger. McLeod County will continue to monitor the fund balances of the drainage systems and work toward eliminating the deficits in the future.



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, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 24, 2012. Our report includes 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

Management of McLeod County is responsible for establishing and maintaining effective 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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 99-1 and 07-1, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention to those charged with governance.

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 Political Subdivisions*, 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 Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because the County does not have any tax increment financing districts of its own.

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 is a management practices comment. We believe this recommendation to be of benefit to the County, and it is reported for that purpose.

McLeod County's written responses to the internal control 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

September 24, 2012

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
McLeod County

Compliance

We have audited McLeod County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2011. 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 basic financial statements include the operations of the McLeod County Housing and Redevelopment Authority (HRA) component unit, which expended \$433,769 in federal awards during the year ended June 30, 2011, which are not included in the 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 compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

Internal Control Over Compliance

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as items 11-1. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

McLeod County's corrective action plan to the federal award finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plan and accordingly, we express no opinion on it.

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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 24, 2012