

# STATE OF MINNESOTA

## Office of the State Auditor



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

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

**YEAR ENDED DECEMBER 31, 2014**

## **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 150 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 700 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, 2014**



**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  
2014

Office	Name	Term of Office	
		From	To
<b>Commissioners</b>			
1st District	Ron Shimanski	January 2014	January 2017
2nd District	Kermit Terlinden	January 2007	January 2015
3rd District	Paul Wright *	January 2009	January 2017
4th District	Sheldon Nies	January 1995	January 2017
5th District	Jon Christensen	January 2014	January 2015
<b>Officers</b>			
<b>Elected</b>			
Attorney	Michael K. Junge	May 1987	January 2015
Auditor-Treasurer	Cindy Schultz	January 1995	January 2015
Recorder	Lynnette Schrupp	January 2003	January 2015
Sheriff	Scott Rehmann	January 2007	January 2015
District Judge	Michael Savre	May 2004	January 2019
District Judge	Terrence E. Conkel	August 1998	January 2019
<b>Appointed</b>			
Agriculture & Weed Inspector	Allan Koglin	January 1997	January 2015
Assessor	Sue Schulz	March 2005	January 2015
Coroner	Dr. Quinn Strobl	January 2011	December 2015
County Administrator	Pat Melvin	November 2008	Indefinite
Court Administrator	Karen Messner	January 2008	Indefinite
Environmentalist	Roger Berggren	October 1995	Indefinite
Highway Engineer	John Brunkhorst	November 2001	May 2018
Human Services Director	Gary Sprynczynatyk	August 1995	Indefinite
Information Systems Director	Vince Traver	November 2012	Indefinite
Park Superintendent	Allan Koglin	August 1979	Indefinite
Public Health Nurse Director	Kathy Nowak	May 2008	Indefinite
Regional Extension Director	Sarah Chur	January 2006	Indefinite
Surveyor	Jeff Rausch	February 1996	January 2015
Solid Waste Director	Ed Homan	December 1973	Indefinite
Veterans Service Officer	James Lauer	November 2004	January 2015
Zoning Administrator	Larry Gasow	February 2000	January 2015

\*Chair

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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1-800-627-3529 (Relay Service)

## INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
McLeod County  
Glencoe, Minnesota

### Report on the Financial Statements

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, 2014, including the McLeod County Housing and Redevelopment Authority (HRA) as of and for the year ended June 20, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the McLeod County HRA, the discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the McLeod County HRA, is based solely upon the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, based on our report 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, 2014, including the McLeod County HRA as of June 30, 2014, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise McLeod County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the

responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2015, 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* in considering McLeod County's internal control over financial reporting and compliance. It does not include the McLeod County HRA, which was audited by other auditors.

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

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 29, 2015

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

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2014  
(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, 2014. 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 \$170,846,568 (net position). Of this amount, \$24,018,537 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$3,812,267 (two percent). The increase is a combination of additional capital assets and budget savings from operations.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$13,114,895, or 76 percent, of total 2014 General Fund expenditures.
- Governmental funds' fund balances increased by \$6,496,865.

**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 Position and Statement of Activities.

The Statement of Net Position presents information on all of McLeod County's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

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

The government-wide financial statements include McLeod County (primary government) and its discretely presented component unit. The McLeod County Housing and Redevelopment Authority (HRA) is a discretely presented component unit of McLeod County. More information on the component unit can be found in Note 8 to the financial statements.

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

## **Fund Financial Statements**

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

### Governmental Funds

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

McLeod County maintains three fund types within the governmental funds: General, Special Revenue, 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, Ditch Special Revenue Fund, and Capital Projects Fund, all of which are considered to be major funds. Data from the other (nonmajor) governmental fund is presented in a separate column.

McLeod County adopts an annual budget for the following governmental funds: General, Road and Bridge Special Revenue, Human Services Special Revenue, and Solid Waste Special Revenue. 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.

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

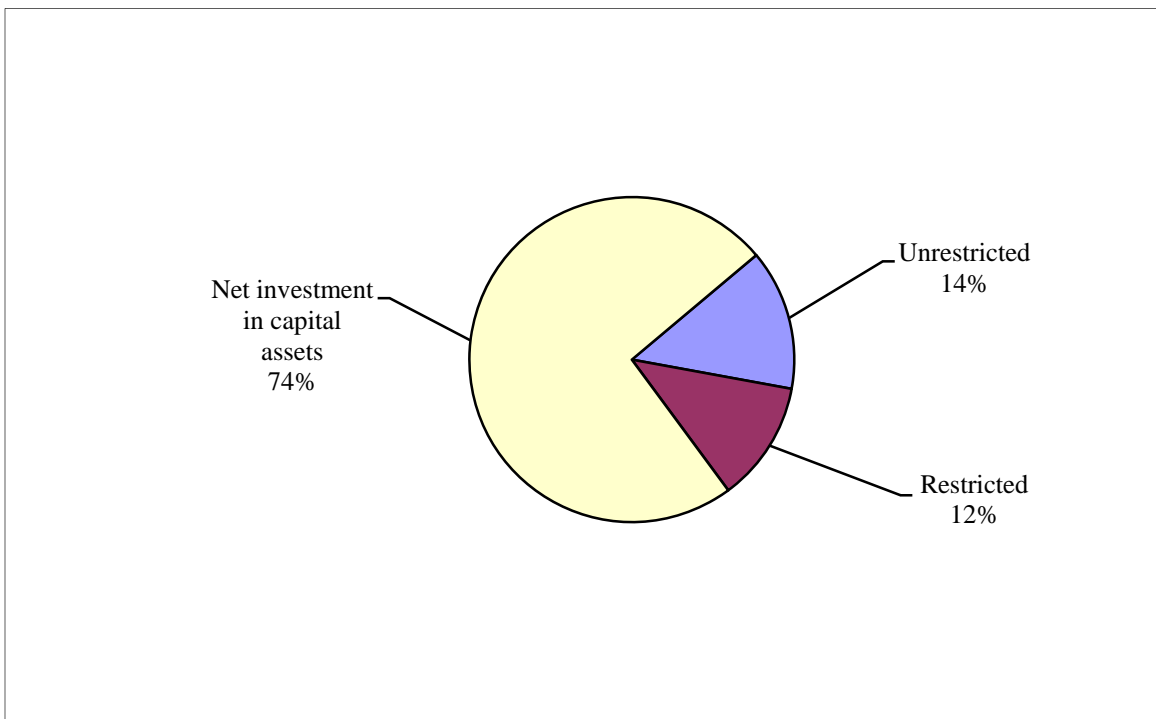
In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The nonmajor fund statements referred to earlier are presented immediately following the required supplementary information.

## Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of McLeod County, assets exceeded liabilities by \$170,846,568 as of December 31, 2014. The net investment in capital assets is the largest portion of McLeod County's net position at 74 percent. These capital assets are used to provide services to citizens and are not available for future spending.

Approximately 12 percent of McLeod County's net position is subject to external restrictions on how they may be used and, therefore, are considered restricted. The remaining 14 percent, or \$24,018,537, is unrestricted and available to be used to meet the government's ongoing obligations to citizens and creditors.

**Net Position**



**Net Position**

	Governmental Activities		Discretely Presented Component Unit	
	2014	2013	2014	2013
Current and other assets	\$ 58,199,633	\$ 46,554,132	\$ 105,263	\$ 161,088
Capital assets	<u>130,590,737</u>	<u>126,929,056</u>	<u>2,943,267</u>	<u>3,059,778</u>
<b>Total Assets</b>	<u>\$ 188,790,370</u>	<u>\$ 173,483,188</u>	<u>\$ 3,048,530</u>	<u>\$ 3,220,866</u>
Current and other liabilities	\$ 4,591,338	\$ 3,324,187	\$ 93,860	\$ 102,517
Long-term liabilities - due within one year	1,007,244	972,743	150,114	142,433
Long-term liabilities - due in more than one year	<u>12,345,220</u>	<u>2,151,957</u>	<u>3,139,724</u>	<u>3,289,470</u>
<b>Total Liabilities</b>	<u>\$ 17,943,802</u>	<u>\$ 6,448,887</u>	<u>\$ 3,383,698</u>	<u>\$ 3,534,420</u>
<b>Net Position</b>				
Net investment in capital assets	\$ 127,185,882	\$ 126,929,056	\$ (346,571)	\$ (372,125)
Restricted	19,642,149	11,612,689	29,592	54,987
Unrestricted	<u>24,018,537</u>	<u>28,492,556</u>	<u>(18,189)</u>	<u>3,584</u>
<b>Total Net Position</b>	<u>\$ 170,846,568</u>	<u>\$ 167,034,301</u>	<u>\$ (335,168)</u>	<u>\$ (313,554)</u>

**GOVERNMENTAL ACTIVITIES**

McLeod County's governmental activities increased net position by \$3,812,267 during the current fiscal year. This increase is primarily due to an increase in capital assets, which included the following major items: highway and bridge construction, ARMER radio project, new highway shop, and other improvement projects.

The McLeod County HRA is a discretely presented component unit of McLeod County. As of June 30, 2014, liabilities exceeded assets by \$335,168, and there was a decrease in net position of \$21,614 from the prior year. The decrease is primarily due to a decrease in Section 8 HAP revenue.

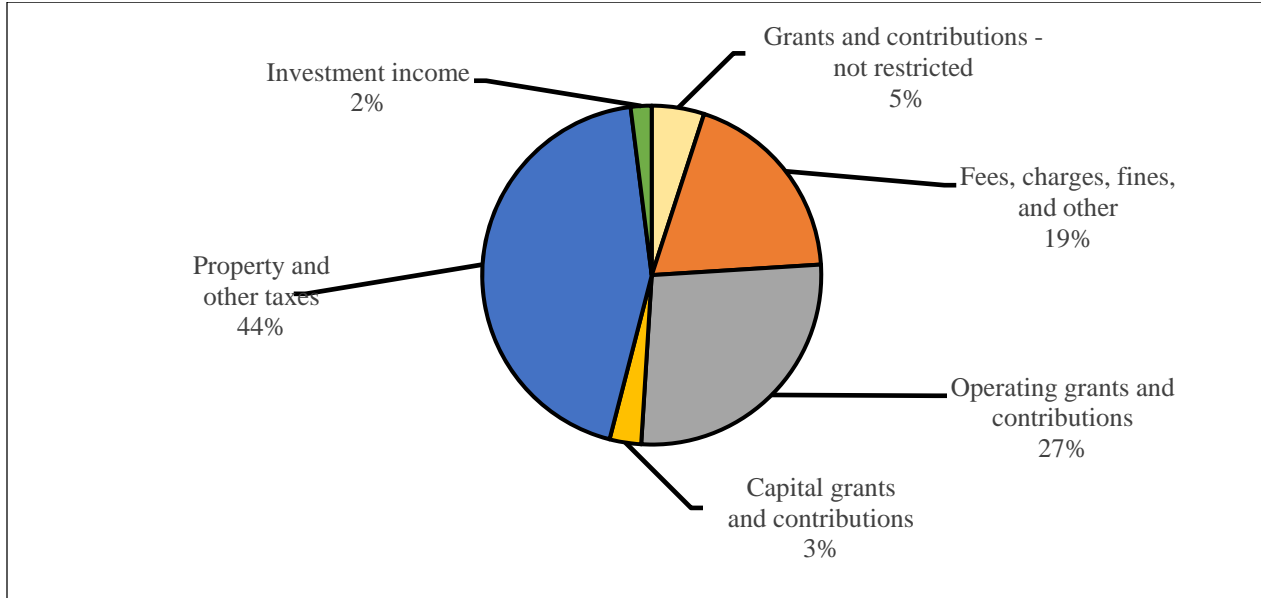
## Changes in Net Position

	Governmental Activities		Discretely Presented Component Unit	
	2014	2013	2014	2013
<b>Revenues</b>				
<b>Program revenues</b>				
Fees, charges, fines, and other	\$ 7,895,324	\$ 6,370,083	\$ 468,978	\$ 467,238
Operating grants and Contributions	11,217,567	14,237,339	421,922	432,621
Capital grants and contributions	1,153,378	1,732,054	-	-
<b>General revenues</b>				
Property taxes	18,122,387	18,149,995	-	-
Other taxes	453,580	89,945	-	-
Grants and contributions not restricted to specific programs	2,013,223	1,737,632	-	-
Investment income	672,803	(366,095)	145	313
Gain on disposal of assets	84,204	95,830	-	-
Other	110,380	114,157	-	-
<b>Total Revenues</b>	<b>\$ 41,722,846</b>	<b>\$ 42,160,940</b>	<b>\$ 891,045</b>	<b>\$ 900,172</b>
<b>Expenses</b>				
General government	\$ 6,833,419	\$ 5,723,839	\$ -	\$ -
Public safety	6,103,156	5,826,669	-	-
Highways and streets	7,926,744	6,943,763	-	-
Sanitation	2,859,051	2,409,301	-	-
Human services	9,418,769	9,557,114	-	-
Health	2,518,848	2,114,170	-	-
Culture and recreation	650,173	703,563	-	-
Conservation of natural resources	1,511,881	976,970	-	-
Economic development	13,747	1,464	-	-
Interest	74,791	17,062	-	-
HRA	-	-	912,659	961,266
<b>Total Expenses</b>	<b>\$ 37,910,579</b>	<b>\$ 34,273,915</b>	<b>\$ 912,659</b>	<b>\$ 961,266</b>
<b>Increase (Decrease) in Net Position</b>	<b>\$ 3,812,267</b>	<b>\$ 7,887,025</b>	<b>\$ (21,614)</b>	<b>\$ (61,094)</b>
<b>Net Position - January 1</b>	<b>167,034,301</b>	<b>159,147,276</b>	<b>(313,554)</b>	<b>(252,460)</b>
<b>Net Position - December 31</b>	<b>\$ 170,846,568</b>	<b>\$ 167,034,301</b>	<b>\$ (335,168)</b>	<b>\$ (313,554)</b>

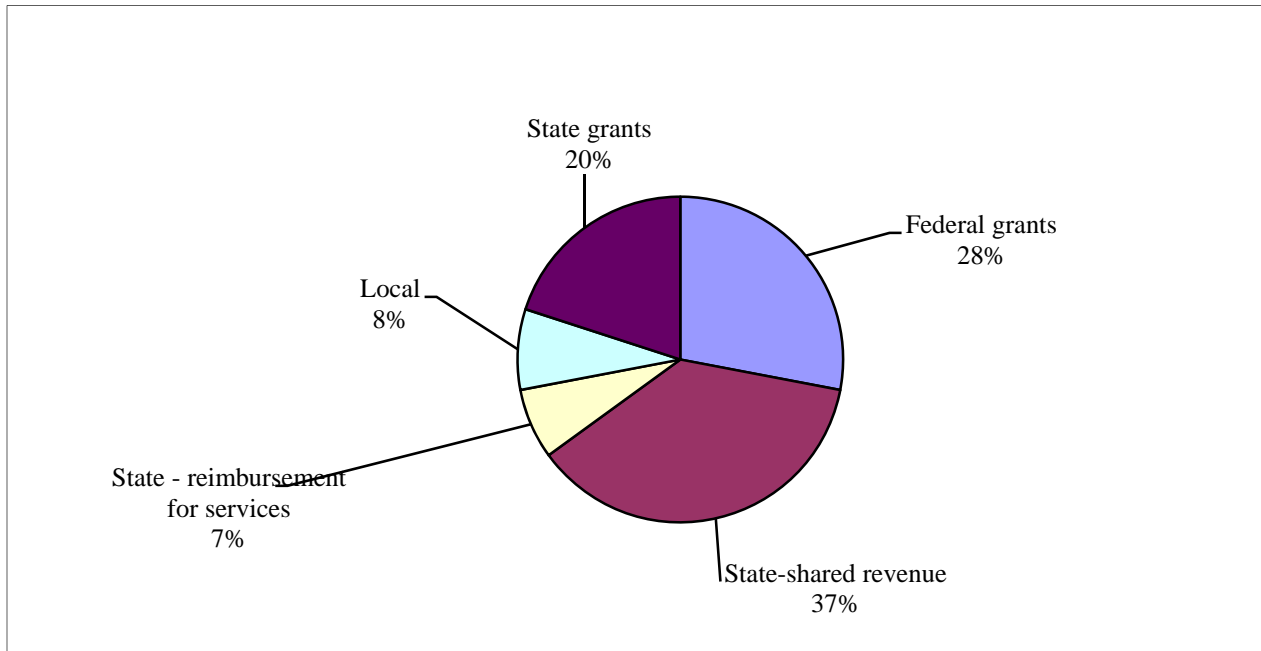


The following charts show additional information on the revenues of McLeod County for the year ended December 31, 2014.

**Revenues by Source - Governmental Activities**



**Intergovernmental Revenue**



## FINANCIAL ANALYSIS

### Governmental Funds

At the end of 2014, McLeod County's governmental funds reported a combined fund balance of \$47,030,883. This is an increase of \$6,496,865 from the prior year. The fund balance in the General Fund increased by \$942,218 due to increased revenues. The fund balance in the Road and Bridge Special Revenue Fund decreased by \$1,058,086 due to the increase in construction expenses. The fund balance in the Human Services Special Revenue Fund increased by \$638,886 due to increased revenues. The fund balance in the Solid Waste Special Revenue Fund decreased by \$204,954 due to increased expenses from the MRF retrofit project. The fund balance in the Ditch Special Revenue Fund decreased by \$281,030 due to an increase in expenditures. The fund balance in the Capital Projects Fund increased by \$6,447,832 due to the issuance of bonds.

### General Fund Budgetary Highlights

In total, General Fund revenues for 2014 exceeded the amounts budgeted by \$1,744,747. Special assessments, licenses and permits, intergovernmental, charges for services, gifts and contributions, investment earnings, and miscellaneous came in higher than anticipated. Total General Fund expenditures were \$378,358 less than the final budget. This variance is attributed to the areas of general government and public safety. There were budget adjustments in 2014 due to additional grants and allocations.

## CAPITAL ASSETS AND LONG-TERM DEBT

### Capital Assets

At the end of 2014, McLeod County had \$130,590,737 invested in capital assets, including land, infrastructure, buildings, improvements other than buildings, and equipment. The table below shows a summary of McLeod County's capital assets as of December 31.

	Capital Assets (Net of Depreciation)	
	2014	2013
Land	\$ 3,956,141	\$ 3,956,141
Construction in progress	4,708,515	5,551,802
Right-of-way	3,173,372	3,173,372
Buildings	11,828,597	11,088,072
Machinery and equipment	5,174,278	2,440,570
Improvements other than buildings	616,649	671,871
Infrastructure	101,133,185	100,047,228
Total	<u>\$ 130,590,737</u>	<u>\$ 126,929,056</u>

Major capital asset events during the year included the following:

- New highway shop finished in 2014.
- Infrastructure construction continued in 2014.
- ARMER project finished in 2014.
- New floor at Fairgrounds in 2014.

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

### **Long-Term Debt**

At the end of current fiscal year, McLeod County had bonded debt outstanding of \$9,785,000. This is an increase of \$9,785,000 from the beginning of the year due to the issuance of general obligation bonds. At the end of the current fiscal year, McLeod County had loans outstanding of \$1,221,415. This is an increase in loans payable of \$18,369 from the beginning of the year. The increase is the result of additional septic loans, in addition to scheduled repayments.

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 \$114,214,797.

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 3.9 percent. McLeod County's unemployment rate is less than the state unemployment rate of 4.0 percent and less than the United States unemployment rate of 5.3 percent.
- The property tax levy has not increased in 2015 but could in the future to cover rising costs. 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 2015 fiscal year.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of McLeod County's finances for those with an interest in the government finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the McLeod County Auditor-Treasurer, 2391 Hennepin Avenue North, Glencoe, Minnesota 55336.

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

## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

***EXHIBIT 1***

**STATEMENT OF NET POSITION  
DECEMBER 31, 2014**

	<u>Primary Government Governmental Activities</u>	<u>Housing and Redevelopment Authority Component Unit</u>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 47,663,039	\$ 21,984
Petty cash and change funds	12,355	-
Departmental cash	2,615	-
Cash with fiscal agent	1,425,993	-
Taxes receivable		
Delinquent	418,116	-
Special assessments receivable		
Delinquent	10,044	-
Noncurrent	1,764,073	-
Accounts receivable - net	668,626	5,796
Accrued interest receivable	15,147	-
Due from other governments	5,647,879	-
Inventories	571,746	-
Prepaid items	-	2,970
Restricted assets		
Cash and pooled investments	-	74,513
Capital assets		
Non-depreciable	11,838,028	-
Depreciable - net of accumulated depreciation	118,752,709	2,943,267
<b>Total Assets</b>	<b><u>\$ 188,790,370</u></b>	<b><u>\$ 3,048,530</u></b>



**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**EXHIBIT 1  
(Continued)**

**STATEMENT OF NET POSITION  
DECEMBER 31, 2014**

	<b>Primary Government Governmental Activities</b>	<b>Housing and Redevelopment Authority Component Unit</b>
<b><u>Liabilities</u></b>		
Accounts payable	\$ 2,229,572	\$ 3,932
Salaries payable	726,184	-
Accrued payroll taxes	53,948	-
Accrued interest payable	1,896	-
Other accrued expenses	347,029	39,938
Contracts payable	247,102	-
Retainage payable	40,276	-
Due to other governments	383,353	-
Unearned revenue	459,424	4,730
Claims payable	102,554	-
Long-term liabilities		
Due within one year	1,007,244	150,114
Due in more than one year	12,345,220	3,139,724
Liabilities payable from restricted assets (security deposits)	-	45,260
	<b>\$ 17,943,802</b>	<b>\$ 3,383,698</b>
<b><u>Net Position</u></b>		
Net investment in capital assets	\$ 127,185,882	\$ (346,571)
Restricted for		
General government	911,640	-
Public safety	4,106,172	-
Highways and streets	2,579,673	-
Sanitation	5,006,407	-
Conservation of natural resources	590,425	-
Economic development	-	29,592
Capital projects	6,447,832	-
Unrestricted	24,018,537	(18,189)
	<b>\$ 170,846,568</b>	<b>\$ (335,168)</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>
<b><u>Functions/Programs</u></b>		
<b>Primary government</b>		
Governmental activities		
General government	\$ 6,833,419	\$ 1,011,600
Public safety	6,103,156	315,371
Highways and streets	7,926,744	210,833
Sanitation	2,859,051	2,433,996
Human services	9,418,769	1,661,782
Health	2,518,848	888,065
Culture and recreation	650,173	96,618
Conservation of natural resources	1,511,881	1,277,059
Economic development	13,747	-
Interest	74,791	-
	<b>\$ 37,910,579</b>	<b>\$ 7,895,324</b>
<b>Total Primary Government</b>	<b>\$ 37,910,579</b>	<b>\$ 7,895,324</b>
<b>Component unit</b>		
Housing and Redevelopment Authority	<b>\$ 912,659</b>	<b>\$ 468,978</b>

**General Revenues**

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

**Total general revenues**

**Change in net position**

**Net Position - Beginning**

**Net Position - Ending**

**EXHIBIT 2**

<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Position</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>
\$ 32,250	\$ -	\$ (5,789,569)	
394,888	-	(5,392,897)	
5,344,726	1,153,378	(1,217,807)	
-	-	(425,055)	
3,993,050	-	(3,763,937)	
999,869	-	(630,914)	
-	-	(553,555)	
452,784	-	217,962	
-	-	(13,747)	
-	-	(74,791)	
<b>\$ 11,217,567</b>	<b>\$ 1,153,378</b>	<b>\$ (17,644,310)</b>	
<b>\$ 421,922</b>	<b>\$ -</b>		<b>\$ (21,759)</b>
		\$ 18,122,387	\$ -
		24,689	-
		383,106	-
		45,785	-
		2,013,223	-
		672,803	145
		84,204	-
		110,380	-
		<b>\$ 21,456,577</b>	<b>\$ 145</b>
		<b>\$ 3,812,267</b>	<b>\$ (21,614)</b>
		<b>167,034,301</b>	<b>(313,554)</b>
		<b>\$ 170,846,568</b>	<b>\$ (335,168)</b>

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**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2014**

	<b>General</b>	<b>Road and Bridge</b>	<b>Human Services</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 25,303,201	\$ 3,981,635	\$ 5,900,160
Petty cash and change funds	2,205	100	-
Departmental cash	2,615	-	-
Cash with fiscal agent	1,425,993	-	-
Taxes receivable			
Delinquent	254,840	74,362	88,914
Special assessments receivable			
Delinquent	8,428	-	-
Noncurrent	799,722	-	-
Accounts receivable	77,844	15,201	361,350
Accrued interest receivable	15,147	-	-
Due from other governments	412,056	4,237,640	949,659
Inventories	8,645	563,101	-
Advances to other funds	766,100	-	-
	<b>\$ 29,076,796</b>	<b>\$ 8,872,039</b>	<b>\$ 7,300,083</b>
 <b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 928,850	\$ 60,483	\$ 286,673
Salaries payable	408,477	63,220	228,229
Accrued payroll taxes	29,851	4,837	17,251
Accrued interest payable	-	-	-
Accrued expenses	216,432	25,697	94,933
Advances from other funds	-	-	-
Contracts payable	247,102	-	-
Retainage payable	-	40,276	-
Due to other governments	150,402	29,911	69,024
Unearned revenue	459,424	-	-
Claims payable	102,554	-	-
	<b>\$ 2,543,092</b>	<b>\$ 224,424</b>	<b>\$ 696,110</b>
 <b>Deferred Inflows of Resources</b>			
Unavailable revenue	<b>\$ 1,222,264</b>	<b>\$ 3,905,925</b>	<b>\$ 439,414</b>



**EXHIBIT 3**

<b>Solid Waste</b>	<b>Ditch</b>	<b>Capital Projects</b>	<b>Nonmajor Fund</b>	<b>Total Governmental Funds</b>
\$ 5,534,848	\$ 336,779	\$ 6,594,379	\$ 12,037	\$ 47,663,039
10,050	-	-	-	12,355
-	-	-	-	2,615
-	-	-	-	1,425,993
-	-	-	-	418,116
-	1,616	-	-	10,044
-	964,351	-	-	1,764,073
214,231	-	-	-	668,626
-	-	-	-	15,147
1,400	47,124	-	-	5,647,879
-	-	-	-	571,746
-	-	-	-	766,100
<b>\$ 5,760,529</b>	<b>\$ 1,349,870</b>	<b>\$ 6,594,379</b>	<b>\$ 12,037</b>	<b>\$ 58,965,733</b>
\$ 688,531	\$ 118,488	\$ 146,547	\$ -	\$ 2,229,572
26,258	-	-	-	726,184
2,009	-	-	-	53,948
-	1,896	-	-	1,896
9,967	-	-	-	347,029
-	766,100	-	-	766,100
-	-	-	-	247,102
-	-	-	-	40,276
12,538	121,440	-	38	383,353
-	-	-	-	459,424
-	-	-	-	102,554
<b>\$ 739,303</b>	<b>\$ 1,007,924</b>	<b>\$ 146,547</b>	<b>\$ 38</b>	<b>\$ 5,357,438</b>
<b>\$ 4,769</b>	<b>\$ 1,005,040</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,577,412</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2014**

	General	Road and Bridge	Human Services
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>			
<b>(Continued)</b>			
<b>Fund Balances</b>			
<b>Nonspendable</b>			
Inventories	\$ 8,645	\$ 563,101	\$ -
Advances to other funds	766,100	-	-
<b>Restricted</b>			
Restricted for E-911	217,143	-	-
Restricted for law library	48,320	-	-
Restricted for capital projects	-	-	-
Restricted for recorder's equipment purchases	228,303	-	-
Restricted for new jail construction	3,883,058	-	-
Restricted for land records technology	82,866	-	-
Restricted for drug enforcement	5,971	-	-
Restricted for conservation	443,494	-	-
Restricted for SSTS Biscay City	3,426	-	-
Restricted for records compliance	492,010	-	-
Restricted for solid waste abatement	-	-	-
Restricted for aquatic invasive species	22,086	-	-
Restricted for forfeited tax	-	-	-
Restricted for escrow	48,142	-	-
Restricted for ditch maintenance and construction	-	-	-
<b>Committed</b>			
Committed for petty cash and change funds	2,205	100	-
<b>Assigned</b>			
Assigned for capital projects	5,029,466	-	-
Assigned for McLeod for Tomorrow	2,564	-	-
Assigned for lidar and orthophotography	27,305	-	-
Assigned for aerial photos	4,800	-	-
Assigned for veterans van	71,705	-	-
Assigned for new canine	8,901	-	-
Assigned for ag programing	2,034	-	-
Assigned for ARMER radio enhancements	10,000	-	-
Assigned for contracted projects	520,442	435,039	-
Assigned for records preservation	44,570	-	-
Assigned for snowmobile enforcement	251	-	-
Assigned for law enforcement	130,331	-	-
Assigned for court services	92,407	-	-
Assigned for highways and streets	-	3,743,450	-
Assigned for human services	-	-	6,164,559
<b>Unassigned</b>	<b>13,114,895</b>	<b>-</b>	<b>-</b>
<b>Total Fund Balances</b>	<b>\$ 25,311,440</b>	<b>\$ 4,741,690</b>	<b>\$ 6,164,559</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 29,076,796</b>	<b>\$ 8,872,039</b>	<b>\$ 7,300,083</b>

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

<u>Solid Waste</u>	<u>Ditch</u>	<u>Capital Projects</u>	<u>Nonmajor Fund</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 571,746
-	-	-	-	766,100
-	-	-	-	217,143
-	-	-	-	48,320
-	-	6,447,832	-	6,447,832
-	-	-	-	228,303
-	-	-	-	3,883,058
-	-	-	-	82,866
-	-	-	-	5,971
-	-	-	-	443,494
-	-	-	-	3,426
-	-	-	-	492,010
5,006,407	-	-	-	5,006,407
-	-	-	-	22,086
-	-	-	11,999	11,999
-	-	-	-	48,142
-	121,419	-	-	121,419
10,050	-	-	-	12,355
-	-	-	-	5,029,466
-	-	-	-	2,564
-	-	-	-	27,305
-	-	-	-	4,800
-	-	-	-	71,705
-	-	-	-	8,901
-	-	-	-	2,034
-	-	-	-	10,000
-	-	-	-	955,481
-	-	-	-	44,570
-	-	-	-	251
-	-	-	-	130,331
-	-	-	-	92,407
-	-	-	-	3,743,450
-	-	-	-	6,164,559
-	(784,513)	-	-	12,330,382
<u>\$ 5,016,457</u>	<u>\$ (663,094)</u>	<u>\$ 6,447,832</u>	<u>\$ 11,999</u>	<u>\$ 47,030,883</u>
<u>\$ 5,760,529</u>	<u>\$ 1,349,870</u>	<u>\$ 6,594,379</u>	<u>\$ 12,037</u>	<u>\$ 58,965,733</u>

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2014**

<b>Fund balance - total governmental funds (Exhibit 3)</b>		<b>\$</b>	<b>47,030,883</b>
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			130,590,737
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.			6,577,412
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	\$	(9,785,000)	
Unamortized premium on bonds		(214,234)	
Loans payable		(1,221,415)	
Compensated absences		(1,297,566)	
OPEB liability		(834,249)	(13,352,464)
<b>Net Position of Governmental Activities (Exhibit 1)</b>			<b>\$ 170,846,568</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>
<b>Revenues</b>			
Taxes	\$ 10,786,579	\$ 3,576,671	\$ 4,156,448
Special assessments	326,444	-	-
Licenses and permits	80,901	9,200	-
Intergovernmental	3,566,332	3,239,861	4,475,391
Charges for services	2,018,116	135,715	627,173
Fines and forfeits	19,675	-	-
Gifts and contributions	29,833	-	-
Investment earnings	788,654	-	-
Miscellaneous	486,327	5,859	888,473
<b>Total Revenues</b>	<b>\$ 18,102,861</b>	<b>\$ 6,967,306</b>	<b>\$ 10,147,485</b>
<b>Expenditures</b>			
<b>Current</b>			
General government	\$ 7,129,120	\$ -	\$ -
Public safety	5,841,233	-	-
Highways and streets	-	8,033,089	-
Sanitation	-	-	-
Human services	-	-	9,508,599
Health	2,453,269	-	-
Culture and recreation	638,381	-	-
Conservation of natural resources	1,093,156	-	-
Economic development	13,747	-	-
<b>Capital outlay</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Intergovernmental</b>	<b>-</b>	<b>244,964</b>	<b>-</b>
<b>Debt service</b>			
Principal	115,584	-	-
Interest	18,656	-	-
Bond issue costs	-	-	-
<b>Total Expenditures</b>	<b>\$ 17,303,146</b>	<b>\$ 8,278,053</b>	<b>\$ 9,508,599</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 799,715</b>	<b>\$ (1,310,747)</b>	<b>\$ 638,886</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	\$ -	\$ -	\$ -
Transfers out	-	-	-
Loan issued	124,327	-	-
Proceeds from the sale of bonds	-	-	-
Premium on bonds issued	-	-	-
Proceeds from the sale of capital assets	19,776	69,201	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 144,103</b>	<b>\$ 69,201</b>	<b>\$ -</b>
<b>Net Change in Fund Balance</b>	<b>\$ 943,818</b>	<b>\$ (1,241,546)</b>	<b>\$ 638,886</b>
<b>Fund Balance - January 1</b>	<b>24,369,222</b>	<b>5,799,776</b>	<b>5,525,673</b>
<b>Increase (decrease) in inventories</b>	<b>(1,600)</b>	<b>183,460</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 25,311,440</b>	<b>\$ 4,741,690</b>	<b>\$ 6,164,559</b>

**EXHIBIT 5**

<b>Solid Waste</b>	<b>Ditch</b>	<b>Capital Projects</b>	<b>Nonmajor Fund</b>	<b>Total Governmental Funds</b>
\$ -	\$ -	\$ -	\$ -	\$ 18,519,698
-	127,570	-	-	454,014
6,515	-	-	-	96,616
99,471	8,051	-	-	11,389,106
2,369,202	-	-	-	5,150,206
-	-	-	25,997	45,672
-	-	-	-	29,833
-	1,478	-	-	790,132
53,512	-	-	-	1,434,171
<b>\$ 2,528,700</b>	<b>\$ 137,099</b>	<b>\$ -</b>	<b>\$ 25,997</b>	<b>\$ 37,909,448</b>
\$ -	\$ -	\$ -	\$ 13,998	\$ 7,143,118
-	-	-	-	5,841,233
-	-	-	-	8,033,089
5,950,880	-	-	-	5,950,880
-	-	-	-	9,508,599
-	-	-	-	2,453,269
-	-	-	-	638,381
-	412,701	-	-	1,505,857
-	-	-	-	13,747
-	-	293,095	-	293,095
-	-	-	-	244,964
-	-	-	-	115,584
-	5,428	-	-	24,084
-	-	41,081	-	41,081
<b>\$ 5,950,880</b>	<b>\$ 418,129</b>	<b>\$ 334,176</b>	<b>\$ 13,998</b>	<b>\$ 41,806,981</b>
<b>\$ (3,422,180)</b>	<b>\$ (281,030)</b>	<b>\$ (334,176)</b>	<b>\$ 11,999</b>	<b>\$ (3,897,533)</b>
\$ 3,217,226	\$ -	\$ -	\$ -	\$ 3,217,226
-	-	(3,217,226)	-	(3,217,226)
-	-	-	-	124,327
-	-	9,785,000	-	9,785,000
-	-	214,234	-	214,234
-	-	-	-	88,977
<b>\$ 3,217,226</b>	<b>\$ -</b>	<b>\$ 6,782,008</b>	<b>\$ -</b>	<b>\$ 10,212,538</b>
<b>\$ (204,954)</b>	<b>\$ (281,030)</b>	<b>\$ 6,447,832</b>	<b>\$ 11,999</b>	<b>\$ 6,315,005</b>
5,221,411	(382,064)	-	-	40,534,018
-	-	-	-	181,860
<b>\$ 5,016,457</b>	<b>\$ (663,094)</b>	<b>\$ 6,447,832</b>	<b>\$ 11,999</b>	<b>\$ 47,030,883</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, 2014**

**Net change in fund balance - total governmental funds (Exhibit 5) \$ 6,315,005**

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.

Unavailable revenue - December 31	\$ 6,577,412	
Unavailable revenue - January 1	(2,695,927)	3,881,485

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 position differs from the change in fund balance by the net book value of the assets disposed of.

Expenditures for general capital assets and infrastructure	\$ 8,458,983	
Net book value of disposed assets	(4,773)	
Current year depreciation	(4,792,529)	3,661,681

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

Loans issued		(133,841)
Bonds issued		(9,785,000)
Premium on bonds issued		(214,234)
Principal repayments - Minnesota Pollution Control Agency loans		115,472

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

Change in compensated absences	\$ (33,320)	
Change in OPEB liability	(176,841)	
Change in inventories	181,860	(28,301)

**Change in Net Position of Governmental Activities (Exhibit 2) \$ 3,812,267**



**FIDUCIARY FUNDS**

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McLEOD COUNTY  
GLENCOE, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2014

	<u>Agency</u>
<b><u>Assets</u></b>	
Cash and pooled investments	\$ 761,762
Departmental cash	2,518
Accounts receivable	91,142
Due from other governments	<u>760,314</u>
<b>Total Assets</b>	<b><u>\$ 1,615,736</u></b>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 42,713
Salaries payable	38,192
Accrued payroll taxes	2,871
Accrued expenses	13,166
Due to other governments	<u>1,518,794</u>
<b>Total Liabilities</b>	<b><u>\$ 1,615,736</u></b>

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014

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, 2014. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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:

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures and Jointly-Governed Organizations

The County participates in several joint ventures described in Note 7.D. The County also participates in the jointly-governed organizations described in Note 7.E.

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

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

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

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

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. 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. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.



**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor-Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2014, 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. In 2014, the County reports pooled investment earnings of \$788,654 due to an increase in the market value of investments.

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. The investment in the pool is measured at the amortized cost per share provided by the pool, which would closely approximate fair value.

2. Receivables and Payables

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

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

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

All receivables, including those of the discretely presented component 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, Deferred Outflows/Inflows of Resources, and Net Position 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. No provision has been made for an estimated uncollectible amount.

Special assessments receivable consist of delinquent special assessments payable in the years 2007 to 2014 and deferred special assessments payable in 2015 and after. No provision has been made for an estimated uncollectible amount.

3. Inventories

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

4. Capital Assets

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

4. Capital Assets (Continued)

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

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid accumulated, vacation, comp time, vested sick leave balances, and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide 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. The government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion is based on percentages predetermined by management based on historical information. The noncurrent portion consists of the remaining amount of vacation and vested sick leave.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity  
(Continued)

6. 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 are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The County has no items that qualified for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity  
(Continued)

8. Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received but not yet earned.

9. Classification of Net Position

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

Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

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

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

10. Classification of Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which McLeod County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

10. Classification of Fund Balance (Continued)

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

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

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

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

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity  
(Continued)

11. Use of Estimates

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

E. Revenues

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Revenues

Intergovernmental (Continued)

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

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

Exchange Transactions

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

F. Future Change in Accounting Standards

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the County's calendar year 2015. The County has not yet determined the financial statement impact of adopting this new standard.



**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The Ditch Special Revenue Fund had a negative fund balance of \$663,094 as of December 31, 2014. 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:

28 ditches with positive balances	\$ 121,419
28 ditches with deficit balances	<u>(784,513)</u>
Net Fund Balance	<u>\$ (663,094)</u>

B. Component Unit Deficit

The McLeod County HRA, at June 30, 2014, had deficit net position of \$335,168, a decrease from the previous year's deficit balance of \$313,554. The decrease in net position is due, in part, to expenses in excess of revenues.

C. New Jail Construction

The fund balance restricted for new jail construction, and a portion of the net position restricted for public safety, was donated to McLeod County by the estate of Annamarie Tudhope. In 2009, the County received \$1,170,500 in donations and \$41,024 in interest. In 2010, the County received \$2,264,482 in donations and \$24,445 in interest. In 2011, the County received \$150,000 in donations and \$39,997 in interest. In 2012, the County received \$130,432 in donations and \$26,760 in interest. In 2013, the County received \$22,196 in interest. In 2014, the County received \$13,222 in interest. As of December 31, 2014, \$3,883,058 was restricted. This money can be used only for new construction of a jail.

**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	\$ 47,663,039
Petty cash and change funds	12,355
Departmental cash	2,615
Cash with fiscal agent	1,425,993
Agency fund	
Cash and pooled investments	761,762
Departmental cash	2,518
<u>Total Cash and Investments</u>	<u>\$ 49,868,282</u>
Deposits	\$ 29,389,732
Petty cash and change funds	12,355
Departmental cash	5,133
Cash with fiscal agent	1,425,993
Investments	19,035,069
<u>Total Deposits, Cash on Hand, and Investments</u>	<u>\$ 49,868,282</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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a policy on custodial credit risk for deposits. As of December 31, 2014, 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) banker's acceptances of United States banks;

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute. Currently, the County's federal home loan bank securities are all rated AA+ by Standard and Poor's, and the money market account with Wells Fargo is rated AA+ by Standard and Poor's and Aaa by Moody's.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy regarding custodial credit risk.

Concentration of Credit Risk

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

The following table presents the County's investment balances at December 31, 2014, and information relating to potential investment risks:

<u>Investment - Issuer</u>	<u>Concentration Risk Percent (%)</u>	<u>Interest Rate Risk Maturity Date</u>	<u>Carrying (Fair) Value</u>
Mutual fund - Public Financial Management Cash Management Fund (MAGIC Fund)	59.14		\$ 11,256,601
Federal Home Loan Bank Securities - Wells Fargo Advisors			
Federal Home Loan Bank		4/18/2023	\$ 324,984
Federal Home Loan Bank		4/18/2023	499,975
Federal Home Loan Bank		5/08/2023	999,170
Federal Home Loan Bank		5/08/2023	999,170
Federal Home Loan Bank		5/16/2023	999,430
Federal Home Loan Bank		6/13/2023	981,020
Total Federal Home Loan Bank Securities	25.24		\$ 4,803,749

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

<u>Investment - Issuer</u>	<u>Concentration Risk Percent (%)</u>	<u>Interest Rate Risk Maturity Date</u>	<u>Carrying (Fair) Value</u>
Negotiable Certificates of Deposit - Wells Fargo Advisors			
GE Capital Bank		7/27/2018	\$ 244,336
GE Capital Bank		7/27/2018	244,336
Everbank		6/30/2015	240,082
Discover Bank		8/20/2015	39,993
Comenity Bank		8/20/2015	<u>200,000</u>
Total Negotiable Certificates of Deposit	5.09		<u>\$ 968,747</u>
Money Market Accounts - Wells Fargo Advisors			
Treasury Money Market	7.42	N/A	<u>\$ 1,412,972</u>
HH Bonds - U.S. Treasury	3.11	Various	<u>\$ 593,000</u>
Total Investments			<u>\$ 19,035,069</u>

2. Receivables

Receivables as of December 31, 2014, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental Activities</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Taxes	\$ 418,116	\$ -
Special assessments	1,774,117	1,764,073
Accounts	668,626	-
Accrued interest	15,147	-
Due from other governments	<u>5,647,879</u>	<u>-</u>
Total Receivables	<u>\$ 8,523,885</u>	<u>\$ 1,764,073</u>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 3,956,141	\$ -	\$ -	\$ 3,956,141
Construction in progress	5,551,802	4,652,088	5,495,375	4,708,515
Infrastructure - right-of-way	3,173,372	-	-	3,173,372
Total capital assets not depreciated	<u>\$ 12,681,315</u>	<u>\$ 4,652,088</u>	<u>\$ 5,495,375</u>	<u>\$ 11,838,028</u>
Capital assets depreciated				
Buildings	\$ 21,622,491	\$ 1,519,630	\$ -	\$ 23,142,121
Machinery, furniture, and equipment	11,366,024	4,004,367	662,488	14,707,903
Improvements other than buildings	1,326,953	6,672	25,000	1,308,625
Infrastructure	137,780,053	3,771,601	-	141,551,654
Total capital assets depreciated	<u>\$ 172,095,521</u>	<u>\$ 9,302,270</u>	<u>\$ 687,488</u>	<u>\$ 180,710,303</u>
Less: accumulated depreciation for				
Buildings	\$ 10,534,419	\$ 779,105	\$ -	\$ 11,313,524
Machinery, furniture, and equipment	8,925,454	1,265,886	657,715	9,533,625
Improvements other than buildings	655,082	61,894	25,000	691,976
Infrastructure	37,732,825	2,685,644	-	40,418,469
Total accumulated depreciation	<u>\$ 57,847,780</u>	<u>\$ 4,792,529</u>	<u>\$ 682,715</u>	<u>\$ 61,957,594</u>
Total capital assets depreciated, net	<u>\$ 114,247,741</u>	<u>\$ 4,509,741</u>	<u>\$ 4,773</u>	<u>\$ 118,752,709</u>
Governmental Activities Capital Assets, Net	<u>\$ 126,929,056</u>	<u>\$ 9,161,829</u>	<u>\$ 5,500,148</u>	<u>\$ 130,590,737</u>

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

Governmental Activities	
General government	\$ 740,016
Public safety	453,226
Highways and streets, including depreciation of infrastructure assets	3,217,327
Sanitation	245,756
Human services	88,448
Health	13,096
Culture and recreation	32,814
Conservation of natural resources	1,846
Total Depreciation Expense - Governmental Activities	<u>\$ 4,792,529</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, 2014, is as follows:

Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch	\$ 766,100

Advances from/to other funds are for cash flow purposes.

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2014, consisted of the following:

Transfer to Solid Waste Fund from Capital Projects Fund	\$ 3,217,226	MRF Retrofit Project
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C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2014, were as follows:

	Governmental Activities
Accounts	\$ 2,229,572
Salaries	726,184
Accrued payroll taxes	53,948
Accrued interest	1,896
Other accrued expenses	347,029
Contracts	247,102
Retainage	40,276
Due to other governments	383,353
Claims	102,554
Total Payables	\$ 4,131,914



**McLEOD COUNTY  
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

2. Construction Commitments

The County has active construction projects as of December 31, 2014. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Fiber Project	\$ 926,689	\$ 520,442
Xerox Tax/Cama Project	56,427	371,073
MRF Retrofit Project	3,217,226	1,215,969
Roads and bridges	508,173	140,499
Total CIP	\$ 4,708,515	\$ 2,247,983

3. Unearned Revenue/Deferred Inflows of Resources

Unearned revenue and deferred inflows of resources consist of state grants and other receivables received but not yet earned, and special assessments, taxes, state grants, and other receivables not collected soon enough after year-end to pay liabilities of the current period. Unearned revenue and deferred inflows of resources at December 31, 2014, are summarized below by fund:

	Special Assessments	Taxes	Grants	Other	Total
Major governmental funds					
General	\$ 808,150	\$ 254,840	\$ 586,633	\$ 32,065	\$ 1,681,688
Road and Bridge	-	74,362	3,755,084	76,479	3,905,925
Human Services	-	88,914	98,537	251,963	439,414
Solid Waste	-	-	-	4,769	4,769
Ditch	1,005,040	-	-	-	1,005,040
Total	\$ 1,813,190	\$ 418,116	\$ 4,440,254	\$ 365,276	\$ 7,036,836
Liability					
Unearned revenue	\$ -	\$ -	\$ 443,430	\$ 15,994	\$ 459,424
Deferred inflows of resources					
Unavailable revenue	1,813,190	418,116	3,996,824	349,282	6,577,412
Total	\$ 1,813,190	\$ 418,116	\$ 4,440,254	\$ 365,276	\$ 7,036,836

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

4. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2014
2014 General Obligation Bonds	2025	\$900,000 - 1,055,000	2.000 - 2.125	\$ 9,785,000	\$ 9,785,000
Minnesota Pollution Control Agency (MnPCA) loans	2024	N/A	2.000	1,589,035	<u>1,221,415</u>
Total					<u>\$ 11,006,415</u>

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, 2014, was \$103,643, which was the principal of the loan; accumulated interest is \$1,700. Principal payments of \$10,836 were made in 2014.

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, 2014, was \$115,000; accumulated interest is \$2,352. Principal payments of \$11,260 were made in 2014.

In 2008, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Buffalo Creek Watershed septic system loans. According to the agreement, the County can borrow as much as \$215,000. In 2010, the loan amount was amended by an additional \$4,502. The total amount disbursed through December 31, 2014, was \$219,502; accumulated interest is \$10,429. Principal payments of \$22,728 were made in 2014.

In 2008, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Crow River Watershed septic system loans. According to the agreement, the County can borrow as much as \$248,000. In 2010, the loan amount was amended by an additional \$50,000. The total amount disbursed through December 31, 2014, was \$298,000; accumulated interest is \$13,017. Principal payments of \$29,839 were made in 2014.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Long-Term Debt (Continued)

In 2009, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Crow River Watershed septic system loans. According to the agreement, the County can borrow as much as \$300,000. In 2013, the loan amount was amended by an additional \$27,589. The total amount disbursed through December 31, 2014, was \$327,589; accumulated interest is \$15,476. Principal payments of \$31,317 were made in 2014.

In 2011, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Buffalo Creek Watershed septic system loans. According to the agreement, the County can borrow as much as \$200,000. The total amount disbursed through December 31, 2014, was \$199,494; accumulated interest is \$9,514. Principal payments of \$9,492 were made in 2014.

In 2012, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Crow River Watershed septic system loans. According to the agreement, the County can borrow as much as \$300,000. The total amount disbursed through December 31, 2014, was \$260,219. Repayment is estimated to begin in 2015.

In 2013, the County entered into a loan agreement with the Minnesota Pollution Control Agency for the High Island Creek Watershed septic system loans. According to the agreement, the County can borrow as much as \$120,000. The total amount disbursed through December 31, 2014, was \$13,100. Repayment is estimated to begin in 2016.

In 2014, the County issued \$9,785,000 of General Obligation Bonds. Repayment begins in 2016 with scheduled repayments ranging from \$900,000 to \$1,055,000, and interest rates ranging from 2.000 percent to 2.125 percent. Final repayment is scheduled for 2025.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

5. Debt Service Requirements

Debt service requirements at December 31, 2014, were as follows:

Year Ending December 31	High Island Creek Watershed Septic System Loans (2004)		High Island Creek Watershed Septic System Loans (2008)	
	Principal	Interest	Principal	Interest
2015	\$ 11,054	\$ 622	\$ 11,600	\$ 1,406
2016	11,276	399	11,833	1,173
2017	11,502	173	12,071	935
2018	-	-	12,314	693
2019	-	-	12,561	445
2020 - 2024	-	-	12,814	193
2025	-	-	-	-
Total	\$ 33,832	\$ 1,194	\$ 73,193	\$ 4,845

Year Ending December 31	Buffalo Creek Watershed Septic System Loans (2008)		Crow River Watershed Septic System Loans (2008)	
	Principal	Interest	Principal	Interest
2015	\$ 23,185	\$ 2,298	\$ 30,439	\$ 4,031
2016	23,651	1,832	31,051	3,419
2017	24,126	1,357	31,675	2,795
2018	24,611	872	32,312	2,158
2019	25,107	377	32,961	1,509
2020 - 2024	-	-	50,689	1,017
2025	-	-	-	-
Total	\$ 120,680	\$ 6,736	\$ 209,127	\$ 14,929

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

5. Debt Service Requirements (Continued)

Year Ending December 31	Crow River Watershed Septic System Loans (2009)		Buffalo Creek Watershed Septic System Loans (2011)	
	Principal	Interest	Principal	Interest
2015	\$ 31,946	\$ 6,076	\$ 19,270	\$ 3,894
2016	32,588	5,434	19,657	3,507
2017	33,243	4,779	20,053	3,112
2018	33,911	4,111	20,455	2,709
2019	34,593	3,429	20,867	2,297
2020 - 2024	145,467	6,622	99,214	5,027
2025	-	-	-	-
Total	\$ 311,748	\$ 30,451	\$ 199,516	\$ 20,546

Year Ending December 31	General Obligation Bonds (2014)		Total	
	Principal	Interest	Principal	Interest
2015	\$ -	\$ 142,617	\$ 127,494	\$ 160,944
2016	1,055,000	188,450	1,185,056	204,214
2017	1,095,000	166,950	1,227,670	180,101
2018	1,095,000	145,050	1,218,603	155,593
2019	1,105,000	123,050	1,231,089	131,107
2020 - 2024	4,535,000	322,087	4,843,184	334,946
2025	900,000	9,563	900,000	9,563
Total	\$ 9,785,000	\$ 1,097,767	\$ 10,733,096	\$ 1,176,468

The 2012 Crow River Watershed Septic Loans that were approved in 2012 are not included in the debt service requirements because a fixed repayment schedule is not available.

The 2013 High Island Watershed Septic Loans that were approved in 2013 are not included in the debt service requirements because a fixed repayment schedule is not available.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
MnPCA loans	\$ 1,203,046	\$ 133,841	\$ 115,472	\$ 1,221,415	\$ 127,494
General obligation bonds	-	9,785,000	-	9,785,000	-
Bond premium	-	214,234	-	214,234	-
Compensated absences	1,264,246	809,978	776,658	1,297,566	879,750
Long-Term Liabilities	<u>\$ 2,467,292</u>	<u>\$ 10,943,053</u>	<u>\$ 892,130</u>	<u>\$ 12,518,215</u>	<u>\$ 1,007,244</u>

Payments on MnPCA loans are made from the General Fund with special assessments. Compensated absences are liquidated by each fund based on actual direct labor hours incurred.

4. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$480,000 per claim in 2014 and \$490,000 in 2015. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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4. Risk Management (Continued)

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

In 2000, the County entered into an agreement with Sibley County to provide a mechanism for utilizing a pooled, self-funded health insurance program under the authority granted to counties in Minn. Stat. § 471.59. Premiums are paid to MCIT, which provides bookkeeping services to the counties, including the payment of claims. For 2014, 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	
	2014	2013
Unpaid claims, beginning of fiscal year	\$ 71,381	\$ 100,019
Incurred claims (including IBNRs)	1,981,078	1,975,587
Claims payments	(1,949,905)	(2,004,225)
Unpaid Claims, End of Fiscal Year	\$ 102,554	\$ 71,381

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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5. Pension Plans

A. Defined Benefit Plans

Plan Description

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after five years of credited service.

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

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



**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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5. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at [www.mnpera.org](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.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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5. Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014. Public Employees Police and Fire Fund members were required to contribute 10.20 percent of their annual covered salary in 2014. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary.

In 2014, The County is required to contribute the following percentages of annual covered payroll:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	15.30
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
General Employees Retirement Fund	\$ 830,633	\$ 779,659	\$ 753,250
Public Employees Police and Fire Fund	219,681	205,362	196,168
Public Employees Correctional Fund	74,207	72,932	68,954

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers) and the Public Employees Police and Fire Fund (10.80 percent for members and 16.20 percent for employers).

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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5. Pension Plans (Continued)

B. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share.

Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2014, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 7,734	\$ 7,734
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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6. Other Postemployment Benefits (OPEB)

A. Plan Description

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

B. Funding Policy

Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the County based on contract terms with Medica, Midwest Dental, and Minnesota Life. The required contributions are based on projected pay-as-you-go financing requirements. For fiscal year 2014, the County contributed \$36,532 to the plan. As of January 1, 2014, there were two 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 accrued liabilities over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	\$	225,964
Interest on net OPEB obligation		26,296
Adjustment to ARC		<u>(38,887)</u>
Annual OPEB cost	\$	213,373
Contributions made		<u>(36,532)</u>
Increase in net OPEB obligation	\$	176,841
Net OPEB Obligation - Beginning of Year		<u>657,408</u>
Net OPEB Obligation - End of Year	\$	<u>834,249</u>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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6. Other Postemployment Benefits (OPEB)

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for 2012, 2013, and 2014, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2012	\$ 173,292	21.72%	\$ 537,530
December 31, 2013	170,821	29.82	657,408
December 31, 2014	213,373	17.12	834,249

D. Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the County had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$1,517,852, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,517,852. The covered payroll (annual payroll of active employees covered by the plan) was \$12,292,932, and the ratio of the UAAL to the covered payroll was 12.3 percent.

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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6. Other Postemployment Benefits (OPEB) (Continued)

E. Actuarial Methods and Assumptions

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

For January 1, 2014, the actuarial valuation date, the projected unit credit cost method was used. The actuarial assumptions included a 4.0 percent discount rate, which is based on the investment yield expected to finance benefits. The County currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 7.5 percent initially, reduced incrementally to an ultimate rate of 5.0 percent.

7. Summary of Significant Contingencies and Other Items

A. Secondary Liability for Bonds

The Essential Function Housing Development Revenue Bond of 1996 was issued by the Housing and Redevelopment Authority of McLeod County (HRA) for \$1,200,000. McLeod County is secondarily liable for up to \$120,000 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 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.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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

B. Contingent Liabilities

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

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

C. Conduit Debt Obligation

The County has issued Commercial Development Revenue Bonds (Southwest Initiative Foundation) 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 \$2,834,031 as of June 30, 2014.

D. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the Southwestern Minnesota Adult Mental Health Consortium Board was created under the authority of Minn. Stat. § 471.59. Presently its members include Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Renville, Swift, and Yellow Medicine Counties; and Southwest Health and Human Services, representing Lincoln, Lyon, Murray, Pipestone, Redwood, and Rock Counties. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

The Board takes actions and enters into such agreements as necessary to plan and develop within the Southwestern Minnesota Adult Mental Health Consortium Board's geographic jurisdiction, a system of care that serves the needs of adults with serious and persistent mental illness. The governing board is composed of one Board member from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

A complete financial report of the Southwestern Minnesota Adult Mental Health Consortium Board can be obtained at the 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, 5 each from Meeker, McLeod, and Sibley Counties. 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. McLeod County is the fiscal agent.

Complete audited financial statements are available at the McLeod County Auditor-Treasurer's Office, 2391 Hennepin Ave. N., Glencoe, Minnesota 55336.



**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Pioneerland Regional Library System

McLeod County, along with 32 cities and 9 other counties, participates in the Pioneerland Library System in order to provide efficient and improved regional library service. The Pioneerland Library System is governed by the Pioneerland Library System Board composed of 35 members appointed by member cities and counties. During the year the County contributed \$187,513 to the System.

Separate financial information can be obtained from Pioneerland Regional Library System, 410 - 5th St. S.W., Willmar, Minnesota 56201.

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 South Lake Minnetonka, Chaska, Chanhassen, Shakopee, Mound, Hutchinson, West Hennepin, and Minnetrista. 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 eight cities. In the event of dissolution of the Drug Task Force, the remaining net position will be distributed among the agencies based on their level of participation. However, if only one agency terminates the agreement and the Drug Task Force continues, all equipment will remain with the Drug Task Force.

Financing is provided by grants, forfeiture money, and appropriations from members. Complete financial information can be obtained from Mark Williams, Southwest Metro Drug Force Commander, 600 East 4th Street, Chaska, Minnesota 55318.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

PrimeWest Health System

In December 1998, McLeod County became a member of the PrimeWest Central County-Based Purchasing Initiative Joint Powers Board (since renamed PrimeWest Health System) with Big Stone, Douglas, Grant, Meeker, Pipestone, Pope, Renville, Stevens, and Traverse Counties, under the authority of Minn. Stat. § 471.59. Beltrami, Clearwater, and Hubbard Counties were later added to the PrimeWest Health System. McLeod County, in partnership with these 12 counties, is organized to directly purchase health care services for county residents who are eligible for Medical Assistance and General Assistance Medical Care as authorized by Minn. Stat. § 256B.692. 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.

Control of PrimeWest Health is vested in a Joint Powers Board, composed of two Commissioners from each member county (one active and one alternate). Each member of the Joint Powers Board is appointed by the County Commissioners of the county he or she represents.

In the event of termination of the joint powers agreement, all assets owned pursuant to this agreement shall be sold, and the proceeds, together with monies on hand, will be distributed to the current members based on their proportional share of each member's county-based purchasing eligible population.

Douglas County acts as fiscal agent for the PrimeWest Health System and reports the cash transactions as an investment trust fund on its financial statements. Financing is provided by Medical Assistance and General Assistance Medical Care payments from the Minnesota Department of Human Services.

Complete financial information can be obtained from its administrative office at PrimeWest Health, 2209 Jefferson Street, Suite 101, Alexandria, Minnesota 56308.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Crow River Joint Powers Agreement

In April 1999, the 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 and 103B.315. 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 Joint Powers 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.

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.

Putting All Communities Together for Families Collaborative

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

A county may withdraw from PACT by giving a 30-day written notice to PACT; however, the contribution will remain in the integrated fund for the implementation period. In the event of termination, any property acquired as a result of the agreement and any surplus monies on hand shall be distributed to the parties of this agreement in proportion to their contributions.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Putting All Communities Together for Families Collaborative (Continued)

Management of PACT is vested in an Executive Board composed of nine members representing all counties. The Board includes an administrative representative of social services, public health services, community corrections, school districts, two parents (one parent of a child diagnosed with a serious emotional disturbance), and three members at large, one of whom is of a mental health background. The Board appoints a fiscal agent to handle and be responsible for safekeeping the funds of PACT.

Renville County Human Services has acted as fiscal agent for PACT since January 1, 2006.

Trailblazer Transit Board

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

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

Financing is primarily provided from state and federal grants. Member counties are committed to providing the local match necessary to meet the requirements for state and federal funding. For 2014, McLeod County contributed \$167,855.

Current financial statements can be obtained with a one-day notice from the administrative office at Trailblazer Transit, Gary Ludwig, Director, 207 - 11th Street West, Glencoe, Minnesota 55336.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Supporting Hands Nurse Family Partnership Board

The Supporting Hands Nurse Family Partnership Board was established pursuant to Minn. Stat. §§ 145A.17 and 471.59 and a joint powers agreement, effective May 31, 2007. The Board is comprised of one representative from each county to the agreement. The counties in the agreement are Big Stone, Chippewa, Douglas, Grant, La qui Parle, Lincoln, Lyon, McLeod, Meeker, Murray, Pipestone, Pope, Redwood, Renville, Stevens, Swift, Traverse, and Yellow Medicine. The purpose of this agreement is to organize, govern, plan, and administer a multi-county based Nurse Family Partnership Program specifically within the jurisdictional boundaries of the counties involved.

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2014, McLeod County made \$88,722 in contributions to the partnership.

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

E. Jointly-Governed Organizations

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Aitkin, Beltrami, Clay, Clearwater, Cook, Douglas, Grant, Itasca, Kittson, Koochiching, Lake of the Woods, Mahnomon, Marshall, McLeod, Mille Lacs, Norman, Otter Tail, Pennington, Polk, Pope, Red Lake, Roseau, Stevens, Todd, and Traverse Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, which is composed of ten directors, each with an alternate, who are appointed annually by each respective County Board. The County's responsibility does not extend beyond making this appointment.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

Regional Emergency Communications Board

The Regional Emergency Communications Board, formerly the South Central Minnesota Regional Radio Board, was established pursuant to Minnesota Statutes §§ 471.59 and 403.39 and a joint powers agreement effective May 27, 2008. It is comprised of Blue Earth, Brown, Faribault, Le Sueur, Martin, McLeod, Nicollet, Sibley, Waseca, and Watonwan Counties, and the Cities of Hutchinson and Mankato. The primary function of the joint venture is to provide regional administration of enhancements to the Statewide Public Safety Radio and Communication System for the Allied Radio Matrix for Emergency Response (ARMER) owned and operated by the State of Minnesota and to enhance and improve interoperable public safety communications.

The Board consists of one County Commissioner from each county included in the agreement, one City Council member from each city included in the agreement, a member of the South Central Minnesota Regional Advisory Committee, a member of the South Central Minnesota Regional Radio System User Committee, and a member of the Owners and Operators Committee.

Blue Earth County acts as the fiscal agent for the Radio Board. During 2014, the County did not contribute to the Joint Powers Board. The Chair of the Board is Kip Bruender, and the address is P. O. Box 8608, Mankato, Minnesota 56002-8608.

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

A. Summary of Significant Accounting Policies

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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

A. Summary of Significant Accounting Policies (Continued)

The accounting policies of the HRA conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

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.

Use of Estimates

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

B. Cash and Investments

The HRA's cash and investments at June 30, 2014, are summarized as follows:

Cash on deposit	
Restricted	\$ 41,253
Unrestricted	21,984
	<hr/>
Total cash on deposit	\$ 63,237
Certificates of deposit, due within one year	
Restricted	33,260
	<hr/>
Total Cash and Investments	<u>\$ 96,497</u>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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

B. Cash and Investments (Continued)

Deposits

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

The carrying amount of the HRA's deposits with financial institutions was \$96,497 as of June 30, 2014. Bank balance was \$105,417 as of June 30, 2014, which was insured by the FDIC.

Minnesota statutes require that all HRA deposits be protected by insurance, surety bond, or collateral and that securities pledged as collateral be legal instruments and be held in safekeeping in a restricted account at the Federal Reserve Bank or in a financial institution other than that furnishing the collateral. The market value of collateral pledged must generally exceed deposits not covered by insurance or bonds by at least ten percent. The HRA was in compliance with these Minnesota statutes at all times during the year ended June 30, 2014.

Investments

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

- direct obligations or obligations guaranteed by the United States or its agencies;
- shares of registered investment companies through a mutual fund provided the mutual fund receives certain ratings depending on its investments;
- general obligations of the State of Minnesota or any of its municipalities and other state and local government obligations as listed in Minnesota statutes;
- bankers' acceptances of United States banks;



**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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

B. Cash and Investments

Investments (Continued)

- commercial paper issued by United States corporations or their Canadian subsidiaries that is of the highest quality and matures in 270 days or less; and
- repurchase agreements, securities lending agreements, joint powers in investment trusts and guaranteed investment contracts, with certain restrictions.

C. Property and Equipment

The following is a summary of property and equipment transactions:

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2014</u>
Land	\$ 197,000	\$ -	\$ -	\$ 197,000
Site improvements	209,772	-	-	209,772
Building	4,343,003	-	-	4,343,003
Appliances	117,433	-	-	117,433
Total	\$ 4,867,208	\$ -	\$ -	\$ 4,867,208
Accumulated depreciation	(1,807,430)	(116,511)	-	(1,923,941)
Totals	<u>\$ 3,059,778</u>	<u>\$ (116,511)</u>	<u>\$ -</u>	<u>\$ 2,943,267</u>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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

D. Long-Term Debt Payable

The following is a summary of long-term debt transactions for the year ended June 30, 2014:

	<u>2013</u>	<u>Issued</u>	<u>Payments</u>	<u>2014</u>
Essential Function Housing Development Bond of 1996	\$ 800,571	\$ -	\$ 39,533	\$ 761,038
Essential Function Housing Development Bond of 1997	825,248	-	38,517	786,731
Essential Function Housing Development Bond of 1999	828,148	-	30,791	797,357
Essential Function Housing Development Bond of 2001 Assessments payable	972,017 5,921	- -	33,226 -	938,791 5,921
Totals	<u>\$ 3,431,905</u>	<u>\$ -</u>	<u>\$ 142,067</u>	<u>\$ 3,289,838</u>

The Essential Function Housing Development Revenue Bond of 1996 matures on September 1, 2027. The bond currently bears an interest rate of 5.0 percent per annum. The rate is renegotiated according to the market interest rate and is thereafter adjustable periodically over the life of the bond. Principal and interest are payable monthly. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are insufficient to meet the bond obligations, the HRA may request funds from the McLeod County General Fund by ordering a County-wide tax levy not to exceed \$120,000. The HRA agrees to repay the funds to McLeod County from any subsequent excess cash flows.

The Essential Function Housing Development Revenue Bond of 1997 matures on April 1, 2028. The bond currently bears an interest rate of 5.0 percent per annum. The rate is renegotiated according to the market interest rate and is thereafter adjustable periodically over the life of the bond. Principal and interest are payable monthly. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are insufficient to meet the bond obligations, the HRA may request funds from the McLeod County General Fund by ordering a County-wide tax levy not to exceed \$120,000. The HRA agrees to repay the funds to McLeod County from any subsequent excess cash flows.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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

D. Long-Term Debt Payable (Continued)

The Essential Function Housing Development Revenue Bond of 1999 matures on May 1, 2030. The bond bears an interest rate of 5.0 percent per annum. The rate is renegotiated according to the market interest rate and is thereafter adjustable periodically over the life of the bond. Principal and interest are payable monthly. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are insufficient to meet the bond obligations, the HRA may request funds from the McLeod County General Fund by ordering a County-wide tax levy not to exceed \$75,000 each calendar year. The HRA agrees to repay the funds to McLeod County after bond obligations have been fulfilled.

The Essential Function Housing Development Revenue Bond of 2001 matures on June 1, 2032. The bond bears an interest rate of 5.0 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 bond obligations, the HRA may request funds from the McLeod County General Fund by ordering a County-wide tax levy not to exceed \$75,000 each calendar year. The HRA agrees to repay the funds to McLeod County after bond obligations have been fulfilled.

The assessment is payable to the City of Brownton for street upgrades. The debt matures October 15, 2026, and bears interest at the rate of 7.5 percent. Payments of \$360, including principal and interest, are payable semi-annually beginning May 15, 2007.

The estimated debt service requirements as of June 30, 2014, are as follows:

<u>Years Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 150,114	\$ 163,796	\$ 313,910
2016	157,898	156,013	313,911
2017	166,085	147,824	313,909
2018	174,698	139,212	313,910
2019 - 2023	1,019,140	548,634	1,567,774
2024 - 2028	1,237,571	258,237	1,495,808
2029 - 2032	384,332	30,146	414,478
Totals	<u>\$ 3,289,838</u>	<u>\$ 1,443,862</u>	<u>\$ 4,733,700</u>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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

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**

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**EXHIBIT A-1**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 11,035,345	\$ 11,035,345	\$ 10,786,579	\$ (248,766)
Special assessments	130,751	130,751	326,444	195,693
Licenses and permits	68,125	68,125	80,901	12,776
Intergovernmental	2,290,543	2,726,973	3,566,332	839,359
Charges for services	1,744,828	1,744,828	2,018,116	273,288
Fines and forfeits	24,000	24,000	19,675	(4,325)
Gifts and contributions	19,025	19,025	29,833	10,808
Investment earnings	197,625	197,625	788,654	591,029
Miscellaneous	411,442	411,442	486,327	74,885
<b>Total Revenues</b>	<b>\$ 15,921,684</b>	<b>\$ 16,358,114</b>	<b>\$ 18,102,861</b>	<b>\$ 1,744,747</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 281,986	\$ 295,986	\$ 294,922	\$ 1,064
County-wide	44,898	44,898	40,570	4,328
Courts	121,500	147,500	144,827	2,673
Law library	42,000	42,000	55,415	(13,415)
County administrator	350,215	379,215	386,295	(7,080)
County auditor-treasurer	641,440	641,440	616,429	25,011
County assessor	403,843	403,843	371,027	32,816
Elections	99,995	99,995	99,907	88
Data processing	990,660	990,660	811,755	178,905
Central services	234,020	234,020	169,135	64,885
Attorney	662,561	662,561	588,192	74,369
Recorder	639,304	639,304	390,417	248,887
Planning and zoning	287,859	287,859	245,096	42,763
Buildings	695,588	733,588	739,409	(5,821)
County insurance	241,777	241,777	55,711	186,066
Veterans service officer	208,701	208,701	156,777	51,924
Fairgrounds	267,372	267,372	265,066	2,306
Safety	5,150	5,150	4,200	950
Aerial photos	-	-	44,042	(44,042)
Other general government	1,000,000	1,490,000	1,649,928	(159,928)
<b>Total general government</b>	<b>\$ 7,218,869</b>	<b>\$ 7,815,869</b>	<b>\$ 7,129,120</b>	<b>\$ 686,749</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<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	\$ 3,688,555	\$ 3,688,555	\$ 3,503,779	\$ 184,776
Inmate account	9,150	9,150	18,165	(9,015)
Probation officer	363,147	363,147	347,177	15,970
County jail	1,870,504	1,870,504	1,741,013	129,491
Juvenile detention	5,000	5,000	350	4,650
Sheriff posse	35,000	35,000	41,457	(6,457)
Mounted posse	1,500	1,500	2,583	(1,083)
Emergency services	137,249	197,264	186,709	10,555
<b>Total public safety</b>	<b>\$ 6,110,105</b>	<b>\$ 6,170,120</b>	<b>\$ 5,841,233</b>	<b>\$ 328,887</b>
<b>Health</b>				
Nursing service	\$ 2,354,176	\$ 2,354,176	\$ 2,453,269	\$ (99,093)
<b>Culture and recreation</b>				
Historical society	\$ 49,000	\$ 49,000	\$ 49,000	\$ -
Regional library	187,513	187,513	187,513	-
Other	33,080	33,080	32,780	300
Parks	323,442	323,442	326,769	(3,327)
Snowmobile trail grant	44,640	44,640	42,319	2,321
<b>Total culture and recreation</b>	<b>\$ 637,675</b>	<b>\$ 637,675</b>	<b>\$ 638,381</b>	<b>\$ (706)</b>
<b>Conservation of natural resources</b>				
Soil and water conservation	\$ 60,000	\$ 60,000	\$ 60,000	\$ -
County extension	255,470	255,470	257,348	(1,878)
Agriculture ditch inspector	19,784	19,784	13,817	5,967
Water planning	20,746	20,746	20,790	(44)
Wetland	27,892	27,892	29,246	(1,354)
Shoreland	5,976	5,976	5,980	(4)
Feedlot	54,044	54,044	60,361	(6,317)
Environmental services	137,790	137,790	97,049	40,741
Other	18,941	18,941	19,760	(819)
Ag programming	3,000	3,000	3,312	(312)
Septic loans	-	-	513,513	(513,513)
Aquatic invasive species	-	-	11,980	(11,980)
<b>Total conservation of natural resources</b>	<b>\$ 603,643</b>	<b>\$ 603,643</b>	<b>\$ 1,093,156</b>	<b>\$ (489,513)</b>



**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<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	\$ 15,276	\$ 13,747	\$ 1,529
<b>Debt service</b>				
Principal	\$ 72,531	\$ 72,531	\$ 115,584	\$ (43,053)
Interest	12,214	12,214	18,656	(6,442)
<b>Total debt service</b>	<u>\$ 84,745</u>	<u>\$ 84,745</u>	<u>\$ 134,240</u>	<u>\$ (49,495)</u>
<b>Total Expenditures</b>	<u>\$ 17,011,689</u>	<u>\$ 17,681,504</u>	<u>\$ 17,303,146</u>	<u>\$ 378,358</u>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<u>\$ (1,090,005)</u>	<u>\$ (1,323,390)</u>	<u>\$ 799,715</u>	<u>\$ 2,123,105</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 10,000	\$ 10,000	\$ -	\$ (10,000)
Transfers out	-	(80,000)	-	80,000
Loan issued	-	-	124,327	124,327
Proceeds from the sale of capital assets	5,000	5,000	19,776	14,776
<b>Total Other Financing Sources   (Uses)</b>	<u>\$ 15,000</u>	<u>\$ (65,000)</u>	<u>\$ 144,103</u>	<u>\$ 209,103</u>
<b>Net Change in Fund Balance</b>	<u>\$ (1,075,005)</u>	<u>\$ (1,388,390)</u>	<u>\$ 943,818</u>	<u>\$ 2,332,208</u>
<b>Fund Balance - January 1</b>	24,369,222	24,369,222	24,369,222	-
<b>Increase (decrease) in inventories</b>	<u>-</u>	<u>-</u>	<u>(1,600)</u>	<u>(1,600)</u>
<b>Fund Balance - December 31</b>	<u>\$ 23,294,217</u>	<u>\$ 22,980,832</u>	<u>\$ 25,311,440</u>	<u>\$ 2,330,608</u>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

*EXHIBIT A-2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 3,630,097	\$ 3,630,097	\$ 3,576,671	\$ (53,426)
Licenses and permits	8,000	8,000	9,200	1,200
Intergovernmental	6,047,000	6,047,000	3,239,861	(2,807,139)
Charges for services	154,200	154,200	135,715	(18,485)
Miscellaneous	3,000	3,000	5,859	2,859
<b>Total Revenues</b>	<b>\$ 9,842,297</b>	<b>\$ 9,842,297</b>	<b>\$ 6,967,306</b>	<b>\$ (2,874,991)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 732,914	\$ 732,914	\$ 699,440	\$ 33,474
GIS	141,416	141,416	120,057	21,359
Maintenance	2,192,942	2,192,942	2,584,278	(391,336)
Engineering/construction	5,835,000	5,835,000	3,592,199	2,242,801
Equipment, maintenance, and shop	995,302	995,302	1,037,115	(41,813)
<b>Total highways and streets</b>	<b>\$ 9,897,574</b>	<b>\$ 9,897,574</b>	<b>\$ 8,033,089</b>	<b>\$ 1,864,485</b>
<b>Intergovernmental</b>				
Highways and streets	236,000	236,000	244,964	(8,964)
<b>Total Expenditures</b>	<b>\$ 10,133,574</b>	<b>\$ 10,133,574</b>	<b>\$ 8,278,053</b>	<b>\$ 1,855,521</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (291,277)</b>	<b>\$ (291,277)</b>	<b>\$ (1,310,747)</b>	<b>\$ (1,019,470)</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds from the sale of capital assets	25,000	25,000	69,201	44,201
<b>Net Change in Fund Balance</b>	<b>\$ (266,277)</b>	<b>\$ (266,277)</b>	<b>\$ (1,241,546)</b>	<b>\$ (975,269)</b>
<b>Fund Balance - January 1</b>	<b>5,799,776</b>	<b>5,799,776</b>	<b>5,799,776</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>183,460</b>	<b>183,460</b>
<b>Fund Balance - December 31</b>	<b>\$ 5,533,499</b>	<b>\$ 5,533,499</b>	<b>\$ 4,741,690</b>	<b>\$ (791,809)</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

*EXHIBIT A-3*

**BUDGETARY COMPARISON SCHEDULE  
HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 4,244,178	\$ 4,244,178	\$ 4,156,448	\$ (87,730)
Intergovernmental	3,821,334	3,821,334	4,475,391	654,057
Charges for services	1,027,560	1,027,560	627,173	(400,387)
Miscellaneous	585,281	585,281	888,473	303,192
<b>Total Revenues</b>	<b>\$ 9,678,353</b>	<b>\$ 9,678,353</b>	<b>\$ 10,147,485</b>	<b>\$ 469,132</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 2,433,267	\$ 2,433,267	\$ 2,738,045	\$ (304,778)
Social services	6,949,841	6,949,841	6,602,699	347,142
Transit authority	548,400	548,400	167,855	380,545
<b>Total Expenditures</b>	<b>\$ 9,931,508</b>	<b>\$ 9,931,508</b>	<b>\$ 9,508,599</b>	<b>\$ 422,909</b>
<b>Net Change in Fund Balance</b>	<b>\$ (253,155)</b>	<b>\$ (253,155)</b>	<b>\$ 638,886</b>	<b>\$ 892,041</b>
<b>Fund Balance - January 1</b>	<b>5,525,673</b>	<b>5,525,673</b>	<b>5,525,673</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 5,272,518</b>	<b>\$ 5,272,518</b>	<b>\$ 6,164,559</b>	<b>\$ 892,041</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

*EXHIBIT A-4*

**BUDGETARY COMPARISON SCHEDULE  
SOLID WASTE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<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	\$ 6,500	\$ 6,500	\$ 6,515	\$ 15
Intergovernmental	89,500	89,500	99,471	9,971
Charges for services	1,999,500	1,999,500	2,369,202	369,702
Miscellaneous	35,652	35,652	53,512	17,860
<b>Total Revenues</b>	<b>\$ 2,131,152</b>	<b>\$ 2,131,152</b>	<b>\$ 2,528,700</b>	<b>\$ 397,548</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Sanitation</b>				
Recycling	1,925,053	1,957,053	5,950,880	(3,993,827)
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ 206,099</b>	<b>\$ 174,099</b>	<b>\$ (3,422,180)</b>	<b>\$ (3,596,279)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	3,217,226	3,217,226	-
<b>Net Change in Fund Balance</b>	<b>\$ 206,099</b>	<b>\$ 3,391,325</b>	<b>\$ (204,954)</b>	<b>\$ (3,596,279)</b>
<b>Fund Balance - January 1</b>	<b>5,221,411</b>	<b>5,221,411</b>	<b>5,221,411</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 5,427,510</b>	<b>\$ 8,612,736</b>	<b>\$ 5,016,457</b>	<b>\$ (3,596,279)</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**EXHIBIT A-5**

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2010	\$ -	\$ 1,052,835	\$ 1,052,835	0.00%	\$ 11,923,225	8.8%
January 1, 2012	-	1,168,991	1,168,991	0.00	11,730,484	10.0
January 1, 2014	-	1,517,852	1,517,852	0.00	12,292,932	12.3

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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, and the Solid Waste Special Revenue Fund. The County Board can amend budgets during the year.

On December 17, 2013, the Board approved the budgets for the General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, and the Solid Waste Special Revenue Fund.

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

2. Excess of Expenditures Over Appropriations

The following funds and departments had expenditures exceeding appropriations for the year ended December 31, 2014:

	Expenditures	Budget	Excess
Major governmental funds			
General Fund			
Current			
General government			
Law library	\$ 55,415	\$ 42,000	\$ 13,415
County administrator	386,295	379,215	7,080
Buildings	739,409	733,588	5,821
Aerial photos	44,042	-	44,042
Other general government	1,649,928	1,490,000	159,928
Public safety			
Inmate account	18,165	9,150	9,015
Sheriff posse	41,457	35,000	6,457
Mounted posse	2,583	1,500	1,083
Health			
Nursing service	2,453,269	2,354,176	99,093
Culture and recreation			
Parks	326,769	323,442	3,327

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

2. Excess of Expenditures Over Appropriations (Continued)

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Major governmental funds			
General Fund			
Current (Continued)			
Conservation of natural resources			
County extension	257,348	255,470	1,878
Water planning	20,790	20,746	44
Wetland	29,246	27,892	1,354
Shoreland	5,980	5,976	4
Feedlot	60,361	54,044	6,317
Other	19,760	18,941	819
Ag programming	3,312	3,000	312
Septic loans	513,513	-	513,513
Aquatic invasive species	11,980	-	11,980
Debt service			
Principal	115,584	72,531	43,053
Interest	18,656	12,214	6,442
Road and Bridge Special Revenue Fund			
Current			
Maintenance	2,584,278	2,192,942	391,336
Equipment, maintenance, and shop	1,037,115	995,302	41,813
Intergovernmental			
Highways and streets	244,964	236,000	8,964
Human Services Special Revenue Fund			
Current			
Human services			
Income maintenance	2,738,045	2,433,267	304,778
Solid Waste Special Revenue Fund			
Current			
Sanitation			
Recycling	5,950,880	1,957,053	3,993,827

3. Other Postemployment Benefits

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



**SUPPLEMENTARY INFORMATION**

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**NONMAJOR GOVERNMENTAL FUND**

**SPECIAL REVENUE FUND**

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

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McLEOD COUNTY  
GLENCOE, MINNESOTA

*EXHIBIT B-1*

BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUND  
DECEMBER 31, 2014

	<u>Forfeited Tax Special Revenue</u>
<u>Assets</u>	
Cash and pooled investments	\$ <u>12,037</u>
<u>Liabilities and Fund Balance</u>	
<b>Liabilities</b>	
Due to other governments	\$ 38
<b>Fund Balance</b>	
Restricted for forfeited tax	<u>11,999</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 12,037</u>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

***EXHIBIT B-2***

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Forfeited Tax Special Revenue</u>
<b>Revenues</b>	
Fines and forfeits	\$ 25,997
<b>Expenditures</b>	
<b>Current</b>	
General government	<u>13,998</u>
<b>Net Change in Fund Balance</b>	<b>\$ 11,999</b>
<b>Fund Balance - January 1</b>	<u>-</u>
<b>Fund Balance - December 31</b>	<b><u><u>\$ 11,999</u></u></b>

**AGENCY FUNDS**

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

*EXHIBIT C-1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES FUND</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 260,292	\$ 1,711,182	\$ 1,965,192	\$ 6,282
Due from other governments	543,454	710,815	543,454	710,815
<b>Total Assets</b>	<b>\$ 803,746</b>	<b>\$ 2,421,997</b>	<b>\$ 2,508,646</b>	<b>\$ 717,097</b>

<b><u>Liabilities</u></b>				
Accounts payable	\$ 10,344	\$ 31,268	\$ 10,344	\$ 31,268
Salaries payable	5,736	5,409	5,736	5,409
Accrued payroll taxes	317	414	317	414
Accrued expenses	1,240	1,712	1,240	1,712
Due to other governments	786,109	678,294	786,109	678,294
<b>Total Liabilities</b>	<b>\$ 803,746</b>	<b>\$ 717,097</b>	<b>\$ 803,746</b>	<b>\$ 717,097</b>

**SUPPORTING HANDS NURSE  
FAMILY PARTNERSHIP FUND**

<b><u>Assets</u></b>				
Cash and pooled investments	\$ 59,012	\$ 1,269,345	\$ 1,095,791	\$ 232,566
Accounts receivable	113,475	90,067	113,475	90,067
Due from other governments	53,443	49,256	53,443	49,256
<b>Total Assets</b>	<b>\$ 225,930</b>	<b>\$ 1,408,668</b>	<b>\$ 1,262,709</b>	<b>\$ 371,889</b>

<b><u>Liabilities</u></b>				
Accounts payable	\$ 7,629	\$ 8,708	\$ 7,629	\$ 8,708
Salaries payable	27,866	32,783	27,866	32,783
Accrued payroll taxes	2,112	2,457	2,112	2,457
Accrued expenses	10,738	11,454	10,738	11,454
Due to other governments	177,585	316,487	177,585	316,487
<b>Total Liabilities</b>	<b>\$ 225,930</b>	<b>\$ 371,889</b>	<b>\$ 225,930</b>	<b>\$ 371,889</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**EXHIBIT C-1  
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TAXES AND PENALTIES FUND</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 238,183	\$ 46,265,660	\$ 46,094,673	\$ 409,170
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 2,737	\$ -	\$ 2,737
Due to other governments	238,183	406,433	238,183	406,433
<b>Total Liabilities</b>	<b>\$ 238,183</b>	<b>\$ 409,170</b>	<b>\$ 238,183</b>	<b>\$ 409,170</b>
<b><u>STATE AGENCY FUND</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 87,806	\$ 1,089,562	1,063,624	\$ 113,744
Departmental cash	4,052	2,518	4,052	2,518
Accounts receivable	1,889	1,075	1,889	1,075
Due from other governments	196	243	196	243
<b>Total Assets</b>	<b>\$ 93,943</b>	<b>\$ 1,093,398</b>	<b>\$ 1,069,761</b>	<b>\$ 117,580</b>
<b><u>Liabilities</u></b>				
Due to other governments	\$ 93,943	\$ 117,580	\$ 93,943	\$ 117,580

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**EXHIBIT C-1  
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 645,293	\$ 50,335,749	\$ 50,219,280	\$ 761,762
Departmental cash	4,052	2,518	4,052	2,518
Accounts receivable	115,364	91,142	115,364	91,142
Due from other governments	597,093	760,314	597,093	760,314
<b>Total Assets</b>	<b><u>\$ 1,361,802</u></b>	<b><u>\$ 51,189,723</u></b>	<b><u>\$ 50,935,789</u></b>	<b><u>\$ 1,615,736</u></b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 17,973	\$ 42,713	\$ 17,973	\$ 42,713
Salaries payable	33,602	38,192	33,602	38,192
Accrued payroll taxes	2,429	2,871	2,429	2,871
Accrued expenses	11,978	13,166	11,978	13,166
Due to other governments	1,295,820	1,518,794	1,295,820	1,518,794
<b>Total Liabilities</b>	<b><u>\$ 1,361,802</u></b>	<b><u>\$ 1,615,736</u></b>	<b><u>\$ 1,361,802</u></b>	<b><u>\$ 1,615,736</u></b>

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## **OTHER SCHEDULES**

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**EXHIBIT D-1**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**Shared Revenue**

**State**

Highway users tax	\$ 1,924,562
Market value credit	225,357
PERA rate reimbursement	36,151
Disparity reduction aid	60,750
County program aid	1,689,764
Police aid	167,552
E-911	70,839
Aquatic invasive species	34,066

**Total shared revenue** **\$ 4,209,041**

**Reimbursement for Services**

State - Minnesota Department of Human Services **\$ 764,037**

**Payments**

Local - Payments in lieu of taxes **\$ 45,785**

**Grants**

**Local**

City contribution	\$ 1,201
Highway	890,648

**Total local** **\$ 891,849**

**State**

Minnesota Department/Board of Corrections	\$ 88,828
Transportation	5,780
Health	362,507
Natural Resources	45,965
Human Services	1,421,934
Water and Soil Resources	301,264
Veterans Affairs	10,000
Revenue	3,529
Pollution Control Agency	99,471

**Total state** **\$ 2,339,278**

**Federal**

Department of Agriculture	\$ 433,276
Education	2,288
Justice	6,239
Transportation	378,898
Health and Human Services	2,238,127
Homeland Security	80,288

**Total federal** **\$ 3,139,116**

**Total local, state, and federal grants** **\$ 6,370,243**

**Total Intergovernmental Revenue** **\$ 11,389,106**

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**EXHIBIT D-2**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

<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	\$ 144,383
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>257,804</u>
<b>Total U.S. Department of Agriculture</b>		<b><u>\$ 402,187</u></b>
<b>U.S. Department of Justice</b>		
Direct State Criminal Alien Assistance Program	16.606	<b><u>\$ 6,239</u></b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 375,484
Passed Through City of Hutchinson State and Community Highway Safety	20.600	<u>2,281</u>
<b>Total U.S. Department of Transportation</b>		<b><u>\$ 377,765</u></b>
<b>U.S. Department of Education</b>		
Passed Through Meeker-McLeod-Sibley Community Health Services Special Education - Grants for Infants and Families	84.181	<b><u>\$ 2,288</u></b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through National Association of County and City Health Officials Medical Reserve Corps Small Grant Program	93.008	\$ 3,500
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	10,552
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$226,948)	93.558	201,349
Child Care and Development Block Grant	93.575	9,843
Child Support Enforcement	93.563	493,039
Refugee and Entrant Assistance - State Administered Programs	93.566	1,162
Stephanie Tubbs Jones Child Welfare Services Program	93.645	6,955
Foster Care - Title IV-E	93.658	136,975
Social Services Block Grant	93.667	182,003
Children's Health Insurance Program	93.767	103
Medical Assistance Program	93.778	780,918
Block Grants for Community Mental Health Services	93.958	11,003

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

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**EXHIBIT D-2  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

<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		
Public Health Emergency Preparedness	93.069	17,266
Universal Newborn Hearing Screening	93.251	450
Immunization Cooperative Agreements	93.268	4,100
Temporary Assistance for Needy Families	93.558	25,599
(Total Temporary Assistance for Needy Families 93.558 \$226,948)		
Block Grants for Prevention and Treatment of Substance Abuse	93.959	43,974
Maternal and Child Health Services Block Grant to the States	93.994	20,507
		<u>1,949,298</u>
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 1,949,298</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 68,089
Hazard Mitigation Grant	97.039	24,213
Emergency Management Performance Grants	97.042	25,300
		<u>117,602</u>
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 117,602</b>
<b>Total Federal Awards</b>		<b>\$ 2,855,379</b>

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by McLeod County. The County's reporting entity is defined in Note 1 to the financial statements. McLeod County's financial statements include the operations of the McLeod County Housing and Redevelopment Authority component unit, which expended \$421,922 in federal awards during the year ended June 30, 2014, which are not included in the Schedule of Expenditures of Federal Awards.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of McLeod County under programs of the federal government for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of McLeod County, it is not intended to and does not present the financial position or changes in net position of McLeod County.

3. Summary of Significant Accounting Policies

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 3,139,116
Grants received more than 60 days after year-end, unavailable in 2014	
Refugee and Entrant Assistance - State Administered Programs	586
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	36,955
Child Care and Development Block Grant	427
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	11,356
Medical Assistance Program	54,174
Emergency Management Performance Grants	25,300
Unavailable in 2013, recognized as revenue in 2014	
Public Health Emergency Preparedness	(5,911)
Block Grants for Prevention and Treatment of Substance Abuse	(13,233)
Special Supplemental Nutrition Program for Women, Infants, and Children	(1,304)
Medical Assistance Program	(169,429)
Child Support Enforcement	(76,761)
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	(41,141)
Foster Care -Title IV-E	(25,315)
Temporary Assistance for Needy Families	(35,983)
Block Grants for Community Health Mental Health Services	(16,522)
Child Care and Development Block Grant	(862)
State and Community Highway Safety	(1,133)
Emergency Management Performance Grants	(24,941)
	\$ 2,855,379
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 2,855,379

5. Subrecipients

During 2014, McLeod County did not pass any federal money to subrecipients.



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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

**Financial Statements**

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

Internal control over financial reporting:

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

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

**Federal Awards**

Internal control over major programs:

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

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

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

The major programs are:

Highway Planning and Construction	CFDA #20.205
Temporary Assistance for Needy Families	CFDA #93.558
Medical Assistance Program	CFDA #93.778

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1999-001

Accounting Policies and Procedures

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

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

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

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

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

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

Client's Response:

*McLeod County recognizes the importance and need for internal controls over the account cycles and financial reporting. McLeod County continues to work towards implementing formalized policies and procedures for all accounting functions with limited time and resources.*



Finding 2007-001

Monitoring Internal Controls

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

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

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

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

**Cause:** Limited time and resources.

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

Client's Response:

*McLeod County recognized the importance for developing and monitoring the internal controls over the various accounting functions. The McLeod County Auditor-Treasurer continues to assess and monitor the internal controls periodically throughout the year with limited time and resources.*

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

#### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2013-002

#### Eligibility Testing

**Programs:** U.S. Department of Health and Human Services' Temporary Assistance for Needy Families (CFDA No. 93.558)

**Pass-Through Agency:** Minnesota Department of Human Services and Meeker-McLeod-Sibley Community Health Services

**Criteria:** OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

**Condition:** During our testing of compliance over the eligibility requirements for the Temporary Assistance for Needy Families Program, we noted one instance in our sample of 17 case files tested where the case file did not include a birth certificate, but MAXIS indicated that citizenship had been verified with a birth certificate.

During our testing of compliance over the eligibility requirements for the Family Home Visiting portion of the Temporary Assistance for Needy Families Program, we noted two instances in our sample of seven case files tested where the case file did not include an eligibility determination sheet. In addition, the auditor was unable to determine a complete population of those individuals receiving benefits under the Family Home Visiting portion.

**Questioned Costs:** Not applicable. The County administers the program, but benefits to clients in this program are paid by the State of Minnesota.

**Context:** The Minnesota Department of Human Services maintains the computer system, MAXIS, for which a portion of the Temporary Assistance for Needy Families Program eligibility is determined. The State of Minnesota contracts with the County Social Services Department to perform the "intake function" (meeting with the social services client to determine income and categorical eligibility), while the state maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to the clients. For the Family Home Visiting portion of the grant, eligibility is determined through nurses at the public health department.

**Effect:** The lack of documented verification of key eligibility determining factors increases the risk that clients will receive benefits when they are not eligible. In addition, auditors were unable to ensure that the entire population of those individuals who received benefits were included in the audit sample for testing compliance over eligibility requirements.

**Cause:** Eligibility determination documentation was missing in the case files, and it is not known whether the documentation was ever completed/obtained or was misfiled. In addition, the Public Health Department upgraded the computer software it uses for documenting nurse visits in October 2014 and no longer has access to information maintained by the previous software. When Public Health personnel extracted the population of individuals who had received benefits from the new software, they determined that the data was not accurately incorporating the data from the previous software system.

**Recommendation:** We recommend the County implement additional procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations is properly maintained in case files. Also, when future computer software upgrades are implemented, the County should ensure that data from both the previous system and the upgraded software can be accurately maintained and extracted.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Amanda Maresh, Team Lead for Family Home Visiting (FHV)*

Corrective Action Planned:

- *For the remainder of 2015, Amanda Maresh, PHN, will gather a list of all FHV clients from all of the nurses and audit their charts for the TANF form.*
- *All nurses will submit TANF forms to Amanda Maresh and she will verify client eligibility for TANF funding.*
- *Jennifer Smith, PHN, will verify client eligibility for Amanda Mareshs' TANF forms.*
- *The TANF form will be completed upon opening the client and then annually in July.*

- *McLeod County Public Health will explore using their TANF dollars in 2016 to help fund the Supporting Hands-Nurse Family Partnership Program (SH-NFP). This will eliminate the need for the McLeod County FHV team to do the TANF form as clients seen under SH-NFP should all qualify under SH-NFP eligibility guidelines.*

Anticipated Completion Date:

*December 31, 2015 (with hopes of putting TANF dollars to SH-NFP in 2016)*

#### PREVIOUSLY REPORTED ITEMS RESOLVED

##### **Supervisory Review Over Eligibility - Intake Function (Medical Assistance Program, CFDA No. 93.778, and Temporary Assistance for Needy Families, CFDA No. 93.558) (2013-001)**

During our previous audits of the Medical Assistance and Temporary Assistance for Needy Families Programs, we noted no documented process for supervisory review of case files.

##### **Resolution**

The County implemented a case file review process. Supervisory reviews of case files were performed and documented accordingly.

##### **Eligibility Testing (Medical Assistance Program, CFDA No. 93.778) (2013-002)**

During our previous audit of the Medical Assistance Program, we noted four instances where the income listed in MAXIS was not supported with paystubs in the case file and one instance where citizenship verification documented in MAXIS was not supported with a birth certificate in the case file.

##### **Resolution**

During our current year eligibility testing of the Medical Assistance Program, we found no instances where documentation of key eligibility determining factors was not present in the case files.

##### **Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Payroll Function (Temporary Assistance for Needy Families, CFDA No. 93.558) (2013-003)**

During our previous audit of the Temporary Assistance for Needy Families Program, we noted that the coding of the County's Public Health nurses' time to individual grants was not being reviewed and approved by a supervisor. In addition, the manual entry of the coding into the Certified Hardware Asset Management Professional (CHAMP) database was not reviewed to ensure that data entry errors had not occurred.

**Resolution**

The County implemented policies and procedures whereby the Public Health Director or a supervisor will review on a monthly basis the information recorded by the public health nurses on their daily time sheets to ensure that the individual grants were properly charged. In addition, a new software system was implemented where manual entry of data is no longer needed.

**Cash Management (Temporary Assistance for Needy Families, CFDA No. 93.558) (2013-004)**

During our previous audit of the Temporary Assistance for Needy Families Program, we noted that the County was requesting reimbursement based on expenditures that had been incurred rather than for those that had been incurred and paid.

**Resolution**

During our current year testing of requests for reimbursement, we noted that the County requested reimbursement based on expenditures that had been paid prior to requesting the reimbursement.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding 2014-001

Publication of Board Minutes

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

**Condition:** Upon requesting the affidavits of publication related to the publishing of a summary of the Board of County Commissioner meeting minutes for 2014, we were informed by personnel in the County Administrator’s Office that most of the summaries were not published in the County’s official newspaper within the 30-day requirement.

**Context:** Since we were informed that most of the summaries of the Board of County Commissioner meeting minutes were not published in the County’s official newspaper within 30 days, the auditor did not request the affidavits of publication related to the 2014 minutes.

**Effect:** Noncompliance with Minn. Stat. § 375.12.

**Cause:** The responsibility to ensure that the summaries of the Board of County Commissioner's meeting minutes were published within the 30-day requirement was not assigned to an individual upon the absence of the person who was previously responsible for this process.

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

Client's Response:

*The employee who deals with publication of meeting minutes per Statute 375.12 was out on an extensive FMLA during 2014. This assignment was not delegated to anyone within Administration during this leave of absence. As of January 2015, Administration is in compliance with Statute 375.12.*

*Administration will put together work instructions on this process and will ensure that when the key employee is not available to publish meeting minutes per Statute 375.12, this task gets delegated to another employee within Administration.*

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2009-002

Ditch Fund Balance Deficits

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

**Condition:** As of December 31, 2014, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balances.

**Context:** Twenty-eight of the 56 individual ditch systems have deficit unassigned fund balances as of December 31, 2014, totaling \$784,513, the largest being \$138,166. These 28 ditches combined with the remaining ditch systems leave the Ditch Special Revenue Fund with a deficit unassigned fund balance of \$663,094.

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

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

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

Client's Response:

*McLeod County recognizes the importance of having fund balance available to provide for the repair and maintenance costs of a county drainage system. The principal understanding is that each drainage system belongs to the property owners located within that watershed. McLeod County Commissioners manage the drainage systems in their respective districts though the funds do not belong to the county. Annually in September the Commissioners hold a public ditch meeting according to M.S. 103E.705, subd. 6, to determine a repair and maintenance assessment levy to be levied on each county drainage system in the new year. Four criteria are used to determine the assessment levy; 1) fund balance, 2) previous expenditures, 3) future expenditures, and 4) outstanding loan balances. Nevertheless, after the assessment is levied on a drainage system, emergency tile, culvert, bridge and ditch repairs happen or natural disasters which are unforeseen. These emergency ditch repairs are critical to the operation of a drainage system.*

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

C. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the County's government-wide statement of financial position. The County's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in McLeod County's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point of time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well the pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.





REBECCA OTTO  
STATE AUDITOR

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

### Independent Auditor's Report

Board of County Commissioners  
McLeod County  
Glencoe, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the 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, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 29, 2015. Our report includes a reference to other auditors who audited the financial statements of the McLeod County Housing and Redevelopment Authority, the discretely presented component unit, for the year ended June 30, 2014, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 1999-001 and 2007-001, that we consider to be significant deficiencies.

## **Compliance and Other Matters**

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

## **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the County does not have any tax increment financing districts of its own.

In connection with our audit, nothing came to our attention that caused us to believe that McLeod County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as

item 2014-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

### **Other Matters**

Also included in the Schedule of Findings and Questioned Costs is a management practices comment and an other item for consideration. We believe this recommendation and information to be of benefit to the County, and they are reported for that purpose.

### **McLeod County's Response to Findings**

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

### **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 29, 2015

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

### Independent Auditor's Report

Board of County Commissioners  
McLeod County  
Glencoe, Minnesota

### **Report on Compliance for Each Major Federal Program**

We have audited McLeod County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2014. 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.

McLeod County's basic financial statements include the operations of the McLeod County Housing and Redevelopment Authority (HRA) component unit, which expended \$421,922 in federal awards during the year ended June 30, 2014, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the McLeod County HRA because the McLeod County HRA was audited by other auditors.

#### ***Management's Responsibility***

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

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of McLeod County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB

Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

#### ***Opinion on Each Major Federal Program***

In our opinion, McLeod County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

#### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2013-002. Our opinion on each major federal program is not modified with respect to this matter.

McLeod County's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. McLeod County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

#### **Report on Internal Control Over Compliance**

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of

compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2013-002, that we consider to be a significant deficiency.

McLeod County's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. McLeod County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 29, 2015