

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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

YEAR ENDED DECEMBER 31, 2008

## **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, 2008**



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

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

ORGANIZATION  
2008

Office	Name	Term of Office	
		From	To
<b>Commissioners</b>			
1st District	Ray Bayerl	June 1990	January 2009
2nd District	Kermit Terlinden	January 1995	January 2011
3rd District	Grant Knutson*	January 1997	January 2009
4th District	Sheldon Nies	January 1995	January 2011
5th District	Beverly Wangerin	January 1989	January 2009
<b>Officers</b>			
<b>Elected</b>			
Attorney	Michael K. Junge	May 1987	January 2011
Auditor	Cindy Schultz	January 1995	January 2011
District Judge	Michael Savre	May 2004	January 2011
District Judge	Terrence E. Conkel	August 1998	January 2011
Recorder	Lynnette Schrupp	January 2003	January 2011
Sheriff	Scott Rehmann	January 1999	January 2011
Treasurer	Linda Radtke	January 1987	January 2011
<b>Appointed</b>			
Assessor	Sue Schulz	March 2005	January 2009
Court Administrator	Karen Messner	January 2008	Indefinite
Coroner	Dr. Amatuzio	January 2006	Indefinite
Highway Engineer	John Brunkhorst	November 2001	May 2010
Surveyor	Jeff Rausch	February 1996	January 2009
Veterans Service Officer	James Lauer	November 2004	January 2009
County Administrator	Pat Melvin	November 2008	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 2009
Park Superintendent	Allan Koglin	August 1979	Indefinite
Agriculture and Weed Inspector	Allan Koglin	January 1997	January 2009

\*Chair

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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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, 2008, including the McLeod County Housing and Redevelopment Authority (HRA) as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of McLeod County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the McLeod County HRA, which is the discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the McLeod County HRA, is based solely upon the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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, 2008, and the

McLeod County HRA as of June 30, 2008, 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 6 to the financial statements, during the year ended December 31, 2008, McLeod County implemented Governmental Accounting Standards Board's Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The Management's Discussion and Analysis (MD&A) and the required supplementary information other than the MD&A, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated December 18, 2009, on our consideration of McLeod County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

December 18, 2009

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2008  
(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, 2008. 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 \$132,945,879 (net assets). Of this amount, \$22,735,668 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$6,355,869 (five percent). The increase is a combination of additional capital assets and budget savings from operations.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$11,137,791, or 67 percent, of total 2008 General Fund expenditures.
- Governmental funds' fund balances decreased by \$65,280.

**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 9 to the financial statements.

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

## **Fund Financial Statements**

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

### Governmental Funds

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

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

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

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

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

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

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

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

### Fiduciary Funds

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

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

### **Notes to the Financial Statements**

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

## Other Information

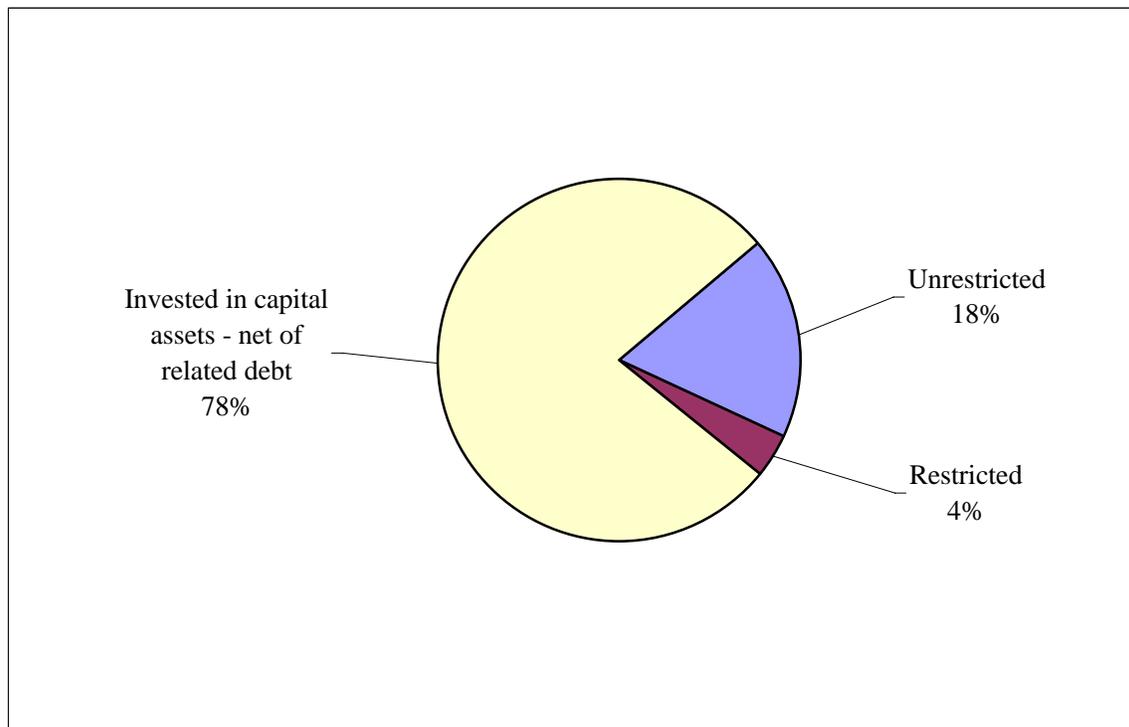
In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

## Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of McLeod County, assets exceeded liabilities by \$132,945,879 as of December 31, 2008. The investment in capital assets, net of related debt, is the largest portion of McLeod County's net assets at 78 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 four 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 18 percent, or \$22,735,668, is unrestricted and available to be used to meet the government's ongoing obligations to citizens and creditors.

Net Assets



(Unaudited)

**Net Assets**

	<u>Governmental Activities</u>		<u>Discretely Presented Component Unit</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 33,682,498	\$ 34,238,328	\$ 204,761	\$ 193,976
Capital assets	<u>104,448,742</u>	<u>97,615,568</u>	<u>3,626,759</u>	<u>3,755,728</u>
Total Assets	<u>\$ 138,131,240</u>	<u>\$ 131,853,896</u>	<u>\$ 3,831,520</u>	<u>\$ 3,949,704</u>
Current and other liabilities	\$ 2,239,070	\$ 2,472,663	\$ 91,566	\$ 93,119
Long-term liabilities - due within one year	1,123,583	1,090,242	116,593	111,056
Long-term liabilities - due in more than one year	<u>1,822,708</u>	<u>1,700,981</u>	<u>3,937,841</u>	<u>4,057,750</u>
Total Liabilities	<u>\$ 5,185,361</u>	<u>\$ 5,263,886</u>	<u>\$ 4,146,000</u>	<u>\$ 4,261,925</u>
<b>Net Assets</b>				
Invested in capital assets - net of related debt	\$ 103,431,403	\$ 96,340,568	\$ (427,675)	\$ (413,078)
Restricted	6,778,808	11,680,050	85,976	-
Unrestricted	<u>22,735,668</u>	<u>18,569,392</u>	<u>27,219</u>	<u>100,857</u>
Total Net Assets	<u>\$ 132,945,879</u>	<u>\$ 126,590,010</u>	<u>\$ (314,480)</u>	<u>\$ (312,221)</u>

**GOVERNMENTAL ACTIVITIES**

McLeod County's governmental activities increased net assets by \$6,355,829 during the current fiscal year. This increase is primarily due to the increase in capital assets, which included the following major items: highway and bridge construction, purchases of property, Honeywell energy retrofit projects, fairgrounds parking lot construction, and other improvement projects.

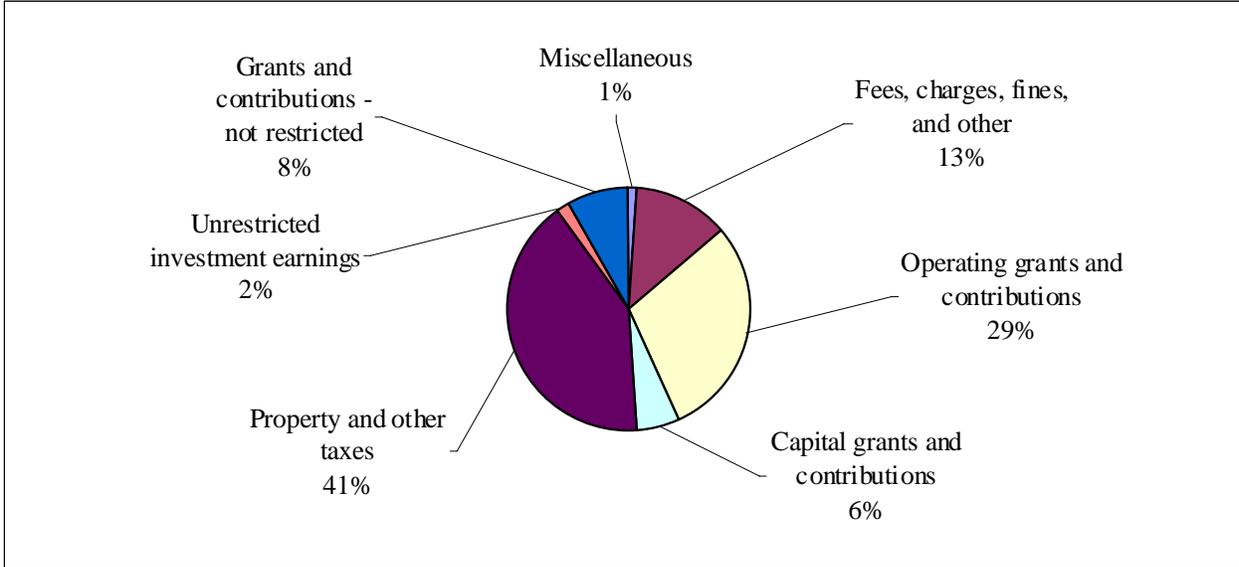
The McLeod County HRA is a discretely presented component unit of McLeod County. As of June 30, 2008, liabilities exceeded assets by \$314,480, and there was a decrease in net assets of \$2,259 from the prior year. The decrease is primarily due to expenditures in excess of revenues.

## Changes in Net Assets

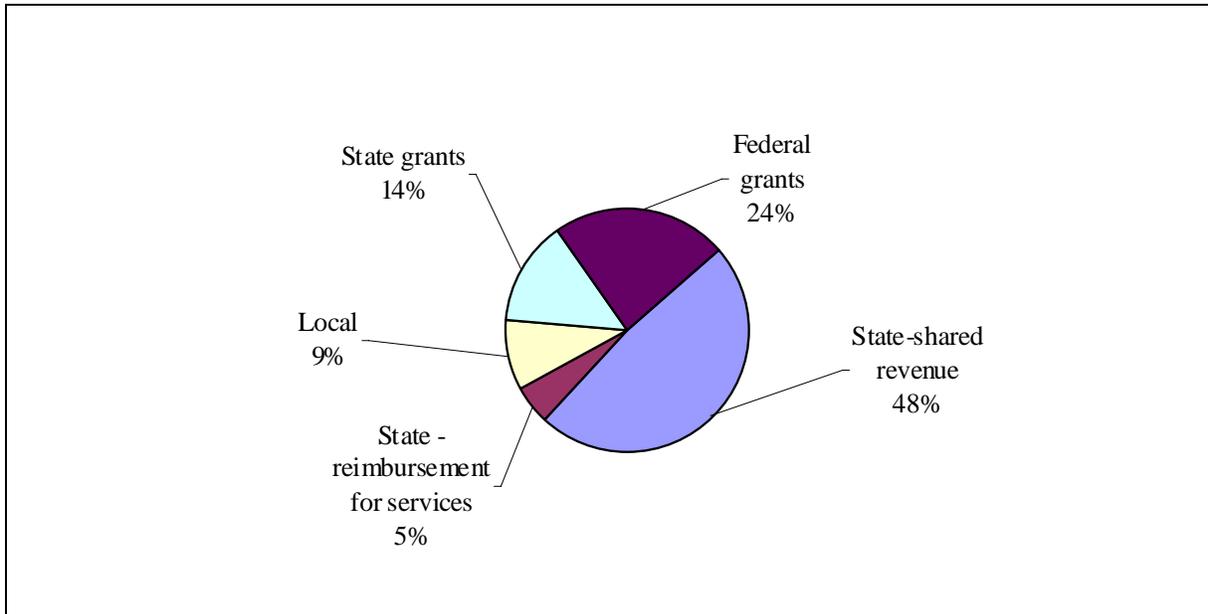
	Governmental Activities		Discretely Presented Component Unit (Restated)	
	2008	2007	2008	2007
<b>Revenues</b>				
Program revenues				
Charges for services, fees, fines, and other	\$ 5,305,346	\$ 5,186,871	\$ 806,276	\$ 776,592
Operating grants and contributions	11,702,267	7,732,754	-	-
Capital grants and contributions	2,408,107	1,748,769	-	-
General revenues			-	-
Property taxes	15,964,045	16,547,691	-	-
Other taxes	167,166	102,815	-	-
Grants and contributions not restricted to specific programs	3,049,494	3,468,247	-	-
Unrestricted investment earnings	792,150	1,339,913	2,466	2,582
Other	275,739	300,880	-	-
<b>Total Revenues</b>	<b>\$ 39,664,314</b>	<b>\$ 36,427,940</b>	<b>\$ 808,742</b>	<b>\$ 779,174</b>
<b>Expenses</b>				
General government	\$ 4,336,444	\$ 4,983,930	\$ -	\$ -
Public safety	7,472,378	6,510,323	-	-
Highways and streets	6,983,418	5,397,887	-	-
Sanitation	1,926,925	1,694,866	-	-
Human services	8,922,238	8,173,671	-	-
Health	2,083,697	1,729,525	-	-
Culture and recreation	598,612	503,376	-	-
Conservation of natural resources	943,919	799,251	-	-
Economic development	2,298	2,449	-	-
Interest	38,516	68,707	-	-
HRA	-	-	811,001	826,900
<b>Total Expenses</b>	<b>\$ 33,308,445</b>	<b>\$ 29,863,985</b>	<b>\$ 811,001</b>	<b>\$ 826,900</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 6,355,869</b>	<b>\$ 6,563,955</b>	<b>\$ (2,259)</b>	<b>\$ (47,726)</b>
<b>Net Assets - January 1</b>	<b>126,590,010</b>	<b>120,026,055</b>	<b>(312,221)</b>	<b>(264,495)</b>
<b>Net Assets - December 31</b>	<b>\$ 132,945,879</b>	<b>\$ 126,590,010</b>	<b>\$ (314,480)</b>	<b>\$ (312,221)</b>

The following charts show additional information on the revenues of McLeod County for the year ended December 31, 2008.

**Revenues by Source - Governmental Activities**



**Intergovernmental Revenue**



## FINANCIAL ANALYSIS

### Governmental Funds

At the end of 2008, McLeod County's governmental funds reported a combined fund balance of \$27,865,471. This is a decrease of \$65,280 from the prior year. The General Fund fund balance decreased by \$896,980 due to an increase in capital asset expenditures. The fund balance in the Road and Bridge Special Revenue Fund increased by \$1,164,199 due to increased revenues. The fund balance in the Human Services Special Revenue Fund increased by \$99,630 due to increased revenues. There was also an increase in the nonmajor governmental funds of \$37,224.

### General Fund Budgetary Highlights

In total, General Fund revenues for 2008 exceeded the amounts budgeted by \$280,820. Charges for services, fines and forfeits, intergovernmental, gifts and contributions, and miscellaneous charges came in higher than anticipated. Total General Fund expenditures were \$382,795 less than the final budget. This variance is attributed to the areas of general government and public safety.

## CAPITAL ASSETS AND LONG-TERM DEBT

### Capital Assets

At the end of 2008, McLeod County had \$104,448,742 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. The right-of-way and land has always been added together in the past financial statements but is split out in 2008.

	Capital Assets (Net of Depreciation)	
	2008	2007
Land	\$ 3,961,641	\$ 6,443,662
Right-of-way	3,136,218	-
Infrastructure	72,039,120	73,459,187
Buildings	12,861,433	11,492,351
Improvements other than buildings	418,101	353,793
Machinery and equipment	3,125,746	3,271,674
Construction in progress	8,906,483	2,594,901
Total	<u>\$ 104,448,742</u>	<u>\$ 97,615,568</u>

Major capital asset events during the year included the following:

- Honeywell energy retrofit and reroof for the jail,
- fairgrounds parking lot, and
- infrastructure construction continued in 2008.

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

### **Long-Term Debt**

At the end of the current fiscal year, McLeod County had bonded debt and capital notes outstanding of \$1,587,887. This is an increase of \$29,149 from the beginning of the year. The increase is due to an increase in septic loans.

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 \$65,407,022, 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 8.1 percent. McLeod County's unemployment rate is more than the state unemployment rate of 6.8 percent and the United States unemployment rate of 7.1 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 2009 fiscal year.

## **REQUESTS FOR INFORMATION**

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

The Housing and Redevelopment Authority (HRA), discretely presented component unit, prepares separate financial statements. Complete financial statements of the HRA can be obtained by writing to 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, 2008**

	<b>Primary Government Governmental Activities</b>	<b>Discretely Presented Component Unit</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 25,953,402	\$ 115,307
Petty cash and change funds	23,005	-
Departmental cash	2,518	-
Cash with fiscal agent	1,130,705	-
Taxes receivable		
Prior - net	412,505	-
Special assessments receivable		
Noncurrent - net	596,009	-
Prior	596	-
Accounts receivable - net	361,836	52
Accrued interest receivable	92,581	-
Due from other governments	4,717,528	-
Deferred charges - current	4,121	-
Inventories	375,326	-
Prepaid items	-	5,597
Restricted assets		
Cash and pooled investments	-	42,739
Deferred charges	12,366	41,066
Capital assets		
Non-depreciable	16,004,342	197,000
Depreciable - net of accumulated depreciation	88,444,400	3,429,759
<b>Total Assets</b>	<b>\$ 138,131,240</b>	<b>\$ 3,831,520</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**EXHIBIT 1  
(Continued)**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2008**

	<b>Primary Government Governmental Activities</b>	<b>Discretely Presented Component Unit</b>
<b><u>Liabilities</u></b>		
Accounts payable	\$ 894,593	\$ 1,285
Salaries payable	422,890	-
Accrued payroll taxes	27,556	-
Other accrued liabilities	83,097	46,936
Contracts payable	61,119	-
Retainage payable	161,664	-
Due to other governments	304,644	-
Accrued interest payable	13,255	-
Claims payable	149,131	-
Unavailable revenue	-	1,220
Unearned revenue	121,121	-
Long-term liabilities		
Due within one year	1,123,583	116,593
Due in more than one year	1,822,708	3,937,841
Liabilities payable from restricted assets (security deposits)	-	42,125
	<b>\$ 5,185,361</b>	<b>\$ 4,146,000</b>
<b><u>Net Assets</u></b>		
Invested in capital assets - net of related debt	\$ 103,431,403	\$ (427,675)
Restricted for		
General government	2,099,464	-
Public safety	235,201	-
Conservation of natural resources	115,527	-
Sanitation	3,514,700	-
Economic development	-	85,976
Capital projects	89,640	-
Debt service	724,276	-
Unrestricted	22,735,668	27,219
	<b>\$ 132,945,879</b>	<b>\$ (314,480)</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>
<b><u>Functions/Programs</u></b>		
<b>Primary government</b>		
Governmental activities		
General government	\$ 4,336,444	\$ 1,026,206
Public safety	7,472,378	260,536
Highways and streets	6,983,418	342,687
Sanitation	1,926,925	1,777,823
Human services	8,922,238	851,713
Health	2,083,697	574,037
Culture and recreation	598,612	91,219
Conservation of natural resources	943,919	381,125
Economic development	2,298	-
Interest	38,516	-
<b>Total Primary Government</b>	<b>\$ 33,308,445</b>	<b>\$ 5,305,346</b>
<b>Component Unit</b>		
Housing and Redevelopment Authority	<b>\$ 811,001</b>	<b>\$ 806,276</b>

**General Revenues**

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

**Total general revenues**

**Change in Net Assets**

**Net Assets - Beginning**

**Net Assets - Ending**

**EXHIBIT 2**

<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Assets</b>	
<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Primary Government Governmental Activities</b>	<b>Discretely Presented Component Unit</b>
\$ 35,951	\$ -	\$ (3,274,287)	
789,519	-	(6,422,323)	
5,278,581	2,408,107	1,045,957	
-	-	(149,102)	
4,518,169	-	(3,552,356)	
934,501	-	(575,159)	
-	-	(507,393)	
145,546	-	(417,248)	
-	-	(2,298)	
-	-	(38,516)	
<b>\$ 11,702,267</b>	<b>\$ 2,408,107</b>	<b>\$ (13,892,725)</b>	
<b>\$ -</b>	<b>\$ -</b>		<b>\$ (4,725)</b>
		\$ 15,964,045	\$ -
		26,770	-
		140,396	-
		3,049,494	-
		792,150	2,466
		275,739	-
		<b>\$ 20,248,594</b>	<b>\$ 2,466</b>
		<b>\$ 6,355,869</b>	<b>\$ (2,259)</b>
		<b>126,590,010</b>	<b>(312,221)</b>
		<b>\$ 132,945,879</b>	<b>\$ (314,480)</b>

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## **FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2008**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 13,078,397	\$ 4,039,131
Petty cash and change funds	2,855	100
Departmental cash	2,518	-
Cash with fiscal agent	1,130,705	-
Taxes receivable		
Prior	214,034	65,780
Special assessments receivable		
Prior	-	-
Noncurrent	529,252	-
Accounts receivable	102,425	4,243
Accrued interest receivable	92,513	-
Due from other funds	17,093	-
Due from other governments	409,960	3,641,715
Inventories	10,769	364,557
Advances to other funds	107,100	-
	<b>\$ 15,697,621</b>	<b>\$ 8,115,526</b>
<b><u>Liabilities and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 129,718	\$ 153,651
Salaries payable	240,896	47,454
Accrued payroll taxes	14,415	3,297
Accrued interest payable	-	-
Accrued expenses	54,552	6,174
Advances from other funds	-	-
Contracts payable	12,751	-
Retainage payable	22,891	132,706
Due to other funds	122	-
Due to other governments	188,223	11,851
Deferred revenue - unavailable	1,004,548	2,163,350
Deferred revenue - unearned	121,121	-
Claims payable	110,037	-
	<b>\$ 1,899,274</b>	<b>\$ 2,518,483</b>

**EXHIBIT 3**

<b>Human Services</b>	<b>Solid Waste</b>	<b>Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 4,198,694	\$ 3,509,577	\$ 277,352	\$ 850,251	\$ 25,953,402
-	20,050	-	-	23,005
-	-	-	-	2,518
-	-	-	-	1,130,705
94,336	-	37,857	498	412,505
-	-	-	596	596
-	-	-	66,757	596,009
66,847	188,247	74	-	361,836
-	-	-	68	92,581
122	-	-	-	17,215
662,598	527	-	2,728	4,717,528
-	-	-	-	375,326
-	-	-	-	107,100
<b>\$ 5,022,597</b>	<b>\$ 3,718,401</b>	<b>\$ 315,283</b>	<b>\$ 920,898</b>	<b>\$ 33,790,326</b>
\$ 401,719	\$ 94,167	\$ 115,338	\$ -	\$ 894,593
121,861	12,679	-	-	422,890
8,891	953	-	-	27,556
-	-	-	848	848
20,924	1,447	-	-	83,097
-	-	-	107,100	107,100
-	7,685	40,683	-	61,119
-	-	6,067	-	161,664
17,093	-	-	-	17,215
91,530	11,370	-	1,670	304,644
326,669	9,968	37,857	70,579	3,612,971
-	-	-	-	121,121
-	-	-	-	110,037
<b>\$ 988,687</b>	<b>\$ 138,269</b>	<b>\$ 199,945</b>	<b>\$ 180,197</b>	<b>\$ 5,924,855</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2008**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Liabilities and Fund Balances</u></b>		
<b>(Continued)</b>		
<b>Fund Balances</b>		
Reserved for		
Advances to other funds	\$ 107,100	\$ -
Law library	155,923	-
Recorder's equipment	252,243	-
Inventories	10,769	364,557
Encumbrances	89,640	-
Law enforcement	78,284	-
Land records technology	340	-
E-911	76,137	-
Veterans van	46,855	-
Drug enforcement	4,947	-
Conservation of natural resources	115,527	-
Petty cash	2,855	100
HAVA equipment	49,624	-
Capital assets	1,484,101	-
Court services	75,833	-
Records compliance	50,213	-
Records preservation	50,537	-
4-H after-school adventures	1,364	-
McLeod for Tomorrow	8,264	-
Solid waste abatement	-	-
Unreserved		
Designated for future expenditures	4,615,403	2,333,768
Undesignated	6,522,388	2,898,618
Unreserved, reported in nonmajor		
Special revenue fund	-	-
Debt service fund	-	-
	<b>\$ 13,798,347</b>	<b>\$ 5,597,043</b>
<b>Total Fund Balances</b>		
	<b>\$ 13,798,347</b>	<b>\$ 5,597,043</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 15,697,621</b>	<b>\$ 8,115,526</b>

**EXHIBIT 3**  
**(Continued)**

<u>Human Services</u>	<u>Solid Waste</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 107,100
-	-	-	-	155,923
-	-	-	-	252,243
-	-	-	-	375,326
-	-	-	-	89,640
-	-	-	-	78,284
-	-	-	-	340
-	-	-	-	76,137
-	-	-	-	46,855
-	-	-	-	4,947
-	-	-	-	115,527
-	20,050	-	-	23,005
-	-	-	-	49,624
-	-	-	-	1,484,101
-	-	-	-	75,833
-	-	-	-	50,213
-	-	-	-	50,537
-	-	-	-	1,364
-	-	-	-	8,264
-	3,514,700	-	-	3,514,700
2,759,824	-	-	-	9,708,995
1,274,086	45,382	115,338	-	10,855,812
-	-	-	16,425	16,425
-	-	-	724,276	724,276
<b>\$ 4,033,910</b>	<b>\$ 3,580,132</b>	<b>\$ 115,338</b>	<b>\$ 740,701</b>	<b>\$ 27,865,471</b>
<b>\$ 5,022,597</b>	<b>\$ 3,718,401</b>	<b>\$ 315,283</b>	<b>\$ 920,898</b>	<b>\$ 33,790,326</b>

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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, 2008**

<b>Fund balance - total governmental funds (Exhibit 3)</b>		<b>\$</b>	<b>27,865,471</b>
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.			104,448,742
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			3,612,971
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.			
General obligation bonds	\$	(1,030,000)	
Loans payable		(561,713)	
Additional claims payable		(39,094)	
Compensated absences		(1,274,002)	
OPEB liabilities		(84,402)	
Accrued interest payable		(12,407)	
Deferred debt issuance charges		16,487	
Unamortized discount on bonds		3,826	
		<u>3,826</u>	<u>(2,981,305)</u>
<b>Net Assets of Governmental Activities (Exhibit 1)</b>		<b>\$</b>	<b><u>132,945,879</u></b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>General</b>	<b>Road and Bridge</b>
<b>Revenues</b>		
Taxes	\$ 8,434,069	\$ 2,764,396
Special assessments	24,246	-
Licenses and permits	82,817	4,065
Intergovernmental	3,865,621	8,593,212
Charges for services	1,779,997	361,153
Fines and forfeits	28,504	-
Gifts and contributions	26,099	-
Investment earnings	790,220	-
Miscellaneous	500,135	81,133
	<b>\$ 15,531,708</b>	<b>\$ 11,803,959</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 7,419,050	\$ -
Public safety	5,729,437	-
Highways and streets	-	10,426,188
Sanitation	-	-
Human services	-	-
Health	2,061,059	-
Culture and recreation	596,324	-
Conservation of natural resources	878,200	-
Economic development	2,298	-
<b>Capital outlay</b>	-	-
<b>Intergovernmental</b>	-	169,150
<b>Debt service</b>		
Principal	9,617	-
Interest	2,059	-
Administrative charges	-	-
	<b>\$ 16,698,044</b>	<b>\$ 10,595,338</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (1,166,336)</b>	<b>\$ 1,208,621</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ 750,000	\$ -
Transfers out	(713,510)	-
Loan issued	233,178	-
Proceeds from the sale of capital assets	400	-
	<b>\$ 270,068</b>	<b>\$ -</b>
<b>Net Change in Fund Balance</b>	<b>\$ (896,268)</b>	<b>\$ 1,208,621</b>
<b>Fund Balance - January 1</b>	<b>14,695,327</b>	<b>4,432,844</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>(712)</b>	<b>(44,422)</b>
<b>Fund Balance - December 31</b>	<b>\$ 13,798,347</b>	<b>\$ 5,597,043</b>

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

**EXHIBIT 5**

<u>Human Services</u>	<u>Solid Waste</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 3,603,132	\$ -	\$ 897,620	\$ 294,808	\$ 15,994,025
-	-	-	64,862	89,108
-	2,630	-	-	89,512
4,628,008	136,620	86,821	25,562	17,335,844
657,926	1,727,396	-	-	4,526,472
-	-	-	-	28,504
600	-	-	-	26,699
-	-	-	1,930	792,150
193,862	52,293	-	-	827,423
<b>\$ 9,083,528</b>	<b>\$ 1,918,939</b>	<b>\$ 984,441</b>	<b>\$ 387,162</b>	<b>\$ 39,709,737</b>
\$ -	\$ -	\$ -	\$ 321	\$ 7,419,371
-	-	-	-	5,729,437
-	-	-	-	10,426,188
-	1,753,630	-	-	1,753,630
8,983,898	-	-	-	8,983,898
-	-	-	-	2,061,059
-	-	-	-	596,324
-	-	-	68,194	946,394
-	-	-	-	2,298
-	-	1,582,292	-	1,582,292
-	-	-	-	169,150
-	-	-	245,000	254,617
-	-	-	36,244	38,303
-	-	-	500	500
<b>\$ 8,983,898</b>	<b>\$ 1,753,630</b>	<b>\$ 1,582,292</b>	<b>\$ 350,259</b>	<b>\$ 39,963,461</b>
<b>\$ 99,630</b>	<b>\$ 165,309</b>	<b>\$ (597,851)</b>	<b>\$ 36,903</b>	<b>\$ (253,724)</b>
\$ -	\$ -	\$ 713,189	\$ 321	\$ 1,463,510
-	(750,000)	-	-	(1,463,510)
-	-	-	-	233,178
-	-	-	-	400
<b>\$ -</b>	<b>\$ (750,000)</b>	<b>\$ 713,189</b>	<b>\$ 321</b>	<b>\$ 233,578</b>
\$ 99,630	\$ (584,691)	\$ 115,338	\$ 37,224	\$ (20,146)
3,934,280	4,164,823	-	703,477	27,930,751
-	-	-	-	(45,134)
<b>\$ 4,033,910</b>	<b>\$ 3,580,132</b>	<b>\$ 115,338</b>	<b>\$ 740,701</b>	<b>\$ 27,865,471</b>

**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, 2008**

**Net change in fund balance - total governmental funds (Exhibit 5) \$ (20,146)**

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	\$ 3,612,971	
Deferred revenue - January 1	(3,888,300)	(275,329)

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	\$ 9,957,167	
Revenue for roundabout	414,177	
Net book value of disposed assets	(23,810)	
Current year depreciation	(3,514,360)	6,833,174

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		(282,810)
Principal repayments - general obligation bonds		245,000
Principal repayments - Minnesota Pollution Control Agency loans		9,617

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	\$ 5,364	
Amortization of deferred issuance charges	(4,121)	
Amortization discount on bonds	(956)	
Change in compensated absences	(41,517)	
Change in additional claims payable	17,129	
Change in OPEB liability	(84,402)	
Change in inventories	(45,134)	(153,637)

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ 6,355,869**

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, 2008

	<u>Agency</u>
<b><u>Assets</u></b>	
Cash and pooled investments	\$ 817,714
Accounts receivable	17,431
Due from other governments	<u>317,665</u>
<b>Total Assets</b>	<b><u>\$ 1,152,810</u></b>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 1,227
Salaries payable	8,951
Accrued payroll taxes	637
Accrued expenses	1,223
Due to other governments	<u>1,140,772</u>
<b>Total Liabilities</b>	<b><u>\$ 1,152,810</u></b>

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

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, 2008. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

McLeod County was established March 1, 1856, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present McLeod County (primary government) and its component unit for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Discretely Presented Component Unit

While part of the reporting entity, the discretely presented component unit is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County. The following component unit of McLeod County is discretely presented:

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in several joint ventures described in Note 8.D. The County also participates in the jointly-governed organizations described in Note 8.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**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as a separate column in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

The County reports the following major governmental funds:

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

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

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

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

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

Additionally, the County reports the following fund types:

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2008,

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2008 were \$792,419.

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

2. Receivables and Payables

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

All other outstanding balances between funds are reported as "due to/from other funds."

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

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

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

3. Inventories

Inventories in the General Fund are valued at cost using the first in/first out method. Inventories in the Road and Bridge Special Revenue Fund are valued using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses when consumed.

4. Restricted Assets

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

5. Capital Assets

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Capital Assets (Continued)

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

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

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

6. Compensated Absences

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

7. Deferred Revenue

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

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 effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

9. Fund Equity

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

10. Use of Estimates

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

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.

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.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Revenues (Continued)

Exchange Transactions

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

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The Ditch Special Revenue Fund had a fund balance of \$16,425 as of December 31, 2008. 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:

38 ditches with positive balances	\$ 122,455
18 ditches with deficit balances	<u>(106,030)</u>
Net Fund Balance	<u>\$ 16,425</u>

B. Component Unit Deficit

The McLeod County HRA at June 30, 2008, had deficit net assets of \$314,480, an increase from the previous year's deficit balance of \$312,221. The decrease in net assets is due, in part, to expenses in excess of revenues.

C. Excess of Expenditures Over Appropriations

In the Solid Waste Special Revenue Fund, the expenditures exceeded appropriations for the year ended December 31, 2008, by \$23,002. In the Human Services Special Revenue Fund, the expenditures exceeded appropriations for the year ended December 31, 2008, by \$51,586.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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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	\$ 25,953,402
Petty cash and change funds	23,005
Cash with fiscal agent	1,130,705
Departmental cash	2,518
Agency fund	
Cash and pooled investments	<u>817,714</u>
Total Cash and Investments	<u>\$ 27,927,344</u>
Deposits	\$ 18,485,156
Petty cash and change funds	23,005
Departmental cash	2,518
Investments	<u>9,416,665</u>
Total Deposits, Cash on Hand, and Investments	<u>\$ 27,927,344</u>

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. 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 that is not owned or controlled by the financial institution furnishing the collateral.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a financial institution failure, the County deposits may not be returned to it. The County does not have a policy on custodial credit risk for deposits. As of December 31, 2008, McLeod County's deposits were not exposed to custodial credit risk.

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**

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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 AAAM 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 that are in the possession of an outside party. The County does not have a policy regarding custodial credit risk. At December 31, 2008, all of the investments held in the fiscal agent account listed on the next page totaled \$1,130,705 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, 2008, and information relating to potential investment risks:

Investment - Issuer	Concentration Risk Percent (%)	Interest Rate Risk Maturity Date	Fair Value
McLeod County			
Mutual fund - Public Financial Management Cash Management Fund (MAGIC Fund)	88.00	N/A	\$ 8,285,960
Fiscal agent			
Money market			
M&I Bank	0.69	N/A	\$ 65,325
Negotiable certificates of deposit			
Wells Fargo			
Banco Santander - Puerto Rico	0.62	01/20/2009	\$ 58,407
First Bank of Puerto Rico	0.63	03/19/2009	59,016
Cascade Bank - Everett, WA	0.65	04/13/2009	60,841
Cathay Bank - Los Angeles, CA	0.62	05/22/2009	58,407
Compass Bank - Birmingham, AL	0.65	06/17/2009	60,841
Washington Mutual Bank FSB, UT	0.62	07/10/2009	58,407
1st Regional Bank - Los Angeles, CA	0.62	07/30/2009	58,407
Capmark Bank - Midvale, UT	0.62	08/13/2009	58,407
Branch Banking & Trust - Sal, NC	0.65	10/22/2009	60,841
Mercantile Bank - Grand Rapids, MI	0.63	12/16/2009	59,625
Lehman Brothers Commercial Bank - UT	0.63	01/25/2010	59,625
Wachovia Mortgage FSB	0.63	02/22/2010	59,625
Capital One National Assn. - Mclean, VA	0.63	03/24/2010	59,625
Capital One Bank USA - VA	0.63	06/03/2010	59,625
GE Money Bank - Salt Lake City, UT	0.63	12/20/2010	59,625
Total negotiable certificates of deposit			\$ 891,324

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

<u>Investment - Issuer</u>	<u>Concentration Risk Percent (%)</u>	<u>Interest Rate Risk Maturity Date</u>	<u>Fair Value</u>
Mutual fund Wells Fargo Advantage Government MMF Service*	1.85	N/A	\$ 174,056
Total fiscal agent			\$ 1,130,705
Total Investments			\$ 9,416,665

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

2. Receivables

Receivables as of December 31, 2008, 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	\$ 412,505	\$ -
Special assessments	596,605	596,009
Due from other governments	4,717,528	-
Accounts	361,836	-
Interest	92,581	-
Total Governmental Activities	\$ 6,181,055	\$ 596,009

**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, 2008, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 3,742,543	\$ 219,098	\$ -	\$ 3,961,641
Construction in progress	2,594,901	6,858,854	547,272	8,906,483
Infrastructure - right-of-way	2,701,119	435,099	-	3,136,218
Total capital assets not depreciated	<u>\$ 9,038,563</u>	<u>\$ 7,513,051</u>	<u>\$ 547,272</u>	<u>\$ 16,004,342</u>
Capital assets depreciated				
Buildings	\$ 17,730,167	\$ 1,932,949	\$ -	\$ 19,663,116
Machinery, furniture, and equipment	8,672,778	845,178	619,198	8,898,758
Improvements other than buildings	643,237	129,448	-	772,685
Infrastructure	98,134,784	497,990	-	98,632,774
Total capital assets depreciated	<u>\$ 125,180,966</u>	<u>\$ 3,405,565</u>	<u>\$ 619,198</u>	<u>\$ 127,967,333</u>
Less: accumulated depreciation for				
Buildings	\$ 6,237,816	\$ 563,867	\$ -	\$ 6,801,683
Machinery, furniture, and equipment	5,401,104	967,296	595,388	5,773,012
Improvements other than buildings	289,444	65,140	-	354,584
Infrastructure	24,675,597	1,918,057	-	26,593,654
Total accumulated depreciation	<u>\$ 36,603,961</u>	<u>\$ 3,514,360</u>	<u>\$ 595,388</u>	<u>\$ 39,522,933</u>
Total capital assets depreciated, net	<u>\$ 88,577,005</u>	<u>\$ (108,795)</u>	<u>\$ 23,810</u>	<u>\$ 88,444,400</u>
Governmental Activities Capital Assets, Net	<u>\$ 97,615,568</u>	<u>\$ 7,404,256</u>	<u>\$ 571,082</u>	<u>\$ 104,448,742</u>

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

Governmental Activities	
General government	\$ 605,663
Public safety	309,653
Highways and streets, including depreciation of infrastructure assets	2,300,489
Human services	48,788
Health	9,578
Culture and recreation	20,267
Conservation of natural resources	7,116
Sanitation	212,806
Total Depreciation Expense - Governmental Activities	<u>\$ 3,514,360</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, 2008, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Human Services	\$ 17,093
Human Services	General	122
Total Due To/From Other Funds		\$ 17,215

Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch	\$ 107,100

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, 2008, consisted of the following:

Transfer to Capital Projects Fund from Special Revenue Fund	\$ 713,189	Jail projects
Transfer to Special Revenue Fund from Solid Waste Fund	750,000	Fairgrounds parking lot
Transfer to Forfeited Tax Fund from General Fund	321	Cover negative balance
Total Interfund Transfers	\$ 1,463,510	

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2008, were as follows:

Accounts	\$	894,593
Salaries		422,890
Accrued payroll taxes		27,556
Other accrued liabilities		83,097
Retainage		161,664
Due to other governments		304,644
Claims		<u>110,037</u>
Total Payables	<u>\$</u>	<u>2,004,481</u>

2. Construction Commitments

The County has active construction projects as of December 31, 2008. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Honeywell project - Jail energy retrofit	\$ 1,401,520	\$ 46,750
Fairgrounds parking lot	283,818	118,000
Solid Waste canopy roof	5,000	7,685
Jail reroof	138,358	7,282
Roads and bridges	7,151,253	132,706

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2008</u>
General obligation bonds 2005 Capital Improvement Refunding Bonds	2012	\$245,000 - \$270,000	2.45 - 3.10	<u>\$ 1,275,000</u>	\$ 1,030,000
Less: unamortized discount					<u>(3,826)</u>
Net General Obligation Bonds					<u>\$ 1,026,174</u>
Minnesota Pollution Control Agency (MnPCA) loans	2021	N/A	2.00	<u>\$ 571,330</u>	<u>\$ 561,713</u>

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

In 2004, the County entered into a loan agreement with the Minnesota Pollution Control Agency for High Island Creek Watershed septic system loans. According to the agreement, the County could borrow as much as \$191,000. The total amount disbursed through December 31, 2008, was \$103,643, which was the principal of the loan. Principal payments of \$9,617 were made in 2008.

In 2007, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Buffalo Creek Watershed septic system loans. According to the agreement, the County can borrow as much as \$215,000. The total amount disbursed through December 31, 2008, was \$215,000. Repayment of the principal will not begin until 2010.

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, 2008, was \$48,455. Repayment is estimated to begin 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. The total amount disbursed through December 31, 2008, was \$204,232. Repayment is estimated to begin in 2011.

4. Debt Service Requirements

Debt service requirements at December 31, 2008, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds		High Island Creek Watershed Septic System Loans (2004)	
	Principal	Interest	Principal	Interest
2009	\$ 250,000	\$ 26,290	\$ 9,810	\$ 1,866
2010	250,000	19,540	10,007	1,669
2011	260,000	12,205	10,207	1,467
2012	270,000	4,185	10,413	1,262
2013	-	-	10,622	1,053
2014 - 2018	-	-	42,967	2,033
2019 - 2021	-	-	-	-
Total	\$ 1,030,000	\$ 62,220	\$ 94,026	\$ 9,350

Year Ending December 31	High Island Watershed Septic System Loans (2008)		Buffalo Creek Watershed Septic System Loans	
	Principal	Interest	Principal	Interest
2009	\$ -	\$ -	\$ -	\$ -
2010	-	-	19,887	4,258
2011	2,200	475	20,286	3,858
2012	4,466	884	20,694	3,451
2013	4,556	794	21,110	3,035
2014 - 2018	24,197	2,554	112,089	8,636
2019 - 2021	13,036	340	20,934	357
Total	\$ 48,455	\$ 5,047	\$ 215,000	\$ 23,595

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements

Governmental Activities (Continued)

Year Ending December 31	Crow River Watershed Septic System Loans		Total	
	Principal	Interest	Principal	Interest
2009	\$ -	\$ -	\$ 259,810	\$ 28,156
2010	-	-	279,894	25,467
2011	9,272	2,004	301,965	20,009
2012	18,823	3,727	324,396	13,509
2013	19,203	3,347	55,491	8,229
2014 - 2018	101,989	10,764	281,242	23,987
2019 - 2021	54,945	1,431	88,915	2,128
Total	\$ 204,232	\$ 21,273	\$ 1,591,713	\$ 121,485

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 1,275,000	\$ -	\$ 245,000	\$ 1,030,000	\$ 250,000
MnPCA loans	288,520	282,810	9,617	561,713	9,810
Less: discounts	(4,782)	956	-	(3,826)	-
Total bonds and loans payable	\$ 1,558,738	\$ 283,766	\$ 254,617	\$ 1,587,887	\$ 259,810
OPEB liability	-	84,402	-	84,402	-
Compensated absences	1,232,485	41,517	-	1,274,002	863,773
Long-Term Liabilities	\$ 2,791,223	\$ 409,685	\$ 254,617	\$ 2,946,291	\$ 1,123,583

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Bond Refunding

In 2005, the County issued \$1,275,000 General Obligation Capital Improvement Refunding Bonds to refund the 2000A General Obligation Capital Improvement Bonds. This is a crossover refunding with the proceeds deposited with an escrow agent. The 2000A Series was called on February 1, 2007, and redeemed with proceeds from the escrow account. On February 1, 2008, the County 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.

4. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$400,000 per claim in 2008. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and the County pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT. Premiums are paid by the General Fund and are reimbursed from other funds for their share.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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4. Risk Management (Continued)

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 2008 and 2009, the County has retained risk up to a \$125,000 stop-loss per covered person per year (\$1,000,000 aggregate) for the health plan.

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

	Year Ended December 31	
	2008	2007
Unpaid claims, beginning of fiscal year	\$ 78,256	\$ 96,997
Incurred claims (including IBNRs)	1,152,507	1,044,922
Claims payments	(1,081,633)	(1,063,663)
Unpaid Claims, End of Fiscal Year	\$ 149,130	\$ 78,256

5. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of McLeod County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (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.

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5. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

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

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

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5. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at [www.mnpera.org](http://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. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.0 percent, respectively, of their annual covered salary in 2008. Public Employees Police and Fire Fund members were required to contribute 8.6 percent of their annual covered salary in 2008. That rate increased to 9.4 percent in 2009. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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5. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2008 and 2009:

	2008	2009
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.50	6.75
Public Employees Police and Fire Fund	12.90	14.10
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2008	2007	2006
Public Employees Retirement Fund	\$ 626,391	\$ 520,741	\$ 430,409
Public Employees Police and Fire Fund	187,987	156,865	132,045
Public Employees Correctional Fund	73,075	72,309	60,613

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

B. Defined Contribution Plan

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

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

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5. Pension Plans

B. Defined Contribution Plan (Continued)

elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2008, were:

	Employee	Employer
Contribution amount	\$ 5,620	\$ 5,620
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

6. Other Postemployment Benefits (OPEB)

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

This statement required the County to calculate and record a net OPEB obligation at December 31, 2008. The net OPEB obligation is, in general, the cumulative difference between the actuarial required contribution and the actual contributions since January 1, 2008.

A. Plan Description

The County provides a defined benefit healthcare 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 Humana 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.

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6. Other Postemployment Benefits (OPEB) (Continued)

B. Funding Policy

Retirees and their spouses contribute to the healthcare 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, Humana Dental, and Minnesota Life. The required contributions are based on projected pay-as-you-go financing requirements. For fiscal year 2008, the County contributed \$49,004 to the plan. As of January 1, 2008, there were 11 retirees receiving health benefits from the County's health plan.

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 liabilities over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost of the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	\$	133,406
Interest on net OPEB obligation		-
Adjustment to ARC		-
		-
Annual OPEB cost	\$	133,406
Contributions made		(49,004)
		84,402
Increase in net OPEB obligation	\$	84,402
Net OPEB Obligation - Beginning of Year		-
		-
Net OPEB Obligation - End of Year	\$	84,402

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2008	\$133,406	36.73%	\$84,402

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6. Other Postemployment Benefits (OPEB) (Continued)

D. Funded Status and Funding Progress

As of January 1, 2008, the most recent actuarial valuation date, the County had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$879,091, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$879,091. The covered payroll (annual payroll of active employees covered by the plan) was \$9,700,378, and the ratio of the UAAL to the covered payroll was 9.1 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 healthcare 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, 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 that are 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, 2008, 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 healthcare cost trend rate was calculated to be 9 percent initially, reduced incrementally to an ultimate rate of 5 percent.

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7. Subsequent Events

The County has issued the following Capital Notes since December 31, 2008.

On May 5, 2009, the County issued \$3,000,000 of General Obligation Capital Notes, Series 2009. The proceeds of the notes will be used to purchase capital equipment. The bonds have interest rates ranging from .090 to 1.35 percent and a final maturity date of February 1, 2012.

8. 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.

**McLEOD COUNTY  
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8. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities (Continued)

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

C. Conduit Debt Obligation

The County has issued Commercial Development Revenue Bonds (Southwest Minnesota Foundation Project) for the purpose of financing all or a portion of the costs of acquisition of land and the construction of an administration building. The bonds are secured by the financed property and are payable solely from the revenue of the project. The bonds do not constitute a charge, lien, or encumbrance, legal or equitable, upon any property or funds of the County, nor is the County subject to any liability thereon. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The amount of outstanding principal was \$3,500,000 as of December 31, 2008.

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.

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8. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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

Meeker-McLeod-Sibley Community Health Services Board

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

Current financial statements are available at the McLeod County Auditor's Office, 2385 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.

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8. 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.

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

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

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

Supporting Hands Nurse Family Partnership Board

The Supporting Hands Nurse Family Partnership Board was established pursuant to Minn. Stat. §§ 471.59 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.

**McLEOD COUNTY  
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8. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations

Supporting Hands Nurse Family Partnership Board (Continued)

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

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.

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9. 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.

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.

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

B. Cash and Investments

The HRA's cash and investments at June 30, 2008, are summarized as follows:

Cash on deposit	
Restricted	\$ 12,208
Unrestricted	<u>115,307</u>
Total cash on deposit	\$ 127,515
Certificates of deposit, due within one year	
Restricted	<u>30,531</u>
Total Cash and Investments	<u>\$ 158,046</u>

Deposits

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

The carrying amount of the HRA's deposits with financial institutions was \$158,046 as of June 30, 2008. Bank balances were \$180,695 as of June 30, 2008; \$142,659 was insured by the FDIC, and the remainder was covered by qualified collateral held in safekeeping.

Minnesota statutes require that all HRA deposits be protected by insurance, surety bond, or collateral and that securities pledged as collateral be legal instruments and be held in safekeeping by the HRA treasurer or in a financial institution other than that furnishing the collateral. The market value of collateral pledged must generally exceed deposits not covered by insurance or bonds by at least ten percent. The HRA was in compliance with these Minnesota statutes at all times during the year ended June 30, 2008.

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

B. Cash and Investments (Continued)

Investments

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

- direct obligations or obligations guaranteed by the United States or its agencies;
- shares of investment companies registered under the Federal Investment Company Act of 1940 whose only investments are in securities described in Minnesota statutes;
- general obligations of the State of Minnesota or any of its municipalities and other state and local government obligations as listed in Minnesota statutes;
- bankers' acceptances of United States banks, eligible for purchase by the Federal Reserve System;
- commercial paper issued by United States corporations or their Canadian subsidiaries that is of the highest quality and matures in 270 days or less;
- repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in United States government securities reporting to the Federal Reserve Bank of New York, certain Minnesota securities broker-dealers, or a bank qualified as a depository; and
- guaranteed investment contracts issued or guaranteed by a United States commercial bank or domestic branch of a foreign bank or a United States insurance company or its Canadian or United States subsidiary, provided it ranks on a parity with the senior unsecured debt obligations of the issuer or guarantor and meets other requirements as stated in Minnesota statutes.

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

C. Property and Equipment

The following is a summary of property and equipment transactions:

	July 1, 2007	Additions	Disposals	June 30, 2008
Land	\$ 197,000	\$ -	\$ -	\$ 197,000
Site improvements	166,884	-	-	166,884
Building	4,343,003	-	-	4,343,003
Appliances	117,433	-	-	117,433
<b>Total</b>	<b>\$ 4,824,320</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,824,320</b>
Accumulated depreciation	(1,068,592)	(128,969)	-	(1,197,561)
<b>Totals</b>	<b>\$ 3,755,728</b>	<b>\$ (128,969)</b>	<b>\$ -</b>	<b>\$ 3,626,759</b>

D. Long-Term Debt Payable

The following is a summary of long-term debt transactions for the year ended June 30, 2008:

	July 1, 2007	Issued	Payments	June 30, 2008
Essential Function Housing Development Bond of 1996	\$ 1,000,917	\$ -	\$ 29,737	\$ 971,180
Essential Function Housing Development Bond of 1997	1,020,019	-	28,550	991,469
Essential Function Housing Development Bond of 1999	990,770	-	23,291	967,479
Essential Function Housing Development Bond of 2001	1,135,187	-	23,618	1,111,569
Assessments payable	21,913	-	9,176	12,737
<b>Totals</b>	<b>\$ 4,168,806</b>	<b>\$ -</b>	<b>\$ 114,372</b>	<b>\$ 4,054,434</b>

The Essential Function Housing Development Revenue Bond of 1996 matures on September 1, 2027. The bond currently bears an interest rate of 5.000 percent per annum until July 1, 2008, at which time the rate becomes 6.125 percent per annum; the interest rate is thereafter adjustable periodically over the life of the bond. Principal and interest are payable monthly. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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

D. Long-Term Debt Payable (Continued)

insufficient to meet the bond obligations, the HRA may request funds from the McLeod County General Fund by ordering a County-wide tax levy not to exceed \$120,000. The HRA agrees to repay the funds to McLeod County from any subsequent excess cash flows.

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

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

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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

D. Long-Term Debt Payable (Continued)

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

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

The estimated debt service requirements as of June 30, 2008, are as follows:

<u>Years Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 116,593	\$ 203,200	\$ 319,793
2010	116,585	197,325	313,910
2011	122,631	191,279	313,910
2012	128,987	184,922	313,909
2013	135,677	178,234	313,911
2014 - 2017	616,801	665,155	1,281,956
2018 - 2022	968,888	600,659	1,569,547
2023 - 2027	1,246,980	321,872	1,568,852
2028 - 2032	601,292	55,463	656,755
Totals	<u>\$ 4,054,434</u>	<u>\$ 2,598,109</u>	<u>\$ 6,652,543</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.

**REQUIRED SUPPLEMENTARY INFORMATION  
OTHER THAN MD&A**

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**Schedule 1**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 9,269,979	\$ 9,269,979	\$ 8,434,069	\$ (835,910)
Special assessments	-	-	24,246	24,246
Licenses and permits	100,225	100,225	82,817	(17,408)
Intergovernmental	3,038,921	3,038,921	3,865,621	826,700
Charges for services	1,563,387	1,563,387	1,779,997	216,610
Fines and forfeits	24,000	24,000	28,504	4,504
Gifts and contributions	8,500	8,500	26,099	17,599
Investment earnings	811,250	811,250	790,220	(21,030)
Miscellaneous	434,626	434,626	500,135	65,509
<b>Total Revenues</b>	<b>\$ 15,250,888</b>	<b>\$ 15,250,888</b>	<b>\$ 15,531,708</b>	<b>\$ 280,820</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 259,799	\$ 259,799	\$ 273,448	\$ (13,649)
County-wide	477,542	477,542	22,760	454,782
Courts	99,000	99,000	101,733	(2,733)
Law library	40,000	40,000	60,108	(20,108)
County administrator	229,522	229,522	249,048	(19,526)
County auditor	534,133	534,133	501,809	32,324
County treasurer	212,351	212,351	213,749	(1,398)
County assessor	458,669	458,669	388,825	69,844
Elections	70,471	70,471	83,734	(13,263)
Data processing	903,593	903,593	795,101	108,492
Central services	243,111	243,111	198,249	44,862
Attorney	571,888	571,888	519,040	52,848
Recorder	491,081	491,081	482,147	8,934
Planning and zoning	231,700	231,700	208,661	23,039
Buildings	2,560,489	2,560,489	1,948,317	612,172
County insurance	252,929	252,929	258,325	(5,396)
Veterans service officer	129,473	129,473	130,894	(1,421)
Fairgrounds	256,446	256,446	234,295	22,151
Safety	2,300	2,300	2,158	142
Other general government	1,500	1,500	746,649	(745,149)
<b>Total general government</b>	<b>\$ 8,025,997</b>	<b>\$ 8,025,997</b>	<b>\$ 7,419,050</b>	<b>\$ 606,947</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**Schedule 1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 3,353,412	\$ 3,353,412	\$ 3,338,412	\$ 15,000
Probation officer	362,315	362,315	401,785	(39,470)
County jail	1,988,933	1,988,933	1,747,631	241,302
Juvenile detention	2,300	2,300	9,176	(6,876)
Sheriff posse	37,057	37,057	47,709	(10,652)
Coroner	101,125	101,125	93,176	7,949
Emergency services	104,860	104,860	91,548	13,312
<b>Total public safety</b>	<b>\$ 5,950,002</b>	<b>\$ 5,950,002</b>	<b>\$ 5,729,437</b>	<b>\$ 220,565</b>
<b>Health</b>				
Nursing service	<b>\$ 1,842,625</b>	<b>\$ 1,842,625</b>	<b>\$ 2,061,059</b>	<b>\$ (218,434)</b>
<b>Culture and recreation</b>				
Historical society	\$ 40,000	\$ 40,000	\$ 40,000	\$ -
Regional library	172,734	172,734	172,734	-
Other	30,100	30,100	29,600	500
Parks	303,432	303,432	310,365	(6,933)
Snowmobile trail grant	30,000	30,000	43,625	(13,625)
<b>Total culture and recreation</b>	<b>\$ 576,266</b>	<b>\$ 576,266</b>	<b>\$ 596,324</b>	<b>\$ (20,058)</b>
<b>Conservation of natural resources</b>				
Soil and water conservation	\$ 61,000	\$ 61,000	\$ 61,000	\$ -
County extension	241,396	241,396	219,000	22,396
Agriculture ditch inspector	19,468	19,468	14,015	5,453
Water planning	33,356	33,356	34,439	(1,083)
Wetland	24,518	24,518	30,723	(6,205)
Shoreland	6,808	6,808	6,265	543
Board of adjustment	3,638	3,638	1,582	2,056
Feedlot	34,330	34,330	69,582	(35,252)
Environmental services	135,757	135,757	124,176	11,581
Other	8,202	8,202	8,624	(422)
Ag programming	-	-	2,883	(2,883)
Septic loans	115,000	115,000	305,911	(190,911)
<b>Total conservation of natural resources</b>	<b>\$ 683,473</b>	<b>\$ 683,473</b>	<b>\$ 878,200</b>	<b>\$ (194,727)</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

***Schedule 1  
(Continued)***

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Economic development</b>				
Housing and redevelopment authority	\$ 2,476	\$ 2,476	\$ 2,298	\$ 178
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 9,617	\$ (9,617)
Interest	-	-	2,059	(2,059)
<b>Total debt service</b>	\$ -	\$ -	\$ 11,676	\$ (11,676)
<b>Total Expenditures</b>	\$ 17,080,839	\$ 17,080,839	\$ 16,698,044	\$ 382,795
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	\$ (1,829,951)	\$ (1,829,951)	\$ (1,166,336)	\$ 663,615
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ -	\$ -	\$ 750,000	\$ 750,000
Transfers out	-	-	(713,510)	(713,510)
Loan issued	-	-	233,178	233,178
Proceeds from the sale of capital assets	10,000	10,000	400	(9,600)
<b>Total Other Financing Sources   (Uses)</b>	\$ 10,000	\$ 10,000	\$ 270,068	\$ 260,068
<b>Net Change in Fund Balance</b>	\$ (1,819,951)	\$ (1,819,951)	\$ (896,268)	\$ 923,683
<b>Fund Balance - January 1</b>	14,695,327	14,695,327	14,695,327	-
<b>Increase (decrease) in reserved for inventories</b>	-	-	(712)	(712)
<b>Fund Balance - December 31</b>	\$ 12,875,376	\$ 12,875,376	\$ 13,798,347	\$ 922,971

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 3,120,515	\$ 3,120,515	\$ 2,764,396	\$ (356,119)
Licenses and permits	5,000	5,000	4,065	(935)
Intergovernmental	6,847,000	6,847,000	8,593,212	1,746,212
Charges for services	145,000	145,000	361,153	216,153
Miscellaneous	27,000	27,000	81,133	54,133
<b>Total Revenues</b>	<b>\$ 10,144,515</b>	<b>\$ 10,144,515</b>	<b>\$ 11,803,959</b>	<b>\$ 1,659,444</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 876,074	\$ 876,074	\$ 704,404	\$ 171,670
GIS	181,797	181,797	173,690	8,107
Maintenance	1,784,261	1,784,261	1,727,089	57,172
Engineering/construction	7,071,000	7,071,000	6,956,022	114,978
Equipment, maintenance, and shop	703,175	703,175	864,983	(161,808)
<b>Total highways and streets</b>	<b>\$ 10,616,307</b>	<b>\$ 10,616,307</b>	<b>\$ 10,426,188</b>	<b>\$ 190,119</b>
<b>Intergovernmental</b>	-	-	169,150	(169,150)
<b>Total Expenditures</b>	<b>\$ 10,616,307</b>	<b>\$ 10,616,307</b>	<b>\$ 10,595,338</b>	<b>\$ 20,969</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (471,792)</b>	<b>\$ (471,792)</b>	<b>\$ 1,208,621</b>	<b>\$ 1,680,413</b>
<b>Fund Balance - January 1</b>	<b>4,432,844</b>	<b>4,432,844</b>	<b>4,432,844</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>(44,422)</b>	<b>(44,422)</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,961,052</b>	<b>\$ 3,961,052</b>	<b>\$ 5,597,043</b>	<b>\$ 1,635,991</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 3,984,969	\$ 3,984,969	\$ 3,603,132	\$ (381,837)
Intergovernmental	3,644,857	3,644,857	4,628,008	983,151
Charges for services	732,449	732,449	657,926	(74,523)
Gifts and contributions	-	-	600	600
Miscellaneous	245,800	245,800	193,862	(51,938)
<b>Total Revenues</b>	<b>\$ 8,608,075</b>	<b>\$ 8,608,075</b>	<b>\$ 9,083,528</b>	<b>\$ 475,453</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 2,008,683	\$ 2,008,683	\$ 2,025,323	\$ (16,640)
Social services	6,468,629	6,468,629	6,437,412	31,217
Transit authority	455,000	455,000	521,163	(66,163)
<b>Total Expenditures</b>	<b>\$ 8,932,312</b>	<b>\$ 8,932,312</b>	<b>\$ 8,983,898</b>	<b>\$ (51,586)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (324,237)</b>	<b>\$ (324,237)</b>	<b>\$ 99,630</b>	<b>\$ 423,867</b>
<b>Fund Balance - January 1</b>	<b>3,934,280</b>	<b>3,934,280</b>	<b>3,934,280</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,610,043</b>	<b>\$ 3,610,043</b>	<b>\$ 4,033,910</b>	<b>\$ 423,867</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**Schedule 4**

**BUDGETARY COMPARISON SCHEDULE  
SOLID WASTE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Licenses and permits	\$ 5,500	\$ 5,500	\$ 2,630	\$ (2,870)
Intergovernmental	90,793	90,793	136,620	45,827
Charges for services	1,222,500	1,222,500	1,727,396	504,896
Miscellaneous	75,001	75,001	52,293	(22,708)
<b>Total Revenues</b>	<b>\$ 1,393,794</b>	<b>\$ 1,393,794</b>	<b>\$ 1,918,939</b>	<b>\$ 525,145</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Sanitation</b>				
Recycling	1,730,628	1,730,628	1,753,630	(23,002)
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (336,834)</b>	<b>\$ (336,834)</b>	<b>\$ 165,309</b>	<b>\$ 502,143</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 1,015,360	\$ 1,015,360	\$ -	\$ (1,015,360)
Transfers out	(1,015,360)	(1,015,360)	(750,000)	265,360
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (750,000)</b>	<b>\$ (750,000)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (336,834)</b>	<b>\$ (336,834)</b>	<b>\$ (584,691)</b>	<b>\$ (247,857)</b>
<b>Fund Balance - January 1</b>	<b>4,164,823</b>	<b>4,164,823</b>	<b>4,164,823</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,827,989</b>	<b>\$ 3,827,989</b>	<b>\$ 3,580,132</b>	<b>\$ (247,857)</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**Schedule 5**

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2008**

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Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (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%

This schedule was implemented in 2008 and, therefore, contains only one year of data.

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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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 18, 2007, the Board approved the budgets for the General Fund, Road and Bridge Special Revenue Fund, Solid Waste Special Revenue Fund, Human Services Special Revenue Fund, and the Debt Service Fund.

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

2. Excess of Expenditures Over Appropriations

In the General Fund, the following departments' expenditures exceeded appropriations for the year ended December 31, 2008:

Court Administrator	\$	2,733
Law Library		20,108
County Administrator		19,526
Commissioners		13,649
Treasurer		1,398
Elections		13,263
County Insurance		5,396
Veteran Services		1,421
County Recorder's Equipment		31,988
Sheriff		24,709
Sheriff's Contingent		3,080
DARE		400
Public Health Nursing		218,434
Other General Government		745,149
Probation Officer		39,470
Juvenile Detention		6,876
Sheriff Posse		10,652
Parks		6,933
Snowmobile Trail Grant		13,625
Water Planning		1,083
Wetlands		6,205
Feedlots		35,252
ISTS Committee		422
Ag Programming		2,883
Septic Loans		190,911

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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2. Excess of Expenditures Over Appropriations (Continued)

In the Human Services Special Revenue Fund, the expenditures exceeded appropriations for the year ended December 31, 2008, by \$51,586.

In the Solid Waste Special Revenue Fund, the expenditures exceeded appropriations for the year ended December 31, 2008, by \$23,002.

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*. Currently, only one year's worth of data is available. Future reports will provide additional trend analysis to meet the three-year funding status requirements as the information becomes available.

**SUPPLEMENTARY INFORMATION**

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**NONMAJOR GOVERNMENTAL FUNDS**

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**Statement 1**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2008**

	<b>Ditch Special Revenue</b>	<b>Debt Service</b>	<b>Total</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 125,975	\$ 724,276	\$ 850,251
Taxes receivable			
Prior	-	498	498
Special assessments receivable			
Prior	596	-	596
Noncurrent	66,757	-	66,757
Accrued interest receivable	68	-	68
Due from other governments	2,728	-	2,728
	<b>\$ 196,124</b>	<b>\$ 724,774</b>	<b>\$ 920,898</b>
<b>Total Assets</b>	<b>\$ 196,124</b>	<b>\$ 724,774</b>	<b>\$ 920,898</b>
 <b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities</b>			
Accrued interest payable	\$ 848	\$ -	\$ 848
Advance from other funds	107,100	-	107,100
Due to other governments	1,670	-	1,670
Deferred revenue - unavailable	70,081	498	70,579
	<b>\$ 179,699</b>	<b>\$ 498</b>	<b>\$ 180,197</b>
<b>Total Liabilities</b>	<b>\$ 179,699</b>	<b>\$ 498</b>	<b>\$ 180,197</b>
 <b>Fund Balances</b>			
Unreserved			
Designated for debt service	\$ -	\$ 724,276	\$ 724,276
Undesignated	16,425	-	16,425
	<b>\$ 16,425</b>	<b>\$ 724,276</b>	<b>\$ 740,701</b>
<b>Total Fund Balances</b>	<b>\$ 16,425</b>	<b>\$ 724,276</b>	<b>\$ 740,701</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 196,124</b>	<b>\$ 724,774</b>	<b>\$ 920,898</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

*Statement 2*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Total</u>
	<u>Ditch</u>	<u>Forfeited Tax</u>		
<b>Revenues</b>				
Taxes	\$ -	\$ -	\$ 294,808	\$ 294,808
Special assessments	64,862	-	-	64,862
Intergovernmental	-	-	25,562	25,562
Investment earnings	1,930	-	-	1,930
<b>Total Revenues</b>	<b>\$ 66,792</b>	<b>\$ -</b>	<b>\$ 320,370</b>	<b>\$ 387,162</b>
<b>Expenditures</b>				
<b>Current</b>				
General government	\$ -	\$ 321	\$ -	\$ 321
Conservation of natural resources	68,194	-	-	68,194
<b>Debt service</b>				
Principal	-	-	245,000	245,000
Interest	3,703	-	32,541	36,244
Administrative - fiscal charges	-	-	500	500
<b>Total Expenditures</b>	<b>\$ 71,897</b>	<b>\$ 321</b>	<b>\$ 278,041</b>	<b>\$ 350,259</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (5,105)</b>	<b>\$ (321)</b>	<b>\$ 42,329</b>	<b>\$ 36,903</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	321	-	321
<b>Net Change in Fund Balance</b>	<b>\$ (5,105)</b>	<b>\$ -</b>	<b>\$ 42,329</b>	<b>\$ 37,224</b>
<b>Fund Balance - January 1</b>	<b>21,530</b>	<b>-</b>	<b>681,947</b>	<b>703,477</b>
<b>Fund Balance - December 31</b>	<b>\$ 16,425</b>	<b>\$ -</b>	<b>\$ 724,276</b>	<b>\$ 740,701</b>

**DEBT SERVICE FUND**

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

*Schedule 6*

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 294,418	\$ 294,418	\$ 294,808	\$ 390
Intergovernmental	-	-	25,562	25,562
<b>Total Revenues</b>	<b>\$ 294,418</b>	<b>\$ 294,418</b>	<b>\$ 320,370</b>	<b>\$ 25,952</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 245,000	\$ 245,000	\$ 245,000	\$ -
Interest	32,541	32,541	32,541	-
Administrative charges	500	500	500	-
<b>Total Expenditures</b>	<b>\$ 278,041</b>	<b>\$ 278,041</b>	<b>\$ 278,041</b>	<b>\$ -</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 16,377</b>	<b>\$ 16,377</b>	<b>\$ 42,329</b>	<b>\$ 25,952</b>
<b>Fund Balance - January 1</b>	<b>681,947</b>	<b>681,947</b>	<b>681,947</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 698,324</b>	<b>\$ 698,324</b>	<b>\$ 724,276</b>	<b>\$ 25,952</b>

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**AGENCY FUNDS**

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

*Statement 3*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>MEEKER-MCLEOD-SIBLEY</u></b>				
<b><u>COMMUNITY HEALTH SERVICES</u></b>				
<b><u>FUND</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 150,429	\$ 1,756,231	\$ 1,788,747	\$ 117,913
Due from other governments	256,660	280,105	256,660	280,105
	<b>\$ 407,089</b>	<b>\$ 2,036,336</b>	<b>\$ 2,045,407</b>	<b>\$ 398,018</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 13,042	\$ 891	\$ 13,042	\$ 891
Due to other governments	394,047	397,127	394,047	397,127
	<b>\$ 407,089</b>	<b>\$ 398,018</b>	<b>\$ 407,089</b>	<b>\$ 398,018</b>
<b><u>SUPPORTING HANDS NURSE</u></b>				
<b><u>FAMILY PARTNERSHIP FUND</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 121,242	\$ 422,027	\$ 436,197	\$ 107,072
Accounts receivable	-	16,726	-	16,726
Due from other governments	15,000	27,852	15,000	27,852
	<b>\$ 136,242</b>	<b>\$ 466,605</b>	<b>\$ 451,197</b>	<b>\$ 151,650</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 332	\$ 60	\$ 332	\$ 60
Salaries payable	9,496	8,951	9,496	8,951
Accrued payroll taxes	975	637	975	637
Accrued expenses	699	1,223	699	1,223
Due to other governments	124,740	140,779	124,740	140,779
	<b>\$ 136,242</b>	<b>\$ 151,650</b>	<b>\$ 136,242</b>	<b>\$ 151,650</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**Statement 3**  
***(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>TAXES AND PENALTIES FUND</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 295,348	\$ 39,277,161	\$ 39,281,183	\$ 291,326
<b><u>Liabilities</u></b>				
Accounts payable	\$ 1,900	\$ 276	\$ 1,900	\$ 276
Due to other governments	293,448	291,050	293,448	291,050
<b>Total Liabilities</b>	<b>\$ 295,348</b>	<b>\$ 291,326</b>	<b>\$ 295,348</b>	<b>\$ 291,326</b>
 <b><u>STATE AGENCY FUND</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 90,345	\$ 3,371,713	\$ 3,377,056	\$ 85,002
Departmental cash	2,519	-	2,519	-
Accounts receivable	1,976	705	1,976	705
Due from other governments	1,031	9,708	1,031	9,708
<b>Total Assets</b>	<b>\$ 95,871</b>	<b>\$ 3,382,126</b>	<b>\$ 3,382,582</b>	<b>\$ 95,415</b>
<b><u>Liabilities</u></b>				
Due to other governments	\$ 95,871	\$ 95,415	\$ 95,871	\$ 95,415

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**Statement 3**  
***(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>COUNTY COLLABORATIVE FUND</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 288,367	\$ 20,772	\$ 92,738	\$ 216,401
Due from other governments	2,648	-	2,648	-
<b>Total Assets</b>	<b>\$ 291,015</b>	<b>\$ 20,772</b>	<b>\$ 95,386</b>	<b>\$ 216,401</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 6,449	\$ -	\$ 6,449	\$ -
Due to other governments	284,566	216,401	284,566	216,401
<b>Total Assets</b>	<b>\$ 291,015</b>	<b>\$ 216,401</b>	<b>\$ 291,015</b>	<b>\$ 216,401</b>
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 945,731	\$ 44,847,904	\$ 44,975,921	\$ 817,714
Departmental cash	2,519	-	2,519	-
Accounts receivable	1,976	17,431	1,976	17,431
Due from other governments	275,339	317,665	275,339	317,665
<b>Total Assets</b>	<b>\$ 1,225,565</b>	<b>\$ 45,183,000</b>	<b>\$ 45,255,755</b>	<b>\$ 1,152,810</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 21,723	\$ 1,227	\$ 21,723	\$ 1,227
Salaries payable	9,496	8,951	9,496	8,951
Accrued payroll taxes	975	637	975	637
Accrued expenses	699	1,223	699	1,223
Due to other governments	1,192,672	1,140,772	1,192,672	1,140,772
<b>Total Liabilities</b>	<b>\$ 1,225,565</b>	<b>\$ 1,152,810</b>	<b>\$ 1,225,565</b>	<b>\$ 1,152,810</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

Schedule 7

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**Shared Revenue**

**State**

Highway users tax	\$	4,995,977
Market value credit		1,528,082
PERA rate reimbursement		36,151
Disparity reduction aid		60,762
County program aid		1,424,499
Police aid		156,865
E-911		73,013
		73,013

**Total Shared Revenue** **\$ 8,275,349**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$	925,386
		925,386

**Payments**

**Local**

Payments in lieu of taxes	\$	71,280
		71,280

**Grants**

**Local**

Highway	\$	1,520,026
		1,520,026

**State**

Minnesota Department/Board of Corrections	\$	101,805
Transportation		35,905
Health		290,038
Natural Resources		49,313
Human Services		1,688,976
Water and Soil Resources		92,913
Pollution Control Agency		188,620
		188,620

**Total State** **\$ 2,447,570**

**Federal**

Department of Agriculture	\$	291,011
Justice		46,073
Transportation		1,780,490
Health and Human Services		1,954,733
Homeland Security		23,926
		23,926

**Total Federal** **\$ 4,096,233**

**Total Local, State, and Federal Grants** **\$ 8,063,829**

**Total Intergovernmental Revenue** **\$ 17,335,844**



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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

*Schedule 8*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2008

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses unqualified opinions on the basic financial statements of McLeod County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of McLeod County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of McLeod County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for McLeod County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Child Support Enforcement Title IV-D	CFDA #93.563
Medical Assistance Program	CFDA #93.778
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. McLeod County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-1 Accounting Policies and Procedures

Previous reports have recommended that a comprehensive manual of accounting policies and procedures be developed. The County Board has shown substantial progress in establishing accounting policies and procedures, including the adoption of cash receipting process, revenue recognition, and cash disbursement processes policies in 2009. Of importance to the County's overall internal controls are written procedures covering the payroll process and financial reporting. These areas are significant to the County's financial operations and should help in providing consistency over time and guidance to new officials and staff.

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

Client's Response:

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

07-1 Monitoring Internal Controls

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

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

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

We recommend that County management document the significant internal controls in its accounting system, including a risk assessment and the process used to minimize the risks. We also recommend that a formal plan be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

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

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS RESOLVED

**Business Continuity Plan (00-7)**

McLeod County had a business continuity plan, but it had not been approved by the Board.

**Resolution**

The McLeod County Board reviewed and approved the business continuity plan that had been previously developed.

**Solid Waste Department - Contracting for Services (06-1)**

The County did not have written agreements with its hauler either for the hauling of recyclable materials to the recycling center or for the return trip made by the hauler for which the County pays the hauler.

**Resolution**

During 2008, the Solid Waste Department worked with the County Board and the County Attorney to create agreements for both the hauling of the recyclables and the return trips made by the hauler from the recycler to its customers.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE 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, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 18, 2009. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the McLeod County Housing and Redevelopment Authority (HRA), as described in our report on McLeod County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 99-1 and 07-1 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

### Compliance and Other Matters

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

### Minnesota Legal Compliance

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

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

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

McLeod County's written responses to the significant deficiencies 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*

*/s/Greg Hierlinger*

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 18, 2009

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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

Board of County Commissioners  
McLeod County

#### Compliance

We have audited the compliance of McLeod County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal program for the year ended December 31, 2008. McLeod County's major federal programs are 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 each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

McLeod County's financial statements include the operations of the Housing and Redevelopment Authority (HRA) discretely presented component unit, which expended \$332,251 in federal awards during the year ended June 30, 2008, which are not included in the accompanying Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the McLeod County HRA because the McLeod County HRA was audited by other auditors.

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

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

In our opinion, McLeod County complied, in all material respects, with the requirements referred to above that are applicable to each its major federal programs for the year ended December 31, 2008.

### Internal Control Over Compliance

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

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of McLeod County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 18, 2009. We did not audit the financial statements of the McLeod County HRA, a component unit of McLeod County. Our audit was performed for the purpose of forming opinions on McLeod County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

December 18, 2009

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**Schedule 9**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Meeker-McLeod-Sibley Community Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 156,947
Passed Through Minnesota Department of Human Services Matching Grants for Food Stamp Program	10.561	<u>134,064</u>
<b>Total U.S. Department of Agriculture</b>		<b><u>\$ 291,011</u></b>
<b>U.S. Department of Justice</b>		
Direct Criminal Alien Assistance Program	16.606	\$ 15,235
Passed Through Meeker-McLeod-Sibley Community Health Services Drug-Free Communities Support Program	16.729	<u>30,838</u>
<b>Total U.S. Department of Justice</b>		<b><u>\$ 46,073</u></b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,775,238
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	<u>5,252</u>
<b>Total U.S. Department of Transportation</b>		<b><u>\$ 1,780,490</u></b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 9,850
Temporary Assistance for Needy Families (TANF) Child Care Cluster	93.558	287,011
Child Care Development Block Grant	93.575	3,295
Child Care Mandatory Matching Funds	93.596	14,072
Child Support Enforcement Title IV-D	93.563	489,002
Refugee and Entrant Assistance Grant	93.566	44
Foster Care Title IV-E	93.658	194,214
Social Services Block Grant Title XX	93.667	192,248
Chafee Foster Care Independent Living	93.674	1,981
Children's Insurance Program	93.767	344
Medical Assistance	93.778	640,985
Community Mental Health Block Grant	93.958	7,086

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**Schedule 9**  
**(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services (Continued)</b>		
Passed Through Meeker-McLeod-Sibley Community Health Services		
Center for Disease Control and Prevention Block Grant	93.283	42,722
Block Grant for Prevention and Treatment of Substance Abuse	93.959	38,971
Maternal and Child Health Services Block Grant	93.994	32,908
		<hr/>
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 1,954,733</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grants	97.042	23,926
		<hr/>
<b>Total Federal Awards</b>		<b>\$ 4,096,233</b>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by McLeod County. The County's reporting entity is defined in Note 1 to the financial statements. The schedule does not include the McLeod County Housing and Redevelopment Authority's federal awards.
2. Pass-through grant numbers were not assigned by the pass-through agencies.
3. During 2008, McLeod County did not pass any federal money to subrecipients.
4. Expenditures on this schedule are on the modified accrual basis of accounting.