# STATE OF MINNESOTA

## Office of the State Auditor

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

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

YEAR ENDED DECEMBER 31, 2017

# 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 650 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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.auditor.state.mn.us

# McLEOD COUNTY
# GLENCOE, MINNESOTA

## Year Ended December 31, 2017

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

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

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# Introductory Section

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

ORGANIZATION
2017

| Office | Name | Term of Office From | Term of Office To |
|---|---|---|---|
| Commissioners | | | |
| 1st District | Ron Shimanski | January 2014 | January 2021 |
| 2nd District | Doug Krueger | January 2015 | January 2019 |
| 3rd District | Paul Wright | January 2009 | January 2021 |
| 4th District | Rich Pohlmeier | January 2017 | January 2021 |
| 5th District | Joe Nagel* | January 2015 | January 2019 |
| Officers | | | |
| Elected | | | |
| Attorney | Michael K. Junge | May 1987 | January 2019 |
| Auditor-Treasurer | Cindy Schultz Ford | January 1995 | January 2019 |
| Recorder | Lynnette Schrupp | January 2003 | January 2019 |
| Sheriff | Scott Rehmann | January 2007 | January 2019 |
| District Judge | Jody Winters | January 2017 | January 2019 |
| District Judge | Jessica Maher | August 1998 | January 2019 |
| Appointed | | | |
| Agriculture & Weed Inspector | Allan Koglin | | |
| Assessor | Sue Schulz | | |
| Coroner | Dr. Quinn Strobl | | |
| Interim County Administrator | Cindy Schultz Ford | | |
| Court Administrator | Karen Messner | | |
| Highway Engineer | John Brunkhorst | | |
| Human Services Director | Gary Sprynczynatyk | | |
| Information Systems Director | Vince Traver | | |
| Park Superintendent | Allan Koglin | | |
| Public Health Director | Jennifer Hauser | | |
| Regional Extension Director | Sarah Chur | | |
| Surveyor | Jeff Rausch | | |
| Solid Waste Director | Sarah Young | | |
| Veterans Service Officer | James Lauer | | |
| Planning, Zoning, and Environmental Administrator | Larry Gasow | | |

*Chair

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# Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

REBECCA OTTO
STATE AUDITOR

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
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, 2017, including the McLeod County Housing and Redevelopment Authority (HRA) as of and for the year ended June 30, 2017, 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 on 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 from 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 the 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, 2017, including the McLeod County HRA as of June 30, 2017, and the respective changes in financial position thereof for the year 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 18, 2018, 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 solely 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 effectiveness of McLeod County's 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 the Uniform Guidance

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA), as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA 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 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 18, 2018

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# MANAGEMENT’S DISCUSSION AND ANALYSIS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017
(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, 2017. 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 and deferred outflows of resources of McLeod County exceeded liabilities and deferred inflows of resources at the end of the current fiscal year by $159,201,846 (net position). Of this amount, $18,125,994 (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 $29,682 (0.0 percent). The increase is a combination of capital assets and budget savings from operations.

- At the end of the current fiscal year, unassigned fund balance for the General Fund was $14,237,480, or 68.9 percent, of total 2017 General Fund expenditures.

- Governmental funds' fund balances decreased by $3,185,973.

## 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 deferred outflows of resources and liabilities and deferred inflows of resources, 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.

<u>Governmental Funds</u>

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

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

McLeod County adopts an annual budget for the following governmental funds: General, Road and Bridge Special Revenue, Human Services Special Revenue, Solid Waste Special Revenue, and Debt Service. A budgetary comparison schedule 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 account for financial resources to be used for capital acquisition, construction, or improvement of capital facilities.

- Debt Service Fund - used to account for the accumulation of resources for, and the payment of, principal, interest, and related costs of general long-term debt.

Fiduciary Funds

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

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

**Notes to the Financial Statements**

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

**Other Information**

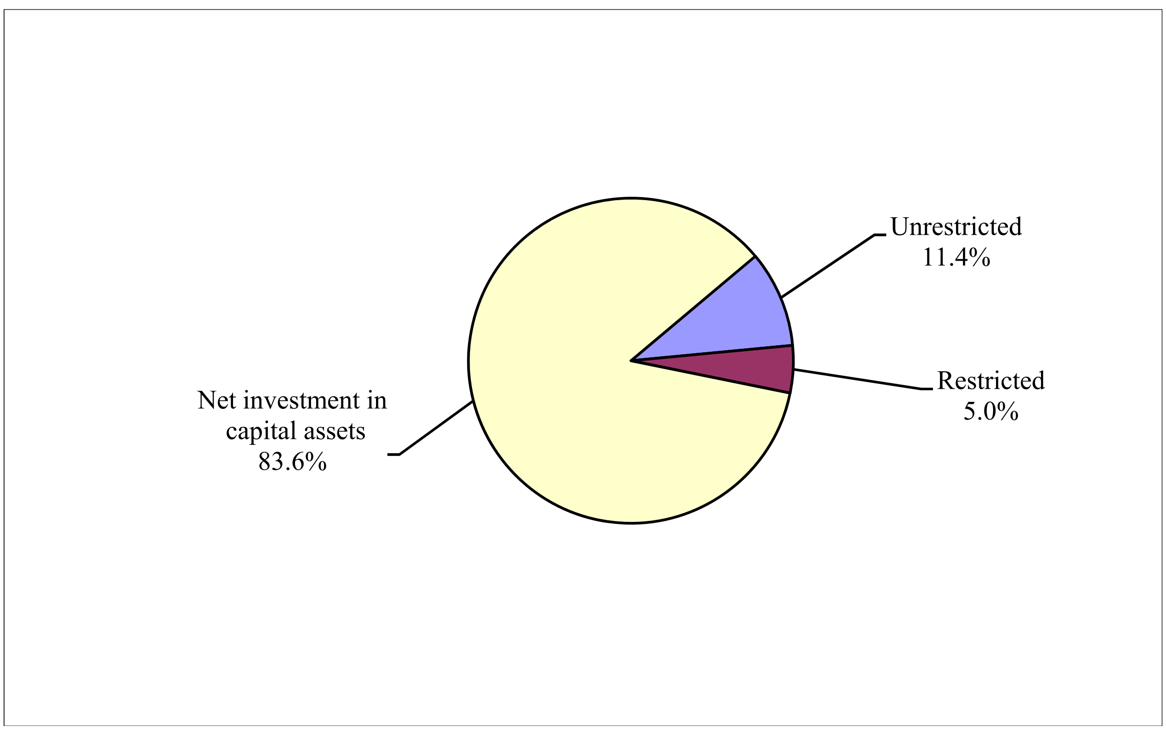
In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

**Financial Analysis**

Net position may serve over time as a useful indicator of a government's financial position. In the case of McLeod County, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $159,201,846 as of December 31, 2017. The net investment in capital assets is the largest portion of McLeod County's net position at 83.6 percent. These capital assets are used to provide services to citizens and are not available for future spending.

Approximately 5.0 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 11.4 percent, or $18,125,994, 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 | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Current and other assets | $ 53,156,967 | $ 56,683,687 | $ 204,128 | $ 159,102 |
| Capital assets | 139,267,340 | 135,104,216 | 2,649,713 | 2,731,611 |
| Total Assets | $ 192,424,307 | $ 191,787,903 | $ 2,853,841 | $ 2,890,713 |
| Deferred outflows of resources | $ 6,841,849 | $ 12,355,969 | $ - | $ - |
| Current and other liabilities | $ 3,802,997 | $ 4,005,506 | $ 105,712 | $ 111,920 |
| Long-term liabilities - due within one year | 2,400,604 | 2,116,793 | 182,023 | 174,364 |
| Long-term liabilities - due in more than one year | 27,111,011 | 36,618,290 | 2,617,775 | 2,798,154 |
| Total Liabilities | $ 33,314,612 | $ 42,740,589 | $ 2,905,510 | $ 3,084,438 |
| Deferred inflows of resources | $ 6,749,698 | $ 2,231,119 | $ - | $ - |
| Net Position | | | | |
| Investment in capital assets | $ 133,099,722 | $ 128,217,199 | $ (150,085) | $ (240,907) |
| Restricted | 7,976,130 | 11,036,313 | 18,893 | 7,845 |
| Unrestricted | 18,125,994 | 19,918,652 | 79,523 | 39,337 |
| Total Net Position | $ 159,201,846 | $ 159,172,164 | $ (51,669) | $ (193,725) |

## GOVERNMENTAL ACTIVITIES

McLeod County's governmental activities increased net position by $29,682 during the current fiscal year. This increase is primarily due to an increase in capital assets.

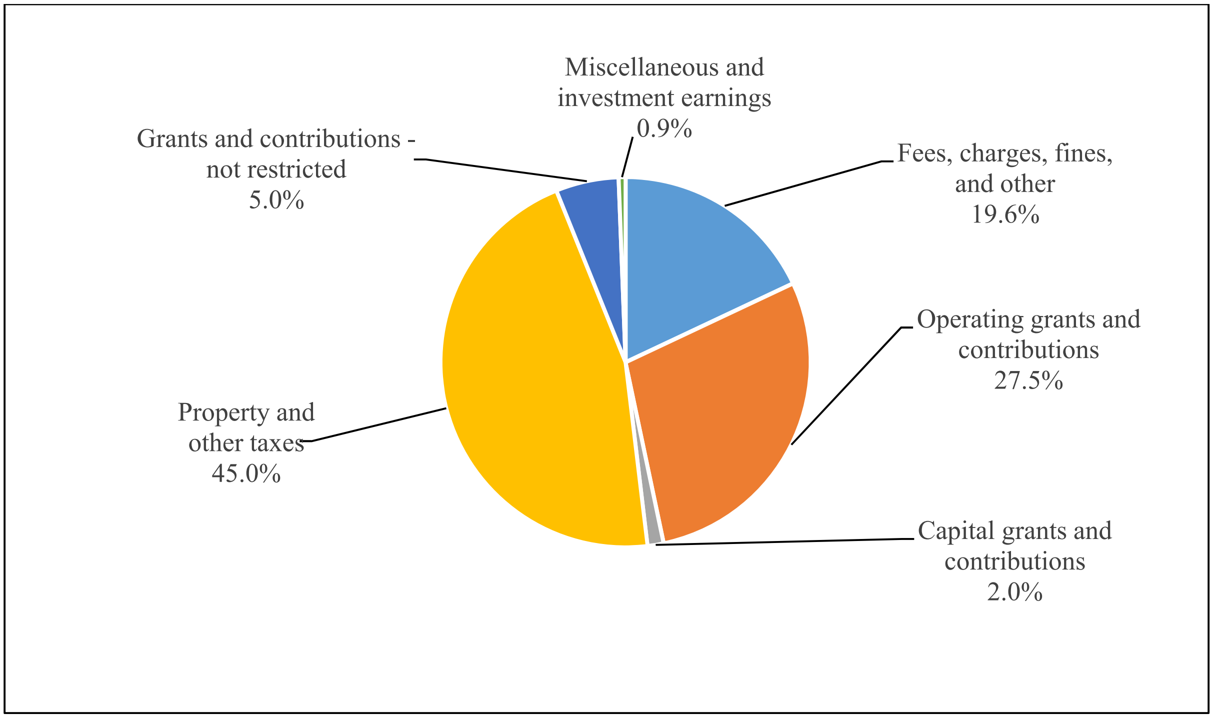
The McLeod County HRA is a discretely presented component unit of McLeod County. As of June 30, 2017, liabilities exceeded assets by $51,669, and there was an increase in net position of $142,056 from the prior year. The increase is primarily due to revenues in excess of expenses.

## Changes in Net Position

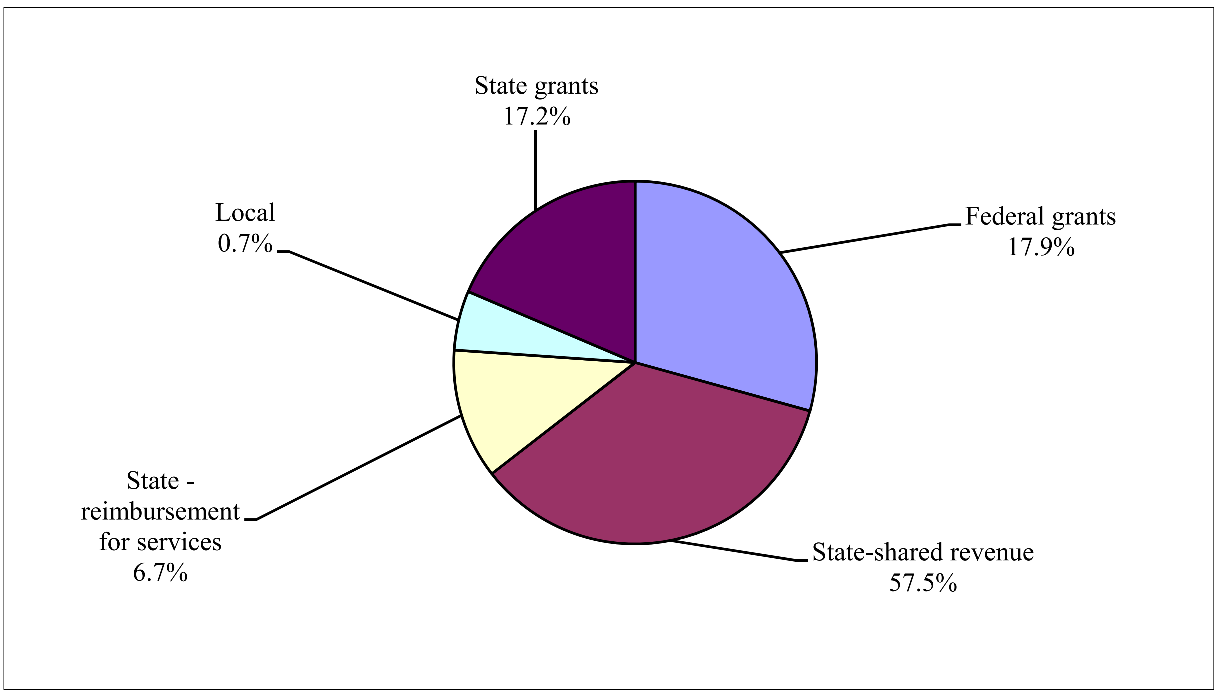
| | Governmental Activities | | Discretely Presented Component Unit | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Revenues | | | | |
| Program revenues | | | | |
| Fees, charges, fines, and other | $ 8,611,244 | $ 7,774,502 | $ 521,370 | $ 555,187 |
| Operating grants and contributions | 12,084,700 | 12,634,871 | 572,542 | 497,060 |
| Capital grants and contributions | 896,378 | 1,755,563 | - | - |
| General revenues | | | | |
| Property taxes | 19,355,416 | 18,498,365 | - | - |
| Other taxes | 480,832 | 478,847 | - | - |
| Grants and contributions not restricted to specific programs | 2,192,152 | 2,205,807 | - | - |
| Investment income | 232,363 | 141,416 | 178 | 179 |
| Miscellaneous | 163,927 | 285,906 | 1,469 | 9,047 |
| Total Revenues | $ 44,017,012 | $ 43,775,277 | $ 1,095,559 | $ 1,061,473 |
| Expenses | | | | |
| General government | $ 10,170,182 | $ 7,550,824 | $ - | $ - |
| Public safety | 5,122,463 | 7,631,045 | - | - |
| Highways and streets | 7,618,286 | 7,822,036 | - | - |
| Sanitation | 2,899,323 | 3,667,878 | - | - |
| Human services | 11,909,568 | 11,542,825 | - | - |
| Health | 2,773,920 | 3,151,667 | - | - |
| Culture and recreation | 731,378 | 728,364 | - | - |
| Conservation of natural resources | 2,522,220 | 1,928,204 | - | - |
| Economic development | 8,761 | 15,193 | - | - |
| Interest | 231,229 | 198,010 | - | - |
| HRA | - | - | 953,503 | 959,743 |
| Total Expenses | $ 43,987,330 | $ 44,236,046 | $ 953,503 | $ 959,743 |
| Increase (Decrease) in Net Position | $ 29,682 | $ (460,769) | $ 142,056 | $ 101,730 |
| Net Position - January 1 | 159,172,164 | 159,632,933 | (193,725) | (295,455) |
| Net Position - December 31 | $ 159,201,846 | $ 159,172,164 | $ (51,669) | $ (193,725) |

The following charts show additional information on the revenues of McLeod County for the year ended December 31, 2017.

**Revenues by Source - Governmental Activities**




**Intergovernmental Revenue**



## FINANCIAL ANALYSIS

### Governmental Funds

At the end of 2017, McLeod County's governmental funds reported a combined fund balance of $41,722,962. This is a decrease of $3,185,973 from the prior year. The fund balance in the General Fund decreased by $2,313,372 due expenditures in excess of revenues. The fund balance in the Road and Bridge Special Revenue Fund increased by $1,085,004 due to timing of road construction projects. The fund balance in the Human Services Special Revenue Fund decreased by $437,115 due to increased expenses. The fund balance in the Solid Waste Special Revenue Fund decreased by $369,005 due in part to transfers to the Debt Service Fund for bond payments. The fund balance in the Ditch Special Revenue Fund decreased by $934,963 due to increased ditch work. There was also a decrease in the nonmajor governmental funds of $216,522 due to increased expenses.

### General Fund Budgetary Highlights

In total, General Fund revenues for 2017 exceeded the amounts budgeted by $112,784. Licenses and permits, intergovernmental, charges for services, fines and forfeits, and investment earnings came in higher than anticipated. Total General Fund expenditures were $1,693,033 more than the final budget. This variance is primarily attributed to public safety capital outlay related to construction of the new jail.

## CAPITAL ASSETS AND LONG-TERM DEBT

### Capital Assets

At the end of 2017, McLeod County had $139,267,340 invested in capital assets, including land; construction in progress; infrastructure right-of-way; infrastructure; buildings; machinery, furniture, and equipment; and improvements other than buildings. The table below shows a summary of McLeod County's capital assets as of December 31.

**Capital Assets**
**(Net of Depreciation)**

| | 2017 | 2016 |
|---|---|---|
| Land | $ 3,956,141 | $ 3,956,141 |
| Construction in progress | 7,627,647 | 3,255,504 |
| Infrastructure - right-of-way | 3,628,766 | 3,304,987 |
| Buildings | 13,640,150 | 14,622,974 |
| Machinery, furniture, and equipment | 4,096,004 | 4,463,144 |
| Improvements other than buildings | 585,674 | 667,002 |
| Infrastructure | 105,732,958 | 104,834,464 |
| Total | $ 139,267,340 | $ 135,104,216 |

Major capital asset events during the year included the following:

- New Jail construction in 2017.

- Infrastructure construction continued in 2017.

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 $10,125,000 This is an decrease in bonded debt outstanding of $1,095,000 due to the bond payments. McLeod County had loans outstanding of $1,359,052. This is a decrease in loans payable of $8,659 from the beginning of the year. The decrease was from payment on septic loans.

Current and future County tax levies are used to finance the County's debt obligations. State statutes limit the amount of general obligation debt a county can incur to no more than three percent of the market value of taxable property in the county. The current debt limitation for McLeod County is $115,038,201.

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 3.8 percent. McLeod County's unemployment rate is more than the state unemployment rate of 3.1 percent, and less than the United States unemployment rate of 4.1 percent.

- The property tax levy increased in 2017, and could increase 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 2018 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 Administrator, 830 - 11th Street East, Suite 110, 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 Northeast, 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, 2017

| | Primary Government | Housing and Redevelopment Authority Component Unit |
|---|---|---|
| | Governmental Activities | |
| **Assets** | | |
| Cash and pooled investments | $ 43,851,236 | $ 125,411 |
| Petty cash and change funds | 22,555 | - |
| Departmental cash | 4,919 | - |
| Cash with fiscal agent | 114,012 | - |
| Taxes receivable | | |
| Delinquent | 297,575 | - |
| Special assessments receivable | | |
| Delinquent | 21,846 | - |
| Noncurrent | 2,151,588 | - |
| Accounts receivable | 405,594 | 15,997 |
| Accrued interest receivable | 9,624 | - |
| Due from other governments | 5,657,821 | - |
| Inventories | 620,197 | - |
| Prepaid items | - | 1,065 |
| Restricted assets | | |
| Cash and pooled investments | - | 61,655 |
| Capital assets | | |
| Non-depreciable | 15,212,554 | 197,000 |
| Depreciable - net of accumulated depreciation | 124,054,786 | 2,452,713 |
| **Total Assets** | **$ 192,424,307** | **$ 2,853,841** |
| **Deferred Outflows of Resources** | | |
| Deferred pension outflows | **$ 6,841,849** | **$ -** |

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

*EXHIBIT 1*
*(Continued)*

**STATEMENT OF NET POSITION**
**DECEMBER 31, 2017**

| | Primary Government — Governmental Activities | Housing and Redevelopment Authority Component Unit |
|---|---|---|
| **Liabilities** | | |
| Accounts payable | $ 958,522 | $ 4,025 |
| Salaries payable | 999,424 | - |
| Accrued payroll taxes | 47,866 | - |
| Accrued interest payable | 3,826 | - |
| Other accrued expenses | 557,129 | 37,448 |
| Due to other governments | 639,007 | - |
| Unearned revenue | 63,983 | 17,607 |
| Claims payable | 533,240 | - |
| Long-term liabilities | | |
| Due within one year | 2,400,604 | 182,023 |
| Due in more than one year | 10,633,350 | 2,617,775 |
| Net pension obligations | 15,209,311 | - |
| Net other postemployment benefits obligations | 1,268,350 | - |
| Liabilities payable from restricted assets (security deposits) | - | 46,632 |
| **Total Liabilities** | **$ 33,314,612** | **$ 2,905,510** |
| **Deferred Inflows of Resources** | | |
| Prepaid property taxes | $ 358,740 | $ - |
| Deferred pension inflows | 6,390,958 | - |
| **Total Deferred Inflows of Resources** | **$ 6,749,698** | **$ -** |
| **Net Position** | | |
| Net investment in capital assets | $ 133,099,722 | $ (150,085) |
| Restricted for | | |
| General government | 876,937 | - |
| Public safety | 103,537 | - |
| Sanitation | 2,607,469 | - |
| Conservation of natural resources | 1,951,418 | - |
| Economic development | - | 18,893 |
| Capital projects | 1,621,314 | - |
| Debt service | 815,455 | - |
| Unrestricted | 18,125,994 | 79,523 |
| **Total Net Position** | **$ 159,201,846** | **$ (51,669)** |

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

## McLEOD COUNTY
## GLENCOE, MINNESOTA

### STATEMENT OF ACTIVITIES
### FOR THE YEAR ENDED DECEMBER 31, 2017

| | Expenses | Fees, Charges, Fines, and Other |
|---|---|---|
| **Functions/Programs** | | |
| **Primary government** | | |
| **Governmental activities** | | |
| General government | $ 10,170,182 | $ 1,216,322 |
| Public safety | 5,122,463 | 239,866 |
| Highways and streets | 7,618,286 | 130,842 |
| Sanitation | 2,899,323 | 2,601,871 |
| Human services | 11,909,568 | 1,762,580 |
| Health | 2,773,920 | 975,051 |
| Culture and recreation | 731,378 | 96,275 |
| Conservation of natural resources | 2,522,220 | 1,588,437 |
| Economic development | 8,761 | - |
| Interest | 231,229 | - |
| **Total Primary Government** | **$ 43,987,330** | **$ 8,611,244** |
| **Component unit** | | |
| Housing and Redevelopment Authority | **$ 953,503** | **$ 521,370** |

**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
Miscellaneous

**Total general revenues**

**Change in net position**

**Net Position - Beginning**

**Net Position - Ending**

*EXHIBIT 2*

| Program Revenues | | Net (Expense) Revenue and Changes in Net Position | |
|---|---|---|---|
| Operating Grants and Contributions | Capital Grants and Contributions | Primary Government Governmental Activities | Discretely Presented Component Unit |
| $ 23,673 | $ - | $ (8,930,187) | |
| 388,653 | - | (4,493,944) | |
| 5,022,423 | 896,378 | (1,568,643) | |
| 50,000 | - | (247,452) | |
| 5,654,642 | - | (4,492,346) | |
| 799,755 | - | (999,114) | |
| 500 | - | (634,603) | |
| 145,054 | - | (788,729) | |
| - | - | (8,761) | |
| - | - | (231,229) | |
| **$ 12,084,700** | **$ 896,378** | **$ (22,395,008)** | |
| **$ 572,542** | **$ -** | | **$ 140,409** |
| | | $ 19,355,416 | $ - |
| | | 30,079 | - |
| | | 375,588 | - |
| | | 75,165 | - |
| | | 2,192,152 | - |
| | | 232,363 | 178 |
| | | 163,927 | 1,469 |
| | | **$ 22,424,690** | **$ 1,647** |
| | | **$ 29,682** | **$ 142,056** |
| | | **159,172,164** | **(193,725)** |
| | | **$ 159,201,846** | **$ (51,669)** |

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# FUND FINANCIAL STATEMENTS

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# GOVERNMENTAL FUNDS

## McLEOD COUNTY
## GLENCOE, MINNESOTA

### BALANCE SHEET
### GOVERNMENTAL FUNDS
### DECEMBER 31, 2017

| | General | Road and Bridge |
|---|---|---|
| **Assets** | | |
| Cash and pooled investments | $ 21,318,820 | $ 9,205,090 |
| Petty cash and change funds | 12,130 | 100 |
| Departmental cash | 4,709 | 210 |
| Cash with fiscal agent | 114,012 | - |
| Taxes receivable | | |
| Delinquent | 186,947 | 50,811 |
| Special assessments receivable | | |
| Delinquent | 17,163 | - |
| Noncurrent | 684,480 | - |
| Accounts receivable | 82,519 | 5,975 |
| Accrued interest receivable | 9,624 | - |
| Due from other governments | 381,485 | 4,119,836 |
| Inventories | 3,462 | 616,735 |
| Advances to other funds | 1,339,700 | - |
| **Total Assets** | **$ 24,155,051** | **$ 13,998,757** |
| **Liabilities, Deferred Inflows of Resources, and Fund Balances** | | |
| **Liabilities** | | |
| Accounts payable | $ 212,669 | $ 35,738 |
| Salaries payable | 566,466 | 88,563 |
| Accrued payroll taxes | 37,079 | 9,563 |
| Accrued interest payable | - | - |
| Accrued expenses | 511,456 | 1,972 |
| Advances from other funds | - | - |
| Due to other governments | 271,313 | 11,935 |
| Unearned revenue | 63,983 | - |
| Claims payable | 533,240 | - |
| **Total Liabilities** | **$ 2,196,206** | **$ 147,771** |
| **Deferred Inflows of Resources** | | |
| Prepaid property taxes | $ 218,954 | $ 55,842 |
| Unavailable revenue | 1,159,295 | 4,075,341 |
| **Total Deferred Inflows of Resources** | **$ 1,378,249** | **$ 4,131,183** |

| | Human Services | Solid Waste | Ditch | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| | $ 6,613,119 | $ 2,595,167 | $ 1,529,582 | $ 2,589,458 | $ 43,851,236 |
| | - | 10,325 | - | - | 22,555 |
| | - | - | - | - | 4,919 |
| | - | - | - | - | 114,012 |
| | 59,817 | - | - | - | 297,575 |
| | - | - | 4,683 | - | 21,846 |
| | - | - | 1,467,108 | - | 2,151,588 |
| | 184,274 | 132,826 | - | - | 405,594 |
| | - | - | - | - | 9,624 |
| | 971,413 | 787 | 184,300 | - | 5,657,821 |
| | - | - | - | - | 620,197 |
| | - | - | - | - | 1,339,700 |
| | **$ 7,828,623** | **$ 2,739,105** | **$ 3,185,673** | **$ 2,589,458** | **$ 54,496,667** |
| | $ 415,800 | $ 98,221 | $ 194,220 | $ 1,874 | $ 958,522 |
| | 327,765 | 16,630 | - | - | 999,424 |
| | - | 1,224 | - | - | 47,866 |
| | - | - | 3,826 | - | 3,826 |
| | 42,894 | 807 | - | - | 557,129 |
| | - | - | 1,339,700 | - | 1,339,700 |
| | 97,734 | 14,754 | 243,271 | - | 639,007 |
| | - | - | - | - | 63,983 |
| | - | - | - | - | 533,240 |
| | **$ 884,193** | **$ 131,636** | **$ 1,781,017** | **$ 1,874** | **$ 5,142,697** |
| | $ 83,944 | $ - | $ - | $ - | $ 358,740 |
| | 381,923 | - | 1,655,709 | - | 7,272,268 |
| | **$ 465,867** | **$ -** | **$ 1,655,709** | **$ -** | **$ 7,631,008** |

## McLEOD COUNTY
## GLENCOE, MINNESOTA

### BALANCE SHEET
### GOVERNMENTAL FUNDS
### DECEMBER 31, 2017

| | General | Road and Bridge |
|---|---|---|
| **Liabilities, Deferred Inflows of Resources, and Fund Balances (Continued)** | | |
| **Fund Balances** | | |
| **Nonspendable** | | |
| Inventories | $ 3,462 | $ 616,735 |
| Advances to other funds | 1,339,700 | - |
| **Restricted for** | | |
| E-911 | 95,016 | - |
| Law library | 102,167 | - |
| Capital projects | - | - |
| Recorder's equipment purchases | 210,996 | - |
| Land records technology | 12,287 | - |
| Drug enforcement | 8,521 | - |
| Conservation | 509,203 | - |
| Debt service | - | - |
| Records compliance | 403,358 | - |
| Solid waste abatement | - | - |
| Aquatic invasive species | 180,048 | - |
| Forfeited tax | - | - |
| Escrow | 1,500 | - |
| Ditch maintenance and construction | - | - |
| **Assigned for** | | |
| Capital projects | 2,641,492 | - |
| Assigned for 4H after school program | 5,896 | - |
| Aerial photos | 42,110 | - |
| Veterans van | 61,263 | - |
| New canine | 15,974 | - |
| Ag programing | 202 | - |
| Assigned for ARMER radio enhancements | 40,000 | - |
| Record preservation | 44,590 | - |
| Snowmobile enforcement | 251 | - |
| Law enforcement | 198,315 | - |
| Court services | 126,765 | - |
| Contracted projects | 300,000 | - |
| Highways and streets | - | 9,103,068 |
| Human services | - | - |
| **Unassigned** | 14,237,480 | - |
| **Total Fund Balances** | **$ 20,580,596** | **$ 9,719,803** |
| **Total Liabilities, Deferred Inflows of Resources, and Fund Balances** | **$ 24,155,051** | **$ 13,998,757** |

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

| Human Services | Solid Waste | Ditch | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| $ - | $ - | $ - | $ - | $ 620,197 |
| - | - | - | - | 1,339,700 |
| | | | | |
| - | - | - | - | 95,016 |
| - | - | - | - | 102,167 |
| - | - | - | 1,621,314 | 1,621,314 |
| - | - | - | - | 210,996 |
| - | - | - | - | 12,287 |
| - | - | - | - | 8,521 |
| - | - | - | - | 509,203 |
| - | - | - | 815,455 | 815,455 |
| - | - | - | - | 403,358 |
| - | 2,607,469 | - | - | 2,607,469 |
| - | - | - | - | 180,048 |
| - | - | - | 150,815 | 150,815 |
| - | - | - | - | 1,500 |
| - | - | 1,065,161 | - | 1,065,161 |
| | | | | |
| - | - | - | - | 2,641,492 |
| - | - | - | - | 5,896 |
| - | - | - | - | 42,110 |
| - | - | - | - | 61,263 |
| - | - | - | - | 15,974 |
| - | - | - | - | 202 |
| - | - | - | - | 40,000 |
| - | - | - | - | 44,590 |
| - | - | - | - | 251 |
| - | - | - | - | 198,315 |
| - | - | - | - | 126,765 |
| - | - | - | - | 300,000 |
| - | - | - | - | 9,103,068 |
| 6,478,563 | - | - | - | 6,478,563 |
| - | - | (1,316,214) | - | 12,921,266 |
| **$ 6,478,563** | **$ 2,607,469** | **$ (251,053)** | **$ 2,587,584** | **$ 41,722,962** |
| **$ 7,828,623** | **$ 2,739,105** | **$ 3,185,673** | **$ 2,589,458** | **$ 54,496,667** |

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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, 2017

| | | |
|---|---|---|
| **Fund balance - total governmental funds (Exhibit 3)** | | **$ 41,722,962** |
| 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. | | 139,267,340 |
| 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. | | 7,272,268 |
| 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 | $ (10,125,000) | |
| Unamortized premium on bonds | (155,806) | |
| Loans payable | (1,359,052) | |
| Compensated absences | (1,394,096) | |
| Net other postemployment benefits obligations | (1,268,350) | |
| Net pension obligations | (15,209,311) | (29,511,615) |
| Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds. | | |
| Deferred pension outflows | $ 6,841,849 | |
| Deferred pension inflows | (6,390,958) | 450,891 |
| **Net Position of Governmental Activities (Exhibit 1)** | | **$ 159,201,846** |

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

McLEOD COUNTY
GLENCOE, MINNESOTA

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
## GOVERNMENTAL FUNDS
## FOR THE YEAR ENDED DECEMBER 31, 2017

| | General | Road and Bridge |
|---|---|---|
| **Revenues** | | |
| Taxes | $ 11,792,098 | $ 3,578,676 |
| Special assessments | 190,374 | - |
| Licenses and permits | 91,105 | 12,545 |
| Intergovernmental | 3,229,439 | 6,894,300 |
| Charges for services | 1,971,612 | 130,950 |
| Fines and forfeits | 33,580 | - |
| Gifts and contributions | 10,103 | - |
| Investment earnings | 218,528 | - |
| Miscellaneous | 624,354 | 1,932 |
| **Total Revenues** | **$ 18,161,193** | **$ 10,618,403** |
| **Expenditures** | | |
| **Current** | | |
| General government | $ 9,019,764 | $ - |
| Public safety | 6,209,805 | - |
| Highways and streets | - | 9,293,552 |
| Sanitation | - | - |
| Human services | - | - |
| Health | 2,660,869 | - |
| Culture and recreation | 702,963 | - |
| Conservation of natural resources | 730,355 | - |
| Economic development | 8,761 | - |
| **Capital outlay** | 1,131,350 | - |
| **Intergovernmental** | - | 267,175 |
| **Debt service** | | |
| Principal | 177,937 | - |
| Interest | 22,225 | - |
| **Total Expenditures** | **$ 20,664,029** | **$ 9,560,727** |
| **Excess of Revenues Over (Under) Expenditures** | **$ (2,502,836)** | **$ 1,057,676** |
| **Other Financing Sources (Uses)** | | |
| Transfers in | $ - | $ - |
| Transfers out | - | - |
| Loan issued | 169,278 | - |
| Proceeds from the sale of capital assets | 21,639 | 24,133 |
| **Total Other Financing Sources (Uses)** | **$ 190,917** | **$ 24,133** |
| **Net Change in Fund Balance** | **$ (2,311,919)** | **$ 1,081,809** |
| **Fund Balance - January 1** | **22,893,968** | **8,634,799** |
| **Increase (decrease) in inventories** | **(1,453)** | **3,195** |
| **Fund Balance - December 31** | **$ 20,580,596** | **$ 9,719,803** |

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

| Human Services | Solid Waste | Ditch | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| $ 3,818,225 | $ - | $ - | $ 684,587 | $ 19,873,586 |
| - | - | 887,118 | - | 1,077,492 |
| - | 5,970 | - | - | 109,620 |
| 5,617,800 | 270,463 | - | 12,878 | 16,024,880 |
| 757,383 | 2,468,933 | - | - | 5,328,878 |
| - | - | - | 137,331 | 170,911 |
| - | 50,000 | - | - | 60,103 |
| - | - | 13,835 | - | 232,363 |
| 991,727 | 126,970 | - | 1,904 | 1,746,887 |
| **$ 11,185,135** | **$ 2,922,336** | **$ 900,953** | **$ 836,700** | **$ 44,624,720** |
| | | | | |
| $ - | $ - | $ - | $ 4,405 | $ 9,024,169 |
| - | - | - | - | 6,209,805 |
| - | - | - | - | 9,293,552 |
| - | 2,691,253 | - | - | 2,691,253 |
| 11,622,250 | - | - | - | 11,622,250 |
| - | - | - | - | 2,660,869 |
| - | - | - | - | 702,963 |
| - | - | 1,774,386 | - | 2,504,741 |
| - | - | - | - | 8,761 |
| - | - | - | 386,955 | 1,518,305 |
| - | - | - | - | 267,175 |
| | | | | |
| - | - | - | 1,095,000 | 1,272,937 |
| - | - | 61,530 | 166,950 | 250,705 |
| **$ 11,622,250** | **$ 2,691,253** | **$ 1,835,916** | **$ 1,653,310** | **$ 48,027,485** |
| **$ (437,115)** | **$ 231,083** | **$ (934,963)** | **$ (816,610)** | **$ (3,402,765)** |
| | | | | |
| $ - | $ - | $ - | $ 600,088 | $ 600,088 |
| - | (600,088) | - | - | (600,088) |
| - | - | - | - | 169,278 |
| - | - | - | - | 45,772 |
| **$ -** | **$ (600,088)** | **$ -** | **$ 600,088** | **$ 215,050** |
| **$ (437,115)** | **$ (369,005)** | **$ (934,963)** | **$ (216,522)** | **$ (3,187,715)** |
| **6,915,678** | **2,976,474** | **683,910** | **2,804,106** | **44,908,935** |
| **-** | **-** | **-** | **-** | **1,742** |
| **$ 6,478,563** | **$ 2,607,469** | **$ (251,053)** | **$ 2,587,584** | **$ 41,722,962** |

**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, 2017**

| | | |
|---|---|---|
| **Net change in fund balance - total governmental funds (Exhibit 5)** | | **$ (3,187,715)** |
| 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 | $ 7,272,268 | |
| Unavailable revenue - January 1 | (7,769,246) | (496,978) |
| 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 | $ 9,815,615 | |
| Net book value of disposed assets | (17,256) | |
| Current year depreciation | (5,635,235) | 4,163,124 |
| 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. | | |
| Loan issued | $ (169,278) | |
| Principal repayments - general obligation bonds | 1,095,000 | |
| Principal repayments - Minnesota Pollution Control Agency loans | 177,937 | 1,103,659 |
| 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. | | |
| Amortization of premiums on bonds | $ 19,476 | |
| Change in compensated absences | (82,706) | |
| Change in net other postemployment benefits obligations | (143,101) | |
| Change in net pension obligations | 8,326,140 | |
| Change in deferred pension outflows | (5,514,120) | |
| Change in deferred pension inflows | (4,159,839) | |
| Change in inventories | 1,742 | (1,552,408) |
| **Change in Net Position of Governmental Activities (Exhibit 2)** | | **$ 29,682** |

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

# FIDUCIARY FUNDS

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# McLEOD COUNTY
# GLENCOE, MINNESOTA

***EXHIBIT 7***

## STATEMENT OF FIDUCIARY NET POSITION
## FIDUCIARY FUNDS
## DECEMBER 31, 2017

| | Agency |
|---|---|
| **Assets** | |
| Cash and pooled investments | $ 1,188,501 |
| Departmental cash | 8,055 |
| Accounts receivable | 185 |
| Due from other governments | 369,483 |
| **Total Assets** | **$ 1,566,224** |
| **Liabilities** | |
| Accounts payable | $ 869 |
| Salaries payable | 27,480 |
| Accrued payroll taxes | 1,980 |
| Accrued expenses | 2,481 |
| Due to other governments | 1,533,414 |
| **Total Liabilities** | **$ 1,566,224** |

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

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2017. 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 the members, and the HRA is a financial burden. | McLeod County HRA<br>2200 - 23rd Street N.E., Suite 2090<br>Willmar, Minnesota 56201 |

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.

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 properties restricted for construction and maintenance of County ditches.

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements

      2. Fund Financial Statements (Continued)

         Additionally, the County reports the following fund types:

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

            The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, principal, interest, and related costs of general long-term debt.

            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 financial statements are reported using the economic resources measurement focus and the full 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.

1. Summary of Significant Accounting Policies

   C. Measurement Focus and Basis of Accounting (Continued)

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

   D. Assets, Liabilities, 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. Investments are reported at their fair value at December 31, 2017. A market approach is used to value all investments other than external investment pools, which are measured at the net asset or fair value per share. 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 2017, the County reported pooled investment earnings of $218,528.

      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 investment in the pool is measured at the net asset value per share provided by the pool.

      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."

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables (Continued)

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.

No allowance for uncollectible receivables has been provided because such amounts are not expected to be material.

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 2009 to 2017 and noncurrent special assessments payable in 2017 and after. No provision has been made for an estimated uncollectible amount.

3. Inventories

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

4. 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

1. Summary of Significant Accounting Policies

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

4. Capital Assets (Continued)

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 acquisition value.

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:

| Assets | Threshold | Years |
|---|---|---|
| Buildings | $ 25,000 | 20 - 40 |
| Improvements other than buildings | 25,000 | 5 - 30 |
| Infrastructure | 50,000 | 25 - 75 |
| Machinery, furniture, and equipment | 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. Compensated absences are liquidated through the General Fund and the Road and Bridge, Human Services, and Solid Waste Special Revenue Funds.

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. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value. The pension liability is liquidated through the General Fund and the Road and Bridge, Human Services, and Solid Waste Special Revenue Funds.

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports 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. Currently, the County has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows arise

1. Summary of Significant Accounting Policies

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

8. Deferred Outflows/Inflows of Resources (Continued)

only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date, the differences between projected and actual earnings on pension plan investments, differences between expected and actual pension plan economic experience, changes in actuarial assumptions, and changes in proportionate share, and, accordingly, are reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports 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 or reduction of expense) until that time. The County has three such items that qualify for reporting in this category. The first, unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, 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. The second, deferred pension inflows, arises only under the full accrual basis of accounting and consists of differences between expected and actual pension plan economic experience, differences between projected and actual earnings on pension plan investments, changes in actuarial assumptions, and changes in proportionate share and, accordingly, are reported only in the statement of net position. The third, prepaid property taxes, arises from property taxpayers prepaying 2018 property taxes in 2017, this tax is reported both in the government-wide statement of net position and in the governmental funds balance sheet.

9. Unearned Revenue

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

1. Summary of Significant Accounting Policies

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

10. 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.

11. 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.

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.

1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balance (Continued)

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.

1. Summary of Significant Accounting Policies

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

12. 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, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

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.

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The Ditch Special Revenue Fund had a negative fund balance of $251,053 as of December 31, 2017, and 25 ditches had deficit balances. The deficits will be eliminated with future special assessment levies against the benefited properties. The following is a summary of the individual ditch systems:

| | |
|---|---|
| 32 ditches with positive fund balances | $ 1,065,161 |
| 25 ditches with deficit fund balances | (1,316,214) |
| Total Fund Balance | $ (251,053) |

2. Stewardship, Compliance, and Accountability (Continued)

B. Component Unit Deficit

The McLeod County HRA, at June 30, 2017, had a deficit net position of $51,669, an improvement from the previous year's deficit balance of $193,725. The increase in net position is due, in part, to revenues in excess of expenses.

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 | $ 43,851,236 |
| Petty cash and change funds | 22,555 |
| Departmental cash | 4,919 |
| Cash with fiscal agent | 114,012 |
| Agency fund | |
| Cash and pooled investments | 1,188,501 |
| Departmental cash | 8,055 |
| Total Cash and Investments | $ 45,189,278 |

| | |
|---|---|
| Deposits | $ 26,592,775 |
| Petty cash and change funds | 22,555 |
| Departmental cash | 12,974 |
| Cash with fiscal agent | 114,012 |
| Investments | 18,446,962 |
| Total Deposits, Cash on Hand, and Investments | $ 45,189,278 |

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

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, 2017, 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;

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

(2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

(3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

(4) banker's acceptances of United States banks;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

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

Interest Rate Risk

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

3. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments

         b. Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute. 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.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy regarding custodial credit risk. At December 31, 2017, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

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

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

The following table presents the County's investment balances at December 31, 2017, and information relating to potential investment risks:

| Investment - Issuer | Concentration Risk Percent (%) | Interest Rate Risk Maturity Date | Carrying (Fair) Value |
|---|---|---|---|
| MAGIC Portfolio fund - Public Financial Management | N/A | | $ 14,189,819 |
| MAGIC Term fund - Public Financial Management | N/A | 04/17/2018 | 1,000,000 |
| Total MAGIC funds | | | $ 15,189,819 |
| Negotiable Certificates of Deposit - Wells Fargo Advisors | | | |
| GE Capital Bank | 3.65 | 07/27/2018 | $ 491,279 |
| Money Market Accounts - Wells Fargo Advisors | | | |
| Treasury Money Market | 20.34 | N/A | $ 2,765,864 |
| Total Investments | | | $ 18,446,962 |

The County measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and
- *Level 3:* Unobservable inputs.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

At December 31, 2017, the County had the following recurring fair value measurements:

| | December 31, 2017 | Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Investments by fair value level | | | | |
| Debt securities | | | | |
| Negotiable certificates of deposit | $ 491,279 | $ - | $ 491,279 | $ - |
| | | | | |
| Investments measured at the net asset value (NAV) | | | | |
| MAGIC Portfolio | $ 14,189,819 | | | |
| MAGIC Term | 1,000,000 | | | |
| Money Market Mutual Funds | 2,765,864 | | | |
| Total Investments Measured at the NAV | $ 17,955,683 | | | |

Debt securities classified in Level 2 are valued using the following approach:

- Negotiable Certificates of Deposit: matrix pricing based on the securities' relationship to benchmark quoted prices.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

MAGIC is a local government investment pool which is quoted at a net asset value (NAV). The County invests in this pool for the purpose of the joint investment of the County's money with those of other counties to enhance the investment earnings accruing to each member. The MAGIC fund currently consists of the MAGIC Portfolio and the MAGIC Term Series.

MAGIC Portfolio is valued using amortized cost. Shares of the MAGIC Portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as the County has a sufficient number of shares to meet their redemption request. The Fund's Board of Trustees can suspend the right of withdrawal or postpone the date of payment if the Trustees determine that there is an emergency that makes the sale of a Portfolio's securities or determination of its net asset value not reasonably practical.

Shares of MAGIC Term Series are purchased to mature upon pre-determined maturity dates selected by the County at the time of purchase. Should the County need to redeem shares in a MAGIC Term Series prematurely they must provide notice at least 7 days prior to premature redemption date. The value of a premature redemption is equal to the original price for such share, plus dividends thereon, at the projected yield less such share's allocation of any losses incurred by the series, less a premature redemption penalty, if any.

The County also invests in money market funds for the benefit of liquid investments that can be readily re-invested or made available for use. Money market funds held by the County seek a constant net asset value (NAV) of $1.00 per share. The money market fund reserves the right to require one or more days prior notice before permitting withdrawals.

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2017, are as follows:

| | Governmental Activities | Amounts Not Scheduled for Collection During the Subsequent Year |
|---|---|---|
| Taxes | $ 297,575 | $ - |
| Special assessments | 2,173,434 | 2,151,588 |
| Accounts | 405,594 | - |
| Accrued interest | 9,624 | - |
| Due from other governments | 5,657,821 | - |
| Total Receivables | $ 8,544,048 | $ 2,151,588 |

3. Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---|---|---|---|---|
| Capital assets not depreciated | | | | |
| Land | $ 3,956,141 | $ - | $ - | $ 3,956,141 |
| Construction in progress | 3,255,504 | 4,372,143 | - | 7,627,647 |
| Infrastructure - right-of-way | 3,304,987 | 323,779 | - | 3,628,766 |
| Total capital assets not depreciated | $ 10,516,632 | $ 4,695,922 | $ - | $ 15,212,554 |
| Capital assets depreciated | | | | |
| Buildings | $ 27,751,103 | $ - | $ - | $ 27,751,103 |
| Machinery, furniture, and equipment | 15,985,615 | 1,241,287 | 932,101 | 16,294,801 |
| Improvements other than buildings | 1,503,811 | - | - | 1,503,811 |
| Infrastructure | 150,785,004 | 3,878,406 | - | 154,663,410 |
| Total capital assets depreciated | $ 196,025,533 | $ 5,119,693 | $ 932,101 | $ 200,213,125 |

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---|---|---|---|---|
| Less: accumulated depreciation for | | | | |
| Buildings | $ 13,128,129 | $ 982,824 | $ - | $ 14,110,953 |
| Machinery, furniture, and equipment | 11,522,471 | 1,591,171 | 914,845 | 12,198,797 |
| Improvements other than buildings | 836,809 | 81,328 | - | 918,137 |
| Infrastructure | 45,950,540 | 2,979,912 | - | 48,930,452 |
| Total accumulated depreciation | $ 71,437,949 | $ 5,635,235 | $ 914,845 | $ 76,158,339 |
| Total capital assets depreciated, net | $ 124,587,584 | $ (515,542) | $ 17,256 | $ 124,054,786 |
| Governmental Activities Capital Assets, Net | $ 135,104,216 | $ 4,180,380 | $ 17,256 | $ 139,267,340 |

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

| | |
|---|---|
| Governmental Activities | |
| General government | $ 830,649 |
| Public safety | 560,305 |
| Highways and streets, including depreciation of infrastructure assets | 3,638,787 |
| Sanitation | 445,553 |
| Human services | 104,403 |
| Health | 17,435 |
| Culture and recreation | 3,877 |
| Conservation of natural resources | 34,226 |
| Total Depreciation Expense - Governmental Activities | $ 5,635,235 |

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. The composition of interfund balances as of December 31, 2017, is as follows:

Advances From/To Other Funds

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| General | Ditch | $ 1,339,700 |

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2017, consisted of the following:

| | | |
|---|---|---|
| Transfer to Debt Service Fund from Solid Waste Special Revenue Fund | $ 600,088 | Debt repayment |

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2017, were as follows:

| | Governmental Activities |
|---|---|
| Accounts | $ 958,522 |
| Salaries | 999,424 |
| Accrued payroll taxes | 47,866 |
| Accrued interest | 3,826 |
| Other accrued expenses | 557,129 |
| Due to other governments | 639,007 |
| Claims | 533,240 |
| Total Payables | $ 3,739,014 |

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, 2017. The projects include the following:

| | Spent-to-Date | Remaining Commitment |
|---|---|---|
| Xerox Tax/Cama Project | $ 56,427 | $ 371,073 |
| New Jail Construction | 6,567,627 | 1,133,572 |

3. Unearned Revenue/Deferred Inflows of Resources

Unearned revenue consists of grants and other revenues received but not yet earned, and deferred inflows of resources consists of special assessments, taxes, grants, and other receivables not collected soon enough after year-end to pay liabilities of the current period along with prepaid property taxes. Unearned revenue and deferred inflows of resources at December 31, 2017, are summarized below by fund:

| | Special Assessments | Taxes | Grants | Other | Total |
|---|---|---|---|---|---|
| Major governmental funds | | | | | |
| General | $ 701,643 | $ 405,901 | $ 63,983 | $ 270,705 | $ 1,442,232 |
| Road and Bridge | - | 106,653 | 4,024,447 | 83 | 4,131,183 |
| Human Services | - | 143,761 | 69,814 | 252,292 | 465,867 |
| Ditch | 1,471,791 | - | - | 183,918 | 1,655,709 |
| Total | $ 2,173,434 | $ 656,315 | $ 4,158,244 | $ 706,998 | $ 7,694,991 |
| Liability | | | | | |
| Unearned revenue | $ - | $ - | $ 63,983 | $ - | $ 63,983 |
| Deferred inflows of resources | | | | | |
| Prepaid property taxes | - | 358,740 | - | - | 358,740 |
| Unavailable revenue | 2,173,434 | 297,575 | 4,094,261 | 706,998 | 7,272,268 |
| Total | $ 2,173,434 | $ 656,315 | $ 4,158,244 | $ 706,998 | $ 7,694,991 |

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, 2017 |
|---|---|---|---|---|---|
| 2014 General Obligation Bonds | 2025 | $900,000 - $1,055,000 | 2.000 - 2.125 | $ 9,785,000 | $ 7,635,000 |
| 2016 General Obligation Drainage Bonds | 2032 | $150,000 - $175,000 | 1.000 - 2.000 | 2,490,000 | 2,490,000 |
| Minnesota Pollution Control Agency (MnPCA) loans | 2024 | N/A | 2.000 | 2,122,090 | 1,359,052 |
| Total | | | | | $ 11,484,052 |

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, 2017, was $103,643, which was the principal of the loan; accumulated interest was $1,700. The final payment of $11,502 was made in 2017.

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, 2017, was $115,000; accumulated interest is $2,352. Principal payments of $12,071 were made in 2017.

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, 2017, was $219,502; accumulated interest is $10,429. Principal payments of $24,127 were made in 2017.

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Long-Term Debt (Continued)

In 2008, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Crow River Watershed septic system loans. According to the agreement, the County can borrow as much as $248,000. In 2010, the loan amount was amended by an additional $50,000. The total amount disbursed through December 31, 2017, was $298,000; accumulated interest is $13,017. Principal payments of $31,675 were made in 2017.

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, 2017, was $327,589; accumulated interest is $15,476. Principal payments of $33,243 were made in 2017.

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, 2017, was $199,494; accumulated interest is $9,514. Principal payments of $20,053 were made in 2017.

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, 2017, was $300,000. Accumulated interest is $13,536. Principal payments of $28,621 were made in 2017.

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, 2017, was $40,070. Repayment is estimated to begin in 2018.

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Long-Term Debt (Continued)

In 2015, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Crow River Basin septic system loans. According to the agreement, the County can borrow as much as $350,000. The total amount disbursed through December 31, 2017, was $350,00, accumulated interest of $4,112. Principal payments of $16,645 were made in 2017.

In 2016, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Crow River Basin septic system loans. According to the agreement, the County can borrow as much as $300,000. The total amount disbursed through December 31, 2017, was $139,306. Repayment is estimated to begin in 2018.

In 2014, the County issued $9,785,000 of General Obligation Bonds. Repayment began in 2017 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.

In 2016, the County issued $2,490,000 of General Obligation Drainage Bonds. Repayment begins in 2018 with scheduled repayments ranging from $150,000 to $175,000, and interest rates ranging from 1.000 percent to 2.000 percent. Final repayment is scheduled for 2032.

5. Debt Service Requirements

Debt service requirements at December 31, 2017, were as follows:

| Year Ending | High Island Creek Watershed Septic System Loans (2008) | | Buffalo Creek Watershed Septic System Loans (2008) | |
|---|---|---|---|---|
| December 31 | Principal | Interest | Principal | Interest |
| 2018 | $ 12,314 | $ 693 | $ 24,611 | $ 872 |
| 2019 | 12,561 | 445 | 25,107 | 377 |
| 2020 | 12,814 | 193 | - | - |
| Total | $ 37,689 | $ 1,331 | $ 49,718 | $ 1,249 |

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 (2008) Principal | Crow River Watershed Septic System Loans (2008) Interest | Crow River Watershed Septic System Loans (2009) Principal | Crow River Watershed Septic System Loans (2009) Interest |
|---|---|---|---|---|
| 2018 | $ 32,312 | $ 2,158 | $ 33,911 | $ 4,111 |
| 2019 | 32,961 | 1,509 | 34,593 | 3,429 |
| 2020 | 33,624 | 846 | 35,288 | 2,734 |
| 2021 | 17,064 | 171 | 35,998 | 2,025 |
| 2022 | - | - | 36,721 | 1,301 |
| 2023 - 2027 | - | - | 37,460 | 563 |
| Total | $ 115,961 | $ 4,684 | $ 213,971 | $ 14,163 |

| Year Ending December 31 | Buffalo Creek Watershed Septic System Loans (2011) Principal | Buffalo Creek Watershed Septic System Loans (2011) Interest | Crow River Watershed Septic System Loans (2012) Principal | Crow River Watershed Septic System Loans (2012) Interest |
|---|---|---|---|---|
| 2018 | $ 20,455 | $ 2,709 | $ 29,196 | $ 5,553 |
| 2019 | 20,867 | 2,297 | 29,783 | 4,966 |
| 2020 | 21,286 | 1,878 | 30,382 | 4,368 |
| 2021 | 21,714 | 1,451 | 30,993 | 3,757 |
| 2022 | 22,150 | 1,014 | 31,615 | 3,134 |
| 2023 - 2027 | 34,064 | 684 | 132,946 | 6,052 |
| Total | $ 140,536 | $ 10,033 | $ 284,915 | $ 27,830 |

| Year Ending December 31 | Crow River Watershed Septic System Loans (2015) Principal | Crow River Watershed Septic System Loans (2015) Interest | General Obligation Bonds (2014) Principal | General Obligation Bonds (2014) Interest |
|---|---|---|---|---|
| 2018 | $ 32,607 | $ 6,575 | $ 1,095,000 | $ 145,050 |
| 2019 | 33,262 | 5,920 | 1,105,000 | 123,050 |
| 2020 | 33,931 | 5,252 | 1,120,000 | 100,800 |
| 2021 | 34,613 | 4,570 | 830,000 | 81,300 |
| 2022 | 35,308 | 3,874 | 845,000 | 64,550 |
| 2023 - 2027 | 167,166 | 8,441 | 2,640,000 | 85,000 |
| Total | $ 336,887 | $ 34,632 | $ 7,635,000 | $ 599,750 |

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

5. Debt Service Requirements (Continued)

| Year Ending December 31 | General Obligation Drainage Bonds (2016) Principal | General Obligation Drainage Bonds (2016) Interest | Total - Bonds and Loans Principal | Total - Bonds and Loans Interest |
|---|---|---|---|---|
| 2018 | $ 175,000 | $ 37,135 | $ 1,455,406 | $ 204,856 |
| 2019 | 175,000 | 35,385 | 1,469,134 | 177,378 |
| 2020 | 170,000 | 33,660 | 1,457,325 | 149,731 |
| 2021 | 170,000 | 31,705 | 1,140,382 | 124,979 |
| 2022 | 170,000 | 29,495 | 1,140,794 | 103,368 |
| 2023 - 2027 | 845,000 | 110,120 | 3,856,636 | 210,860 |
| 2028 - 2032 | 785,000 | 37,905 | 785,000 | 37,905 |
| Total | $ 2,490,000 | $ 315,405 | $ 11,304,677 | $ 1,009,077 |

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.

The 2016 Crow River Watershed Septic Loans that were approved in 2016 are not included in the debt service requirements because a fixed repayment schedule is not available.

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2017, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| MnPCA loans | $ 1,367,711 | $ 169,278 | $ 177,937 | $ 1,359,052 | $ 185,406 |
| General obligation bonds | 11,220,000 | - | 1,095,000 | 10,125,000 | 1,270,000 |
| Bond premium | 175,282 | - | 19,476 | 155,806 | - |
| Compensated absences | 1,311,390 | 886,269 | 803,563 | 1,394,096 | 945,198 |
| Long-Term Liabilities | $ 14,074,383 | $ 1,055,547 | $ 2,095,976 | $ 13,033,954 | $ 2,400,604 |

3. Detailed Notes on All Funds

   C. Liabilities and Deferred Inflows of Resources

      6. Changes in Long-Term Liabilities (Continued)

         Payments on MnPCA loans are made from the General Fund with special assessments. Payments on the 2014 General Obligation Bonds are made in the Debt Service Fund with property tax receipts. Payments on the 2016 General Obligation Bonds will be made in the Ditch Special Revenue Fund with special assessment receipts.

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 $500,000 per claim in 2017 and $500,000 in 2018. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

4. Risk Management (Continued)

In 2016, the County entered into an agreement with Sibley County and Trailblazer Transit to provide a mechanism for utilizing a pooled self-funded health insurance program under the authority granted to the counties in Minn. Stat. § 471.59. Premiums are paid to the Sibley County Treasurer, who provides bookkeeping services to the entity, including the payment of claims. For 2017, the County has retained risk up to $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 | |
|---|---|---|
| | 2017 | 2016 |
| Unpaid claims, beginning of fiscal year | $ 314,139 | $ 264,437 |
| Incurred claims (including IBNRs) | 2,180,089 | 2,048,938 |
| Claims payments | (1,960,988) | (1,999,236) |
| Unpaid Claims, End of Fiscal Year | $ 533,240 | $ 314,139 |

5. Pension Plans

A. Defined Benefit Pension Plans

1. 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 Plan, the Public Employees Police and Fire Plan, and the Local Government Correctional Service Retirement Plan (the Public Employees Correctional Plan), which are cost-sharing, multiple-employer retirement plans.

5. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which 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 Plan (accounted for in the Police and Fire Fund). For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after 10 years and increasing 5 percent for each year of service until fully vested after 20 years.

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Public Employees Correctional Plan (accounted for in the Correctional Fund). For members hired after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years.

5. Pension Plans

A. Defined Benefit Pension Plans (Continued)

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

The benefit provisions stated in the following paragraph 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 their public service.

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive 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. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service 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. Only Method 2 is used for members hired after June 30, 1989. Minneapolis Employees Retirement Fund members have an annuity accrual rate of 2.0 percent of average salary for each of the first ten years of service and 2.5 percent for each remaining year. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Plan members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

5. Pension Plans

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

For General Employees Retirement Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. For Public Employees Police and Fire Plan and Public Employees Correctional Plan members, normal retirement age is 55, and for members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. Contributions

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. General Employees Retirement Plan Basic members, Coordinated members, and Minneapolis Employees Retirement Fund members were required to contribute 9.10 percent, 6.50 percent, and 9.75 percent, respectively, of their annual covered salary in 2017. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2017. Public Employees Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2017.

In 2017, the County was required to contribute the following percentages of annual covered salary:

| | |
|---|---|
| General Employees Retirement Plan | |
| Basic Plan members | 11.78% |
| Coordinated Plan members | 7.50 |
| Minneapolis Employees Retirement Fund members | 9.75 |
| Public Employees Police and Fire Plan | 16.20 |
| Public Employees Correctional Plan | 8.75 |

The employee and employer contribution rates did not change from the previous year.

5. Pension Plans

A. Defined Benefit Pension Plans

3. Contributions (Continued)

The County's contributions for the year ended December 31, 2017, to the pension plans were:

| | | |
|---|---|---|
| General Employees Retirement Plan | $ | 908,763 |
| Public Employees Police and Fire Plan | | 265,884 |
| Public Employees Correctional Plan | | 84,894 |

The contributions are equal to the contractually required contributions as set by state statute.

4. Pension Costs

General Employees Retirement Plan

At December 31, 2017, the County reported a liability of $11,844,630 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.1855 percent. It was 0.1907 percent measured as of June 30, 2016. The County recognized pension expense of $1,631,667 for its proportionate share of the General Employees Retirement Plan's pension expense.

The County also recognized $4,385 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute $6 million to the General Employees Retirement Plan for the fiscal year ended June 30, 2017.

5. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

| | |
|---|---|
| The County's proportionate share of the net pension liability | $ 11,844,630 |
| State of Minnesota's proportionate share of the net pension liability associated with the County | 151,818 |
| Total | $ 11,996,448 |

The County reported its proportionate share of the General Employees Retirement Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ 390,363 | $ 783,662 |
| Changes in actuarial assumptions | 2,020,360 | 1,187,425 |
| Difference between projected and actual investment earnings | 135,923 | - |
| Changes in proportion | - | 417,008 |
| Contributions paid to PERA subsequent to the measurement date | 466,100 | - |
| Total | $ 3,012,746 | $ 2,388,095 |

The $466,100 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

5. Pension Plans

   A. Defined Benefit Pension Plans

      4. Pension Costs

General Employees Retirement Plan (Continued)

| Year Ended December 31 | Pension Expense Amount |
|---|---|
| 2018 | $ 364,927 |
| 2019 | 611,349 |
| 2020 | (314,943) |
| 2021 | (502,782) |

Public Employees Police and Fire Plan

At December 31, 2017, the County reported a liability of $2,025,178 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.150 percent. It was 0.158 percent measured as of June 30, 2016. The County recognized pension expense of $487,407 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

The County also recognized $13,500 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Plan. Legislation requires the State of Minnesota to contribute $9 million to the Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

5. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

The County reported its proportionate share of the Public Employees Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ 46,616 | $ 573,600 |
| Changes in actuarial assumptions | 2,791,702 | 2,875,251 |
| Difference between projected and actual investment earnings | 66,539 | - |
| Changes in proportion | 10,801 | 290,270 |
| Contributions paid to PERA subsequent to the measurement date | 138,898 | - |
| Total | $ 3,054,556 | $ 3,739,121 |

The $138,898 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended December 31 | Pension Expense Amount |
|---|---|
| 2018 | $ 20,668 |
| 2019 | 20,668 |
| 2020 | (59,015) |
| 2021 | (186,548) |
| 2022 | (619,236) |

5. Pension Plans

   A. Defined Benefit Pension Plans

      4. Pension Costs (Continued)

Public Employees Correctional Plan

At December 31, 2017, the County reported a liability of $1,339,503 for its proportionate share of the Public Employees Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.47 percent. It was 0.47 percent measured as of June 30, 2016. The County recognized pension expense of $506,087 for its proportionate share of the Public Employees Correctional Plan's pension expense.

The County reported its proportionate share of the Public Employees Correctional Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ 895 | $ 22,061 |
| Changes in actuarial assumptions | 729,280 | 233,167 |
| Difference between projected and actual investment earnings | - | 6,968 |
| Changes in proportion | 188 | 1,546 |
| Contributions paid to PERA subsequent to the measurement date | 44,184 | - |
| Total | $ 774,547 | $ 263,742 |

5. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Plan (Continued)

The $44,184 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended December 31 | Pension Expense Amount |
|---|---|
| 2018 | $ 288,350 |
| 2019 | 297,832 |
| 2020 | (82,272) |
| 2021 | (37,289) |

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2017, was $2,625,161.

5. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

| | |
|---|---|
| Inflation | 2.50 percent per year |
| Active member payroll growth | 3.25 percent per year |
| Investment rate of return | 7.50 percent |

5. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014 tables, while mortality rates for Public Employees Police and Fire Plan and Public Employees Correctional Plan were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, cost of living benefit increases for retirees are assumed to be 1.0 percent through 2044 and 2064, respectively and 2.5 percent thereafter. Cost of living benefit increases for retirees are assumed to be 2.5 percent for the Public Employees Correctional Plan.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Retirement Plan was dated June 30, 2015. The experience study for the Public Employees Police and Fire Plan was dated August 30, 2016. The experience study for the Public Employees Correctional Plan was dated February 2012.

The long-term expected rate of return on pension plan investments is 7.5 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

5. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Domestic stocks | 39% | 5.10% |
| International stocks | 19 | 5.30 |
| Bonds | 20 | 0.75 |
| Alternative assets | 20 | 5.90 |
| Cash | 2 | 0.00 |

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2017, which remained consistent with 2016. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan and the Public Employees Police and Fire Plan were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Public Employees Correctional Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2061. Beginning in fiscal year ended June 30, 2062, when projected benefit payments exceed the Plan’s projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 3.56 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.96 percent for the Public Employees Correctional Plan was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits to the point of asset depletion and 3.56 percent thereafter.

5. Pension Plans

A. Defined Benefit Pension Plans (Continued)

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2017:

General Employees Retirement Plan

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.0 percent for active member liability, 15 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to $21,000,000 in calendar years 2017 and 2018 and returns to $31,000,000 through calendar year 2031. The state's required contribution is $16,000,000 in PERA's fiscal years 2018 and 2019 and returns to $6,000,000 annually through calendar year 2031.

Public Employees Police and Fire Plan

- The assumed salary increases were changed as recommended in the June 30, 2016, experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.

- The assumed rates of retirement were changed, resulting in fewer retirements.

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 33 percent for vested members and 2.0 percent for non-vested members.

5. Pension Plans

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions

Public Employees Police and Fire Plan (Continued)

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality table assumed for healthy retirees.

- The assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.

- The assumed percentage of married female members was decreased from 65 percent to 60 percent.

- The assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.

- The assumed percentage of female members electing joint and survivor annuities was increased.

- The assumed post-retirement benefit increase rate was changed from 1.0 percent for all years to 1.0 percent per year through 2064 and 2.5 percent thereafter.

- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

5. Pension Plans

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions (Continued)

Public Employees Correctional Plan

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2016).

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1.0 percent for non-vested members.

- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

8. Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

| | Proportionate Share of the | | | | | |
|---|---|---|---|---|---|---|
| | General Employees Retirement Plan | | Public Employees Police and Fire Plan | | Public Employees Correctional Plan | |
| | Discount Rate | Net Pension Liability | Discount Rate | Net Pension Liability | Discount Rate | Net Pension Liability |
| 1% Decrease | 6.50% | $ 18,371,893 | 6.50% | $ 3,814,002 | 4.96% | $ 2,207,336 |
| Current | 7.50 | 11,844,630 | 7.50 | 2,025,178 | 5.96 | 1,339,503 |
| 1% Increase | 8.50 | 6,500,869 | 8.50 | 548,406 | 6.96 | 662,150 |

5. Pension Plans

A. Defined Benefit Pension Plans (Continued)

9. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Defined Contribution Pension 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. 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, 2017, were:

| | Employee | Employer |
|---|---|---|
| Contribution amount | $ 9,069 | $ 9,069 |
| Percentage of covered payroll | 5% | 5% |

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 and dental 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 2017, the County contributed $46,369 to the plan. As of January 1, 2017, there were four retirees receiving health benefits from the County's health plan.

The OPEB liability is liquidated through the General Fund and the Road and Bridge, Human Services, and Solid Waste Special Revenue Funds.

C. Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) 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.

6. Other Postemployment Benefits (OPEB)

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

| | | |
|---|---|---|
| ARC | $ | 211,031 |
| Interest on net OPEB obligation | | 39,458 |
| Adjustment to ARC | | (61,019) |
| Annual OPEB cost | $ | 189,470 |
| Contributions made | | (46,369) |
| Increase in net OPEB obligation | $ | 143,101 |
| Net OPEB Obligation - Beginning of Year | | 1,125,249 |
| Net OPEB Obligation - End of Year | $ | 1,268,350 |

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for 2015, and 2016, and 2017 were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| December 31, 2015 | $ 189,491 | 31.64% | $ 963,785 |
| December 31, 2016 | 205,408 | 21.39 | 1,125,249 |
| December 31, 2017 | 189,470 | 24.47 | 1,268,350 |

D. Funded Status and Funding Progress

As of January 1, 2016, the most recent actuarial valuation date, the County had no assets deposited to fund the plan. The actuarial accrued liability for benefits was $1,412,728, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $1,412,728. The covered payroll (annual payroll of active employees covered by the plan) was $13,468,071, and the ratio of the UAAL to the covered payroll was 10.5 percent.

6. Other Postemployment Benefits (OPEB)

D. Funded Status and Funding Progress (Continued)

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

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For January 1, 2016, the actuarial valuation date, the projected unit credit cost method was used. The actuarial assumptions included a 3.5 percent discount rate, which is based on the investment yield expected to finance benefits. The County currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 6.75 percent initially, reduced incrementally over seven years to an ultimate rate of 5.0 percent. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at January 1, 2017, was 21 to 29 years, depending on base type.

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.

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.

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

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 $1,508,010 as of June 30, 2017.

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. Des Moines Valley Health and Human Services (DVHHS) acts a fiscal agent.

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 by contacting DVHHS at 11 Fourth Street, Windom, Minnesota 56111.

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Meeker-McLeod-Sibley Community Health Services Board

The Meeker-McLeod-Sibley Community Health Services Board was established pursuant to Minn. Stat. §§ 145A.09 to 145A.14, Minn. Stat. § 471.59, and a joint powers agreement, effective April 19, 1990. The Community Health Services Board consists of 6 members, 2 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.

Current financial statements are available at the McLeod County Administrator's Office, 830 - 11th Street East, Glencoe, Minnesota 55336.

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 McLeod County contributed $196,217 to the System.

Separate financial information can be obtained from Pioneerland Regional Library System, 410 - 5th Street Southwest, 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 Chanhassen, Chaska, Hutchinson, Minnetrista, Mound, Shakopee, South Lake Minnetonka, and West Hennepin. The Drug Task Force's objectives are to detect, investigate, and apprehend controlled substance offenders in the three-county area.

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Southwest Metro Drug Task Force (Continued)

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.

PrimeWest Rural Minnesota Health Care Access Initiative

In December 1998, McLeod County became a member of the PrimeWest Central County-Based Purchasing Initiative Joint Powers Board (since renamed PrimeWest Rural Minnesota Health Care Access Initiative) 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 Rural Health Care Access Initiative. Pipestone County has since joined Southwest Health and Human Services for public health and human services functions. The partnership 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 the PrimeWest Rural Health Care Access Initiative 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.

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

PrimeWest Rural Minnesota Health Care Access Initiative (Continued)

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 Rural Health Care Access Initiative 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 Rural Health Care Access Initiative, 3905 Dakota Street, Alexandria, Minnesota 56308.

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.

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

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.

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.

McLeod County Human Services has acted as fiscal agent for PACT since January 1, 2016.

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.

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Trailblazer Transit Board (Continued)

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. In 2017, McLeod County made no contributions.

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

Supporting Hands Nurse Family Partnership Board

The Supporting Hands Nurse Family Partnership Board was established pursuant to Minn. Stat. §§ 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. Southwest Health and Human Services represents Lincoln, Lyon, Murray, Pipestone, Redwood, and Rock County in this agreement. 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 2017, McLeod County contributed $90,104 to the Partnership.

Renville County acts as fiscal agent for Supporting Hands Nurse Family Partnership Board. A complete financial report of the Board can be obtained from Renville County at Renville County Administrator's Office, Renville County Government Services Center, 105 South 5th Street, Suite 315, Olivia, Minnesota 56277.

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Central Minnesota Jobs and Training Services, Inc.

Central Minnesota Jobs and Training Services, Inc. (CMJTS) is a nonprofit employment and training agency and a partner in the Minnesota WorkForce Center System. CMJTS is a joint venture established pursuant to Minn. Stat. ch. 268 and § 471.59, consisting of 11 counties in Central Minnesota, including Chisago, Isanti, Kanabec, Kandiyohi, McLeod, Meeker, Mille Lacs, Pine, Renville, Sherburne, and Wright Counties and is also a partner of Workforce Service Area 5.

CMJTS's mission is to match job seekers, youth, businesses, and those seeking training with the resources available to them. Funding is to be provided through block grants from the U.S. Department of Labor. One County Commissioner from each participating county is appointed to the CMJTS.

McLeod, Sibley, Trailblazer Joint Self-Insurance Pool

The McLeod, Sibley, Trailblazer Joint Self-Insurance Pool was established in 2016 under the authority of Minn. Stat. § 471.59. The purpose of this Pool is to provide for the reciprocal assumption of risk among the members with respect to the provision of health benefits to each member's eligible current and former employees and their qualified dependents.

The governing board is composed of one Board member from each of the participating entities. The Pool is financed primarily by premiums from participants. Sibley County is the fiscal agent. Current financial statements are available from the Sibley County Treasurer's Office.

E. Jointly-Governed Organizations

Minnesota Counties Computer Cooperative

Under Minnesota Joint Powers Law, Minn. Stat. § 471.59, Minnesota counties have created Minnesota Counties Computer Cooperative (MCCC) to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During the year, McLeod County expended $137,894 to the MCCC.

7. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Aitkin, Becker, Beltrami, Big Stone, Clay, Clearwater, Cottonwood, Douglas, Grant, Itasca, Kittson, Koochiching, Lake of the Woods, Mahnomen, Marshall, McLeod, Mille Lacs, Morrison, Norman, Pennington, Polk, Pope, Red Lake, Renville, Roseau, Stevens, Todd, Traverse, Wadena, Watonwan, and Wilkin Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, which is composed of twelve appointees, each with an alternate, who are appointed annually by each respective County Board they represent. Each County also appoints a delegate and alternate to the Board of Directors. The County's responsibility does not extend beyond making these appointments.

South Central Minnesota Emergency Communications Board

The South Central Emergency Communications Board, formerly the South Central Minnesota Regional Radio Board, was established pursuant to Minn. Stat. §§ 471.59 and 403.39 and a joint powers agreement effective May 27, 2008. 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 Board. During 2017, McLeod County did not contribute to the Board. The Chair of the Board is Kip Bruender, and the address is P. O. Box 8608, Mankato, Minnesota 56002-8608.

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

F. Tax Abatements - Pay-As-You-Go Tax Increment

McLeod County has not entered into any property tax abatement agreements under Minnesota Statute 469.1813 with local businesses (which meets the criteria for disclosure under Governmental Accounting Standards Board (GASB) Statement No. 77). Under this statute, the County may grant property tax abatements not to exceed (1) 10% of the net tax capacity of the political subdivision for the taxes payable year with which the abatement applies, or (2) $200,000, whichever is greater for the purpose of attracting or retaining business within their jurisdictions. The abatements may be granted to any business located within or promises to relocate to the County.

The Cities of Glencoe, Hutchinson, and Winsted in McLeod County have entered into tax increment financing agreements (which meet the criteria for disclosure under GASB No. 77, Tax Abatement Disclosures). The City's authority to enter into these agreements comes from Minnesota Statute 469 for the purpose of encouraging private development, redevelopment, renovation and renewal, growth in low-to-moderate income housing, and economic development within a City. During 2017, there were 14 pay-as-you-go notes within the County. The tax increment collections during 2017 associated with these notes totaled $560,486. The County's portion of the captured tax capacity and related property taxes was approximately 30%, which is approximately $168,146.

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

A. Summary of Significant Accounting Policies

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

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

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

A. Summary of Significant Accounting Policies (Continued)

Property and Equipment

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

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, 2017, are summarized as follows:

| | |
|---|---|
| Cash on deposit | |
| Restricted | $ 28,053 |
| Unrestricted | 125,411 |
| Total cash on deposit | $ 153,464 |
| Certificates of deposit, due within one year | |
| Restricted | 33,602 |
| Total Cash and Investments | $ 187,066 |

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.

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

B. Cash and Investments

Deposits (Continued)

The carrying amount of the HRA's deposits with financial institutions was $187,066 as of June 30, 2017. The bank balance was $197,777 as of June 30, 2017, 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, 2017.

Investments

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

- direct obligations or obligations guaranteed by the United States or its agencies;

- shares of registered investment companies through a mutual fund provided the mutual fund receives certain ratings depending on its investments;

- general obligations of the State of Minnesota or any of its municipalities and other state and local government obligations as listed in Minnesota statutes;

- bankers' acceptances of United States banks;

- commercial paper issued by United States corporations or their Canadian subsidiaries that is of the highest quality and matures in 270 days or less; and

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

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

C. Property and Equipment

The following is a summary of property and equipment transactions:

| | June 30, 2016 | Additions | Disposals | June 30, 2017 |
|---|---|---|---|---|
| Land | $ 197,000 | $ - | $ - | $ 197,000 |
| Site improvements | 213,232 | - | - | 213,232 |
| Buildings | 4,352,901 | 34,475 | 59,764 | 4,327,612 |
| Appliances | 126,286 | 2,245 | 79,660 | 48,871 |
| Total | $ 4,889,419 | $ 36,720 | $ 139,424 | $ 4,786,715 |
| Accumulated depreciation | 2,157,808 | 118,616 | 139,422 | 2,137,002 |
| Totals | $ 2,731,611 | $ 155,336 | $ 278,846 | $ 2,649,713 |

D. Long-Term Debt Payable

The following is a summary of long-term debt transactions for the year ended June 30, 2017:

| | 2016 | Issued | Payments | 2017 |
|---|---|---|---|---|
| Essential Function Housing Development Bond of 1996 | $ 673,534 | $ - | $ 47,973 | $ 625,561 |
| Essential Function Housing Development Bond of 1997 | 701,352 | - | 46,877 | 654,475 |
| Essential Function Housing Development Bond of 1999 | 726,031 | - | 39,368 | 686,663 |
| Essential Function Housing Development Bond of 2001 | 867,114 | - | 38,605 | 828,509 |
| Assessments payable | 4,487 | - | (103) | 4,590 |
| Totals | $ 2,972,518 | $ - | $ 172,720 | $ 2,799,798 |

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

D. Long-Term Debt Payable (Continued)

The Essential Function Housing Development Revenue Bond of 1996 matures on September 1, 2027. The bond currently bears an interest rate of 4.1 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.

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.

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

D. Long-Term Debt Payable (Continued)

The Essential Function Housing Development Revenue Bond of 2001 matures on June 1, 2031. 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, 2017, are as follows:

| Years Ending | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 182,023 | $ 118,802 | $ 300,825 |
| 2019 | 190,021 | 110,804 | 300,825 |
| 2020 | 198,375 | 102,452 | 300,827 |
| 2021 | 207,097 | 93,729 | 300,826 |
| 2022 | 819,963 | 84,618 | 904,581 |
| 2023-2027 | 943,282 | 154,653 | 1,097,935 |
| 2028-2030 | 259,037 | 12,424 | 271,461 |
| Totals | $ 2,799,798 | $ 677,482 | $ 3,477,280 |

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, 2017

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Taxes | $ 12,109,427 | $ 12,109,427 | $ 11,792,098 | $ (317,329) |
| Special assessments | 220,744 | 220,744 | 190,374 | (30,370) |
| Licenses and permits | 71,855 | 71,855 | 91,105 | 19,250 |
| Intergovernmental | 3,002,803 | 3,002,803 | 3,229,439 | 226,636 |
| Charges for services | 1,820,912 | 1,820,912 | 1,971,612 | 150,700 |
| Fines and forfeits | 21,200 | 21,200 | 33,580 | 12,380 |
| Gifts and contributions | 18,000 | 18,000 | 10,103 | (7,897) |
| Investment earnings | 100,822 | 100,822 | 218,528 | 117,706 |
| Miscellaneous | 682,646 | 682,646 | 624,354 | (58,292) |
| **Total Revenues** | **$ 18,048,409** | **$ 18,048,409** | **$ 18,161,193** | **$ 112,784** |
| **Expenditures** | | | | |
| **Current** | | | | |
| **General government** | | | | |
| Commissioners | $ 328,944 | $ 333,081 | $ 341,036 | $ (7,955) |
| County-wide | 539,900 | 539,900 | 786,106 | (246,206) |
| Courts | 144,100 | 144,100 | 208,056 | (63,956) |
| Law library | 14,500 | 14,500 | 9,875 | 4,625 |
| County administrator | 449,705 | 501,430 | 390,576 | 110,854 |
| County auditor-treasurer | 768,413 | 918,141 | 827,558 | 90,583 |
| County assessor | 417,141 | 446,248 | 422,631 | 23,617 |
| Elections | 89,802 | 92,256 | 40,342 | 51,914 |
| Data processing | 949,688 | 1,038,339 | 894,197 | 144,142 |
| Central services | 227,900 | 227,900 | 188,899 | 39,001 |
| Attorney | 637,549 | 666,583 | 624,151 | 42,432 |
| Recorder | 526,251 | 564,346 | 492,417 | 71,929 |
| Planning and zoning | 245,795 | 254,770 | 234,378 | 20,392 |
| Buildings | 813,352 | 813,164 | 620,718 | 192,446 |
| County insurance | 206,546 | 206,546 | 174,960 | 31,586 |
| Veterans service officer | 187,629 | 207,511 | 190,745 | 16,766 |
| Fairgrounds | 275,650 | 301,187 | 259,984 | 41,203 |
| Safety | 5,550 | 5,550 | 4,424 | 1,126 |
| Other general government | 322,568 | 322,568 | 2,308,711 | (1,986,143) |
| **Total general government** | **$ 7,150,983** | **$ 7,598,120** | **$ 9,019,764** | **$ (1,421,644)** |

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

*EXHIBIT A-1*
*(Continued)*

**BUDGETARY COMPARISON SCHEDULE**
**GENERAL FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2017**

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Expenditures** | | | | |
| **Current (Continued)** | | | | |
| **Public safety** | | | | |
| Sheriff | $ 3,893,958 | $ 4,043,969 | $ 3,684,295 | $ 359,674 |
| Inmate account | 8,500 | 8,500 | 4,219 | 4,281 |
| Probation officer | 375,435 | 382,596 | 348,914 | 33,682 |
| County jail | 2,229,430 | 2,216,455 | 2,017,137 | 199,318 |
| Juvenile detention | 2,500 | 2,500 | 2,580 | (80) |
| Sheriff posse | 37,100 | 37,100 | 25,723 | 11,377 |
| Mounted posse | 1,000 | 1,000 | - | 1,000 |
| Emergency services | 129,369 | 136,251 | 126,937 | 9,314 |
| **Total public safety** | **$ 6,677,292** | **$ 6,828,371** | **$ 6,209,805** | **$ 618,566** |
| **Health** | | | | |
| Nursing service | **$ 2,850,112** | **$ 2,825,448** | **$ 2,660,869** | **$ 164,579** |
| **Culture and recreation** | | | | |
| Historical society | $ 85,000 | $ 85,000 | $ 79,263 | $ 5,737 |
| Regional library | 196,217 | 196,217 | 196,217 | - |
| Other | 40,297 | 40,297 | 39,397 | 900 |
| Parks | 352,561 | 370,670 | 347,030 | 23,640 |
| Snowmobile trail grant | 44,640 | 44,640 | 41,056 | 3,584 |
| **Total culture and recreation** | **$ 718,715** | **$ 736,824** | **$ 702,963** | **$ 33,861** |
| **Conservation of natural resources** | | | | |
| Soil and water conservation | $ 82,750 | $ 82,750 | $ 82,750 | $ - |
| County extension | 280,536 | 276,289 | 259,895 | 16,394 |
| Agriculture ditch inspector | 20,086 | 22,994 | 15,424 | 7,570 |
| Water planning | 20,746 | 20,746 | 20,038 | 708 |
| Wetland | 27,894 | 27,894 | 18,226 | 9,668 |
| Shoreland | 5,976 | 5,976 | 6,036 | (60) |
| Feedlot | 54,547 | 54,547 | 58,578 | (4,031) |
| Environmental services | 142,609 | 112,897 | 72,240 | 40,657 |
| Other | 18,600 | 18,600 | 20,912 | (2,312) |
| Ag programming | 4,000 | 4,000 | - | 4,000 |
| Septic loans | 100,000 | 100,000 | 151,631 | (51,631) |
| Aquatic invasive species | 20,500 | 20,500 | 24,625 | (4,125) |
| **Total conservation of natural resources** | **$ 778,244** | **$ 747,193** | **$ 730,355** | **$ 16,838** |

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

McLEOD COUNTY
GLENCOE, MINNESOTA

*EXHIBIT A-1*
*(Continued)*

**BUDGETARY COMPARISON SCHEDULE**
**GENERAL FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2017**

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Expenditures** | | | | |
| **Current (Continued)** | | | | |
| **Economic development** | | | | |
| Housing and Redevelopment Authority | **$ 14,296** | **$ 14,296** | **$ 8,761** | **$ 5,535** |
| **Capital Outlay** | | | | |
| Public safety | **$ -** | **$ -** | **$ 1,131,350** | **$ (1,131,350)** |
| **Debt service** | | | | |
| Principal | $ 195,575 | $ 195,575 | $ 177,937 | $ 17,638 |
| Interest | 25,169 | 25,169 | 22,225 | 2,944 |
| **Total debt service** | **$ 220,744** | **$ 220,744** | **$ 200,162** | **$ 20,582** |
| **Total Expenditures** | **$ 18,410,386** | **$ 18,970,996** | **$ 20,664,029** | **$ (1,693,033)** |
| **Excess of Revenues Over (Under) Expenditures** | **$ (361,977)** | **$ (922,587)** | **$ (2,502,836)** | **$ (1,580,249)** |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | $ 520,000 | $ 520,000 | $ - | $ (520,000) |
| Loan issued | 100,000 | 100,000 | 169,279 | 69,279 |
| Proceeds from the sale of capital assets | 5,000 | 5,000 | 21,638 | 16,638 |
| **Total Other Financing Sources (Uses)** | **$ 625,000** | **$ 625,000** | **$ 190,917** | **$ (434,083)** |
| **Net Change in Fund Balance** | **$ 263,023** | **$ (297,587)** | **$ (2,311,919)** | **$ (2,014,332)** |
| **Fund Balance - January 1** | **22,893,968** | **22,893,968** | **22,893,968** | **-** |
| **Increase (decrease) in inventories** | **-** | **-** | **(1,453)** | **(1,453)** |
| **Fund Balance - December 31** | **$ 23,156,991** | **$ 22,596,381** | **$ 20,580,596** | **$ (2,015,785)** |

# McLEOD COUNTY
# GLENCOE, MINNESOTA

*EXHIBIT A-2*

## BUDGETARY COMPARISON SCHEDULE
## ROAD AND BRIDGE SPECIAL REVENUE FUND
## FOR THE YEAR ENDED DECEMBER 31, 2017

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Taxes | $ 3,665,097 | $ 3,665,097 | $ 3,578,676 | $ (86,421) |
| Licenses and permits | 12,000 | 12,000 | 12,545 | 545 |
| Intergovernmental | 6,182,556 | 6,182,556 | 6,894,300 | 711,744 |
| Charges for services | 160,000 | 160,000 | 130,950 | (29,050) |
| Miscellaneous | 1,000 | 1,000 | 1,932 | 932 |
| **Total Revenues** | **$ 10,020,653** | **$ 10,020,653** | **$ 10,618,403** | **$ 597,750** |
| **Expenditures** | | | | |
| **Current** | | | | |
| **Highways and streets** | | | | |
| Administration | $ 822,636 | $ 841,366 | $ 738,033 | $ 103,333 |
| GIS | 156,644 | 165,652 | 160,762 | 4,890 |
| Maintenance | 1,534,006 | 1,622,182 | 1,428,624 | 193,558 |
| Engineering/construction | 6,148,611 | 6,148,611 | 6,120,304 | 28,307 |
| Equipment, maintenance, and shop | 1,074,167 | 1,087,560 | 845,829 | 241,731 |
| **Total highways and streets** | **$ 9,736,064** | **$ 9,865,371** | **$ 9,293,552** | **$ 571,819** |
| **Intergovernmental** | | | | |
| Highways and streets | 269,000 | 269,000 | 267,175 | 1,825 |
| **Total Expenditures** | **$ 10,005,064** | **$ 10,134,371** | **$ 9,560,727** | **$ 573,644** |
| **Excess of Revenues Over (Under) Expenditures** | **$ 15,589** | **$ (113,718)** | **$ 1,057,676** | **$ 1,171,394** |
| **Other Financing Sources (Uses)** | | | | |
| Proceeds from the sale of capital assets | 20,000 | 20,000 | 24,133 | 4,133 |
| **Net Change in Fund Balance** | **$ 35,589** | **$ (93,718)** | **$ 1,081,809** | **$ 1,175,527** |
| **Fund Balance - January 1** | **8,634,799** | **8,634,799** | **8,634,799** | **-** |
| **Increase (decrease) in inventories** | **-** | **-** | **3,195** | **3,195** |
| **Fund Balance - December 31** | **$ 8,670,388** | **$ 8,541,081** | **$ 9,719,803** | **$ 1,178,722** |

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

## McLEOD COUNTY
## GLENCOE, MINNESOTA

*EXHIBIT A-3*

### BUDGETARY COMPARISON SCHEDULE
### HUMAN SERVICES SPECIAL REVENUE FUND
### FOR THE YEAR ENDED DECEMBER 31, 2017

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Taxes | $ 3,914,311 | $ 3,914,311 | $ 3,818,225 | $ (96,086) |
| Intergovernmental | 4,679,596 | 4,679,596 | 5,617,800 | 938,204 |
| Charges for services | 650,950 | 650,950 | 757,383 | 106,433 |
| Miscellaneous | 193,000 | 193,000 | 991,727 | 798,727 |
| **Total Revenues** | **$ 9,437,857** | **$ 9,437,857** | **$ 11,185,135** | **$ 1,747,278** |
| **Expenditures** | | | | |
| **Current** | | | | |
| **Human services** | | | | |
| Income maintenance | $ 2,535,403 | $ 2,556,196 | $ 2,492,344 | $ 63,852 |
| Social services | 6,917,361 | 7,392,209 | 8,966,681 | (1,574,472) |
| Transit authority | 50,000 | 50,000 | 163,225 | (113,225) |
| **Total Expenditures** | **$ 9,502,764** | **$ 9,998,405** | **$ 11,622,250** | **$ (1,623,845)** |
| **Net Change in Fund Balance** | **$ (64,907)** | **$ (560,548)** | **$ (437,115)** | **$ 123,433** |
| **Fund Balance - January 1** | **6,915,678** | **6,915,678** | **6,915,678** | **-** |
| **Fund Balance - December 31** | **$ 6,850,771** | **$ 6,355,130** | **$ 6,478,563** | **$ 123,433** |

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

# McLEOD COUNTY
# GLENCOE, MINNESOTA

*EXHIBIT A-4*

## BUDGETARY COMPARISON SCHEDULE
## SOLID WASTE SPECIAL REVENUE FUND
## FOR THE YEAR ENDED DECEMBER 31, 2017

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | **Original** | **Final** | **Amounts** | **Final Budget** |
| **Revenues** | | | | |
| Licenses and permits | $ 6,250 | $ 6,250 | $ 5,970 | $ (280) |
| Intergovernmental | 107,539 | 107,539 | 270,463 | 162,924 |
| Charges for services | 2,312,100 | 2,312,100 | 2,468,933 | 156,833 |
| Gifts and contributions | - | - | 50,000 | 50,000 |
| Miscellaneous | 72,502 | 72,502 | 126,970 | 54,468 |
| **Total Revenues** | **$ 2,498,391** | **$ 2,498,391** | **$ 2,922,336** | **$ 423,945** |
| **Expenditures** | | | | |
| **Current** | | | | |
| **Sanitation** | | | | |
| Recycling | 3,069,067 | 3,069,067 | 2,691,253 | 377,814 |
| **Excess of Revenues Over (Under) Expenditures** | **$ (570,676)** | **$ (570,676)** | **$ 231,083** | **$ 801,759** |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | $ 1,535,676 | $ 1,535,676 | $ - | $ (1,535,676) |
| Transfers out | (2,135,764) | (2,135,764) | (600,088) | 1,535,676 |
| **Total Other Financing Sources (Uses)** | **$ (600,088)** | **$ (600,088)** | **$ (600,088)** | **$ -** |
| **Net Change in Fund Balance** | **$ (1,170,764)** | **$ (1,170,764)** | **$ (369,005)** | **$ 801,759** |
| **Fund Balance - January 1** | **2,976,474** | **2,976,474** | **2,976,474** | **-** |
| **Fund Balance - December 31** | **$ 1,805,710** | **$ 1,805,710** | **$ 2,607,469** | **$ 801,759** |

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

## McLEOD COUNTY
## GLENCOE, MINNESOTA

***EXHIBIT A-5***

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS**
**DECEMBER 31, 2017**

| 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, 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 |
| January 1, 2016 | - | 1,412,728 | 1,412,728 | 0.00 | 13,468,071 | 10.5 |

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

*EXHIBIT A-6*

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2017**

| Measurement Date | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | State's Proportionate Share of the Net Pension Liability Associated with McLeod County (b) | Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b) | Covered Payroll (c) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|---|---|
| 2017 | 0.1855% | $ 11,844,630 | $ 151,818 | $ 11,996,448 | $ 11,954,653 | 99.08% | 75.90% |
| 2016 | 0.1907 | 15,477,661 | 202,136 | 15,679,797 | 11,831,093 | 130.82 | 68.91 |
| 2015 | 0.1915 | 9,925,635 | N/A | 9,925,635 | 11,250,920 | 88.22 | 78.19 |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.
N/A - Not Applicable

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

***EXHIBIT A-7***

**SCHEDULE OF CONTRIBUTIONS**
**PERA GENERAL EMPLOYEES RETIREMENT PLAN**
**DECEMBER 31, 2017**

| Year Ending | Statutorily Required Contributions (a) | Actual Contributions in Relation to Statutorily Required Contributions (b) | Contribution (Deficiency) Excess (b - a) | Covered Payroll (c) | Actual Contributions as a Percentage of Covered Payroll (b/c) |
|---|---|---|---|---|---|
| 2017 | $ 908,763 | $ 908,763 | $ - | $ 12,116,840 | 7.50% |
| 2016 | 897,080 | 897,080 | - | 11,961,067 | 7.50 |
| 2015 | 874,063 | 874,063 | - | 11,654,176 | 7.50 |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The County's year-end is December 31.

## McLEOD COUNTY
## GLENCOE, MINNESOTA

*EXHIBIT A-8*

### SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
### PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
### DECEMBER 31, 2017

| Measurement Date | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | Covered Payroll (b) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|
| 2017 | 0.1500% | $ 2,025,178 | $ 1,544,352 | 131.13% | 85.43% |
| 2016 | 0.1580 | 6,340,815 | 1,518,114 | 417.68 | 63.88 |
| 2015 | 0.1610 | 1,829,337 | 1,474,333 | 124.08 | 86.61 |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.

## McLEOD COUNTY
## GLENCOE, MINNESOTA

*EXHIBIT A-9*

### SCHEDULE OF CONTRIBUTIONS
### PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
### DECEMBER 31, 2017

| Year Ending | Statutorily Required Contributions (a) | Actual Contributions in Relation to Statutorily Required Contributions (b) | Contribution (Deficiency) Excess (b - a) | Covered Payroll (c) | Actual Contributions as a Percentage of Covered Payroll (b/c) |
|---|---|---|---|---|---|
| 2017 | $ 265,884 | $ 265,884 | $ - | $ 1,641,259 | 16.20% |
| 2016 | 242,953 | 242,953 | - | 1,499,709 | 16.20 |
| 2015 | 241,151 | 241,151 | - | 1,488,585 | 16.20 |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The County's year-end is December 31.

# McLEOD COUNTY
# GLENCOE, MINNESOTA

***EXHIBIT A-10***

### SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
### PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
### DECEMBER 31, 2017

| Measurement Date | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | Covered Payroll (b) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|
| 2017 | 0.4700% | $ 1,339,503 | $ 929,737 | 144.07% | 67.89% |
| 2016 | 0.4700 | 1,716,975 | 880,368 | 195.03 | 58.16 |
| 2015 | 0.4900 | 75,754 | 874,521 | 8.66 | 96.95 |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.

# McLEOD COUNTY
# GLENCOE, MINNESOTA

***EXHIBIT A-11***

### SCHEDULE OF CONTRIBUTIONS
### PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
### DECEMBER 31, 2017

| Year Ending | Statutorily Required Contributions (a) | Actual Contributions in Relation to Statutorily Required Contributions (b) | Contribution (Deficiency) Excess (b - a) | Covered Payroll (c) | Actual Contributions as a Percentage of Covered Payroll (b/c) |
|---|---|---|---|---|---|
| 2017 | $ 84,894 | $ 84,894 | $ - | $ 970,217 | 8.75% |
| 2016 | 78,909 | 78,909 | - | 901,819 | 8.75 |
| 2015 | 75,862 | 75,862 | - | 866,990 | 8.75 |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The County's year-end is December 31.

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NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, certain special revenue funds, and the Debt Service Fund. The County Board can amend budgets during the year.

On December 27, 2016, the Board approved the budgets for the General Fund, the Road and Bridge Special Revenue Fund, the Human Services Special Revenue Fund, the Solid Waste Special Revenue Fund, and the Debt Service Fund. A budget is not adopted for the Ditch Special Revenue Fund because it is based on special assessments which cannot be determined. Similarly, the Forfeited Tax Special Revenue Fund is not budgeted due to the fact that financing is based on tax-forfeited properties; therefore, expenditures cannot be determined.

The appropriated budget is prepared by fund, function, and department. The County's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the department level.

2. Excess of Expenditures Over Appropriations

The following funds and departments had expenditures exceeding appropriations for the year ended December 31, 2017:

| | Expenditures | Budget | Excess |
|---|---|---|---|
| Major governmental funds | | | |
| General Fund | | | |
| Current | | | |
| General government | | | |
| Commissioners | $ 341,036 | $ 333,081 | $ 7,955 |
| County-wide | 786,106 | 539,900 | 246,206 |
| Courts | 208,056 | 144,100 | 63,956 |
| Other general government | 2,308,711 | 322,568 | 1,986,143 |

2. Excess of Expenditures Over Appropriations (Continued)

| | Expenditures | Budget | Excess |
|---|---|---|---|
| Major governmental funds | | | |
| General Fund | | | |
| Current (Continued) | | | |
| Public safety | | | |
| Juvenile detention | 2,580 | 2,500 | 80 |
| Conservation of natural resources | | | |
| Shoreland | 6,036 | 5,976 | 60 |
| Feedlot | 58,578 | 54,547 | 4,031 |
| Other | 20,912 | 18,600 | 2,312 |
| Septic loans | 151,631 | 100,000 | 51,631 |
| Aquatic invasive species | 24,625 | 20,500 | 4,125 |
| Capital outlay | | | |
| Public safety | 1,131,350 | - | 1,131,350 |
| Human Services Special Revenue Fund | | | |
| Current | | | |
| Human services | | | |
| Social services | 8,966,681 | 7,392,209 | 1,574,472 |
| Transit authority | 163,225 | 50,000 | 113,225 |

3. Other Postemployment Benefits - Changes in Significant Actuarial Assumption and Plan Provisions

Actuarial Assumptions

- The health care trend rates were changed to better anticipate short term and long term medical increases.

- The mortality table was updated from RP 2000 Combined Healthy Table projected to 2014 with Scale BB (with Blue Collar adjustment for Police and Fire Personnel) to the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale (Blue Collar Tables for Police and Fire Personnel).

- The retirement tables for all employees were updated, as well as the withdrawal table for police and fire employees.

- The discount rate was changed from 4.00 percent to 3.50 percent.

3. Other Postemployment Benefits - Changes in Significant Actuarial Assumption and Plan Provisions

Actuarial Assumptions (Continued)

- Claim costs were developed by age adjusting the premium information from McLeod County. The resulting claim amount was then blended with the expected claim amount from the previous valuation. As of January 1, 2014, actual claims and enrollment experience was used.

Plan Provisions

- Years of service required for benefit eligibility increased from three to five years.

4. Defined Benefit Pension Plans - Changes in Significant Plan Provision, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the fiscal year June 30:

General Employees Retirement Plan

2017

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.0 percent for active member liability, 15 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to $21,000,000 in calendar years 2017 and 2018 and returns to $31,000,000 through calendar year 2031. The state's required contribution is $16,000,000 in PERA's fiscal years 2018 and 2019 and returns to $6,000,000 annually through calendar year 2031.

4. Defined Benefit Pension Plans - Changes in Significant Plan Provision, Actuarial Methods, and Assumptions

General Employees Retirement Plan (Continued)

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent.

- Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Police and Fire Plan

2017

- The assumed salary increases were changed as recommended in the June 30, 2016, experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.

- The assumed rates of retirement were changed, resulting in fewer retirements.

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 33 percent for vested members and 2.0 percent for non-vested members.

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality table assumed for healthy retirees.

4. Defined Benefit Pension Plans - Changes in Significant Plan Provision, Actuarial Methods, and Assumptions

Public Employees Police and Fire Plan

2017 (Continued)

- The assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.

- The assumed percentage of married female members was decreased from 65 percent to 60 percent.

- The assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.

- The assumed percentage of female members electing joint and survivor annuities was increased.

- The assumed post-retirement benefit increase rate was changed from 1.0 percent for all years to 1.0 percent per year through 2064 and 2.5 percent thereafter.

- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.

- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

4. Defined Benefit Pension Plans - Changes in Significant Plan Provision, Actuarial Methods, and Assumptions (Continued)

Public Employees Correctional Plan

2017

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2016).

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1.0 percent for non-vested members.

- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

2016

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.

- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

**SUPPLEMENTARY INFORMATION**

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## NONMAJOR GOVERNMENTAL FUNDS

### SPECIAL REVENUE FUND

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

### CAPITAL PROJECTS FUND

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

### DEBT SERVICE FUND

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

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## McLEOD COUNTY
## GLENCOE, MINNESOTA

*EXHIBIT B-1*

**COMBINING BALANCE SHEET**
**NONMAJOR GOVERNMENTAL FUNDS**
**DECEMBER 31, 2017**

| | Forfeited Tax Special Revenue | Capital Projects | Debt Service | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and pooled investments | **$ 150,815** | **$ 1,623,188** | **$ 815,455** | **$ 2,589,458** |
| **Liabilities and Fund Balances** | | | | |
| **Liabilities** | | | | |
| Accounts payable | **$ -** | **$ 1,874** | **$ -** | **$ 1,874** |
| **Fund Balances** | | | | |
| **Restricted for** | | | | |
| Forfeited tax | $ 150,815 | $ - | $ - | $ 150,815 |
| Debt service | - | - | 815,455 | 815,455 |
| Capital projects | - | 1,621,314 | - | 1,621,314 |
| **Total Fund Balances** | **$ 150,815** | **$ 1,621,314** | **$ 815,455** | **$ 2,587,584** |
| **Total Liabilities and Fund Balances** | **$ 150,815** | **$ 1,623,188** | **$ 815,455** | **$ 2,589,458** |

# McLEOD COUNTY
# GLENCOE, MINNESOTA

*EXHIBIT B-2*

## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
## NONMAJOR GOVERNMENTAL FUNDS
## FOR THE YEAR ENDED DECEMBER 31, 2017

| | Forfeited Tax Special Revenue | Capital Projects | Debt Service | Total |
|---|---|---|---|---|
| **Revenues** | | | | |
| Taxes | $ - | $ - | $ 684,587 | $ 684,587 |
| Intergovernmental | - | - | 12,878 | 12,878 |
| Fines and forfeits | 137,331 | - | - | 137,331 |
| Miscellaneous | 1,904 | - | - | 1,904 |
| **Total Revenues** | **$ 139,235** | **$ -** | **$ 697,465** | **$ 836,700** |
| **Expenditures** | | | | |
| **Current** | | | | |
| General government | $ 4,405 | $ - | $ - | $ 4,405 |
| **Capital Outlay** | | | | |
| General government | - | 386,955 | - | 386,955 |
| **Debt service** | | | | |
| Principal | - | - | 1,095,000 | 1,095,000 |
| Interest | - | - | 166,950 | 166,950 |
| **Total Expenditures** | **$ 4,405** | **$ 386,955** | **$ 1,261,950** | **$ 1,653,310** |
| **Excess of Revenues Over (Under) Expenditures** | **$ 134,830** | **$ (386,955)** | **$ (564,485)** | **$ (816,610)** |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | **-** | **-** | **600,088** | **600,088** |
| **Net Change in Fund Balance** | **$ 134,830** | **$ (386,955)** | **$ 35,603** | **$ (216,522)** |
| **Fund Balance - January 1** | **15,985** | **2,008,269** | **779,852** | **2,804,106** |
| **Fund Balance - December 31** | **$ 150,815** | **$ 1,621,314** | **$ 815,455** | **$ 2,587,584** |

## McLEOD COUNTY
## GLENCOE, MINNESOTA

*EXHIBIT B-3*

### BUDGETARY COMPARISON SCHEDULE
### DEBT SERVICE FUND
### FOR THE YEAR ENDED DECEMBER 31, 2017

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Taxes | $ 701,964 | $ 701,964 | $ 684,587 | $ (17,377) |
| Intergovernmental | - | - | 12,878 | 12,878 |
| **Total Revenues** | **$ 701,964** | **$ 701,964** | **$ 697,465** | **$ (4,499)** |
| **Expenditures** | | | | |
| **Debt service** | | | | |
| Principal | $ 1,095,000 | $ 1,095,000 | $ 1,095,000 | $ - |
| Interest | 166,951 | 166,951 | 166,950 | 1 |
| **Total Expenditures** | **$ 1,261,951** | **$ 1,261,951** | **$ 1,261,950** | **$ 1** |
| **Excess of Revenues Over (Under) Expenditures** | **$ (559,987)** | **$ (559,987)** | **$ (564,485)** | **$ (4,498)** |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | 600,088 | 600,088 | 600,088 | - |
| **Net Change in Fund Balance** | **$ 40,101** | **$ 40,101** | **$ 35,603** | **$ (4,498)** |
| **Fund Balance - January 1** | **779,852** | **779,852** | **779,852** | **-** |
| **Fund Balance - December 31** | **$ 819,953** | **$ 819,953** | **$ 815,455** | **$ (4,498)** |

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# AGENCY FUNDS

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## McLEOD COUNTY
## GLENCOE, MINNESOTA

*EXHIBIT C-1*

### COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
### ALL AGENCY FUNDS
### FOR THE YEAR ENDED DECEMBER 31, 2017

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|---|---|---|---|---|
| **MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES FUND** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | $ 149,558 | $ 1,834,863 | $ 1,792,376 | $ 192,045 |
| Due from other governments | 479,355 | 369,433 | 479,355 | 369,433 |
| **Total Assets** | **$ 628,913** | **$ 2,204,296** | **$ 2,271,731** | **$ 561,478** |
| **Liabilities** | | | | |
| Accounts payable | $ 2,557 | $ - | $ 2,557 | $ - |
| Salaries payable | 15,740 | 12,926 | 15,740 | 12,926 |
| Accrued payroll taxes | 1,092 | 956 | 1,092 | 956 |
| Accrued expenses | 2,866 | 937 | 2,866 | 937 |
| Due to other governments | 606,658 | 546,659 | 606,658 | 546,659 |
| **Total Liabilities** | **$ 628,913** | **$ 561,478** | **$ 628,913** | **$ 561,478** |
| **MCLEOD COUNTY SOIL & WATER CONSERVATION DISTRICT** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | $ - | $ 273,007 | $ 130,993 | $ 142,014 |
| Due from other governments | - | 9,616 | 9,616 | - |
| **Total Assets** | **$ -** | **$ 282,623** | **$ 140,609** | **$ 142,014** |
| **Liabilities** | | | | |
| Accounts payable | $ - | $ 487 | $ - | $ 487 |
| Salaries payable | - | 14,554 | - | 14,554 |
| Accrued payroll taxes | - | 1,024 | - | 1,024 |
| Accrued expenses | - | 1,544 | - | 1,544 |
| Due to other governments | - | 265,014 | 140,609 | 124,405 |
| **Total Liabilities** | **$ -** | **$ 282,623** | **$ 140,609** | **$ 142,014** |

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, 2017**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|---|---|---|---|---|
| **TAXES AND PENALTIES FUND** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | $ 399,428 | $ 53,213,945 | $ 52,886,724 | $ 726,649 |
| Due from other governments | 106,597 | - | 106,597 | - |
| **Total Assets** | **$ 506,025** | **$ 53,213,945** | **$ 52,993,321** | **$ 726,649** |
| **Liabilities** | | | | |
| Accounts payable | $ 49,696 | $ 330 | $ 49,696 | $ 330 |
| Due to other governments | 456,329 | 1,085,050 | 815,060 | 726,319 |
| **Total Liabilities** | **$ 506,025** | **$ 1,085,380** | **$ 864,756** | **$ 726,649** |
| **STATE AGENCY FUND** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | $ 117,797 | $ 1,330,172 | $ 1,320,176 | $ 127,793 |
| Departmental cash | 6,663 | 8,055 | 6,663 | 8,055 |
| Accounts receivable | 2,978 | 185 | 2,978 | 185 |
| Due from other governments | 47 | 50 | 47 | 50 |
| **Total Assets** | **$ 127,485** | **$ 1,338,462** | **$ 1,329,864** | **$ 136,083** |
| **Liabilities** | | | | |
| Accounts payable | $ 68 | $ 52 | $ 68 | $ 52 |
| Due to other governments | 127,417 | 136,031 | 127,417 | 136,031 |
| **Total Liabilities** | **$ 127,485** | **$ 136,083** | **$ 127,485** | **$ 136,083** |

**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, 2017**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|---|---|---|---|---|
| **TOTAL ALL AGENCY FUNDS** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | $ 666,783 | $ 56,651,987 | $ 56,130,269 | $ 1,188,501 |
| Departmental cash | 6,663 | 8,055 | 6,663 | 8,055 |
| Accounts receivable | 2,978 | 185 | 2,978 | 185 |
| Due from other governments | 585,999 | 379,099 | 595,615 | 369,483 |
| **Total Assets** | **$ 1,262,423** | **$ 57,039,326** | **$ 56,735,525** | **$ 1,566,224** |
| **Liabilities** | | | | |
| Accounts payable | $ 52,321 | $ 869 | $ 52,321 | $ 869 |
| Salaries payable | 15,740 | 27,480 | 15,740 | 27,480 |
| Accrued payroll taxes | 1,092 | 1,980 | 1,092 | 1,980 |
| Accrued expenses | 2,866 | 2,481 | 2,866 | 2,481 |
| Due to other governments | 1,190,404 | 2,032,754 | 1,689,744 | 1,533,414 |
| **Total Liabilities** | **$ 1,262,423** | **$ 2,065,564** | **$ 1,761,763** | **$ 1,566,224** |

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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, 2017**

| | | Total Governmental Funds |
|---|---|---|
| **Appropriations and Shared Revenue** | | |
| **State** | | |
| Highway users tax | $ | 6,713,704 |
| Market value credit | | 362,007 |
| PERA rate reimbursement | | 36,151 |
| Performance aid | | 5,019 |
| Disparity reduction aid | | 60,750 |
| County program aid | | 1,709,843 |
| Police aid | | 176,343 |
| E-911 | | 70,839 |
| Aquatic invasive species | | 71,861 |
| **Total appropriations and shared revenue** | **$** | **9,206,517** |
| **Reimbursement for Services** | | |
| **State** | | |
| Minnesota Department of Human Services | **$** | **1,075,954** |
| **Payments** | | |
| **Local** | | |
| Payments in lieu of taxes | **$** | **120,341** |
| **Grants** | | |
| **Local** | | |
| City contribution | **$** | **580** |
| **State** | | |
| Minnesota Department/Board of | | |
| Corrections | $ | 93,240 |
| Public Safety | | 24,371 |
| Transportation | | 58,448 |
| Health | | 153,644 |
| Natural Resources | | 41,056 |
| Human Services | | 2,030,156 |
| Water and Soil Resources | | 32,137 |
| Veterans Affairs | | 10,000 |
| Pollution Control Agency | | 306,581 |
| **Total state** | **$** | **2,749,633** |

McLEOD COUNTY
GLENCOE, MINNESOTA

*EXHIBIT D-1*
*(Continued)*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE**
**FOR THE YEAR ENDED DECEMBER 31, 2017**

| | Total Governmental Funds |
|---|---|
| **Grants (Continued)** | |
| **Federal** | |
| Department of | |
| Agriculture | $ 253,136 |
| Education | 1,933 |
| Justice | 2,723 |
| Transportation | 62,731 |
| Health and Human Services | 2,526,253 |
| Homeland Security | 25,079 |
| **Total federal** | **$ 2,871,855** |
| **Total local, state, and federal grants** | **$ 5,622,068** |
| **Total Intergovernmental Revenue** | **$ 16,024,880** |

# McLEOD COUNTY
# GLENCOE, MINNESOTA

*EXHIBIT D-2*

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE YEAR ENDED DECEMBER 31, 2017

| Federal Grantor<br>Pass-Through Agency<br>Program or Cluster Title | Federal CFDA Number | Pass-Through Grant Numbers | Expenditures |
|---|---|---|---|
| **U.S. Department of Agriculture** | | | |
| Passed Through Meeker-McLeod-Sibley Community Health Services | | | |
| Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | Not Provided | $ 113,624 |
| Passed Through Minnesota Department of Human Services | | | |
| SNAP Cluster | | | |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | 172MN101S2514 | 164,001 |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | 172MN127Q7503 | 86,682 |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | 172MN101S2520 | 1,121 |
| (Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program CFDA 10.561 $251,804) | | | |
| **Total U.S. Department of Agriculture** | | | **$ 365,428** |
| **U.S. Department of Justice** | | | |
| Direct | | | |
| Bulletproof Vest Partnership Program | 16.607 | | **$ 2,723** |
| **U.S. Department of Transportation** | | | |
| Passed Through Minnesota Department of Transportation | | | |
| Highway Planning and Construction Cluster | | | |
| Highway Planning and Construction | 20.205 | 1002292 | $ 59,725 |
| Passed Through City of Glencoe, Minnesota | | | |
| Highway Safety Cluster | | | |
| State and Community Highway Safety | 20.600 | A-ENFRC17-2017-GLENCOPD-083 | 3,006 |
| **Total U.S. Department of Transportation** | | | **$ 62,731** |
| **U.S. Department of Education** | | | |
| Passed Through Meeker-McLeod-Sibley Community Health Services | | | |
| Special Education - Grants for Infants and Families | 84.181 | Not Provided | **$ 1,933** |

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

***EXHIBIT D-2***
***(Continued)***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**FOR THE YEAR ENDED DECEMBER 31, 2017**

| Federal Grantor<br>Pass-Through Agency<br>Program or Cluster Title | Federal CFDA Number | Pass-Through Grant Numbers | Expenditures |
|---|---|---|---|
| **U.S. Department of Health and Human Services** | | | |
| Passed Through Minnesota Department of Human Services | | | |
| Promoting Safe and Stable Families | 93.556 | G-1601MNFPSS | $ 12,084 |
| TANF Cluster | | | |
| Temporary Assistance for Needy Families | 93.558 | 1601MNTANF | 198,660 |
| (Total Temporary Assistance for Needy Families CFDA 93.558 $246,059) | | | |
| Child Support Enforcement | 93.563 | 1704MNCSES | 492,978 |
| Refugee and Entrant Assistance - State-Administered Programs | 93.566 | 1701MNRCMA | 393 |
| CCDF Cluster | | | |
| Child Care and Development Block Grant | 93.575 | G1701MNCCDF | 9,896 |
| Community-Based Child Abuse Prevention Grants | 93.590 | G-1502MNFRPG | 8,178 |
| Stephanie Tubbs Jones Child Welfare Services Program | 93.645 | G-1601MNCWSS | 8,137 |
| Foster Care - Title IV-E | 93.658 | 1701MNFOST | 291,494 |
| Social Services Block Grant | 93.667 | G-1701MNSOSR | 184,579 |
| Chafee Foster Care Independence Program | 93.674 | G-1601MNCILP | 1,812 |
| Children's Health Insurance Program | 93.767 | 05-1705MN0301 | 206 |
| Medicaid Cluster | | | |
| Medical Assistance Program | 93.778 | 05-1705MN5ADM | 1,289,488 |
| Medical Assistance Program | 93.778 | 05-1705MN5MAP | 11,426 |
| (Total Medical Assistance Program CFDA 93.778 $1,300,914) | | | |
| Passed Through Meeker-McLeod-Sibley Community Health Services | | | |
| Public Health Emergency Preparedness | 93.069 | Not Provided | 3,904 |
| Universal Newborn Hearing Screening | 93.251 | Not Provided | 1,350 |
| Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program | 93.314 | Not Provided | 278 |
| TANF Cluster | | | |
| Temporary Assistance for Needy Families | 93.558 | Not Provided | 47,399 |
| (Total Temporary Assistance for Needy Families CFDA 93.558 $246,059) | | | |
| Opioid STR | 93.788 | Not Provided | 5,151 |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | Not Provided | 58,230 |
| Maternal and Child Health Services Block Grant to the States | 93.994 | Not Provided | 28,653 |
| **Total U.S. Department of Health and Human Services** | | | **$ 2,654,296** |
| **U.S. Department of Homeland Security** | | | |
| Passed Through Minnesota Department of Public Safety | | | |
| Emergency Management Performance Grants | 97.042 | F-EMPG-2017-MCLEODCO-047 | **$ 25,079** |
| **Total Federal Awards** | | | **$ 3,112,190** |

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

*EXHIBIT D-2*
*(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**FOR THE YEAR ENDED DECEMBER 31, 2017**

| Federal Grantor<br>Pass-Through Agency<br>Program or Cluster Title | Federal CFDA Number | Pass-Through Grant Numbers | | Expenditures |
|---|---|---|---|---|
| **Totals by Cluster** | | | | |
| Total expenditures for SNAP Cluster | | | $ | 251,804 |
| Total expenditures for Highway Planning and Construction Cluster | | | | 59,725 |
| Total expenditures for Highway Safety Cluster | | | | 3,006 |
| Total expenditures for TANF Cluster | | | | 246,059 |
| Total expenditures for CCDF Cluster | | | | 9,896 |
| Total expenditures for Medicaid Cluster | | | | 1,300,914 |

McLeod County did not pass any federal awards through to subrecipients during the year ended December 31, 2017.

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

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 $572,542 in federal awards during the year ended June 30, 2017, which are not included in the Schedule of Expenditures of Federal Awards because it was audited by other auditors.

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, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. McLeod County has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

## 4. Reconciliation to Schedule of Intergovernmental Revenue

| | | |
|---|---|---|
| Federal grant revenue per Schedule of Intergovernmental Revenue | $ | 2,871,855 |
| Grants received more than 60 days after year-end, unavailable in 2017 | | |
| Special Supplemental Nutrition Program for Women, Infants, and Children | | 56,251 |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | | 59,896 |
| Special Education - Grants for Infants and Families | | 483 |
| Universal Newborn Hearing Screening | | 450 |
| Promoting Safe and Stable Families | | 2,629 |
| Temporary Assistance for Needy Families | | 66,032 |
| Child Support Enforcement | | 69,361 |
| Community-Based Child Abuse Prevention Grants | | 2,925 |
| Stephanie Tubbs Jones Child Welfare Services Program | | 2,075 |
| Chafee Foster Care Independence Program | | 358 |
| Block Grants for Prevention and Treatment of Substance Abuse | | 27,977 |
| Maternal and Child Health Services Block Grant to States | | 7,163 |
| Public Health Emergency Preparedness | | 686 |
| Unavailable in 2016, recognized as revenue in 2017 | | |
| Special Supplemental Nutrition Program for Women, Infants, and Children | | (3,855) |
| Promoting Safe and Stable Families | | (1,309) |
| Temporary Assistance for Needy Families | | (25,489) |
| Special Education - Grants for Infants and Families | | (483) |
| Child Care and Development Block Grant | | (598) |
| Community-Based Child Abuse Prevention Grants | | (2,702) |
| Stephanie Tubbs Jones Child Welfare Services Program | | (1,179) |
| Chafee Foster Care Independence Program | | (347) |
| Block Grants for Prevention and Treatment of Substance Abuse | | (6,405) |
| Maternal and Child Health Services Block Grant to States | | (7,906) |
| Block Grants for Community Mental Health Services | | (5,678) |
| Expenditures Per Schedule of Expenditures of Federal Awards | $ | 3,112,190 |

# Management and Compliance Section

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REBECCA OTTO
STATE AUDITOR

# STATE OF MINNESOTA
## OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

## 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, 2017, 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 18, 2018. Our report includes a reference to other auditors who audited the financial statements of the McLeod County Housing and Redevelopment Authority, the discretely reported component unit, for the year ended June 30, 2017, 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, 2007-001, 2016-001, and 2016-002, 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 Counties*, 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 Counties*, except as described in the Schedule of Findings and Questioned Costs as items 2017-003 and 2017-004. 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**

Included in the Schedule of Findings and Questioned Costs is a management practices comment. We believe this recommendation to be of benefit to the County, and it is reported for that purpose.

**McLeod County's Response to Findings**

McLeod County's responses to the internal control, legal compliance, and management practices findings identified in our audit are described in the Corrective Action Plan. 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 Counties* 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 18, 2018

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**STATE OF MINNESOTA**
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

## 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 the 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) *Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2017. McLeod County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

McLeod County's basic financial statements include the operations of the McLeod County Housing and Redevelopment Authority (HRA) component unit, which expended $572,542 in federal awards during the year ended June 30, 2017, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the HRA because it was audited by other auditors.

***Management's Responsibility***
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***
Our responsibility is to express an opinion on compliance for McLeod County's major federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative*

*Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

***Opinion on the 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 its major federal program for the year ended December 31, 2017.

***Other Matters***

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2016-003, 2017-001, and 2017-002. Our opinion on the major federal program is not modified with respect to these matters.

McLeod County's responses to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. McLeod County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

## 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 preceding 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 certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2016-003, 2017-001, and 2017-002, that we consider to be significant deficiencies.

McLeod County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. McLeod County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

**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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

| | |
|---|---|
| */s/Rebecca Otto* | */s/Greg Hierlinger* |
| REBECCA OTTO<br>STATE AUDITOR | GREG HIERLINGER, CPA<br>DEPUTY STATE AUDITOR |

September 18, 2018

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017

## I. SUMMARY OF AUDITOR'S RESULTS

### Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **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 the major program:
- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for the major federal program: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **Yes**

The major federal program is:

| | |
|---|---|
| Medicaid Cluster | CFDA No. 93.778 |

The threshold for distinguishing between Types A and B programs was $750,000.

McLeod County qualified as a low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 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.

**View of Responsible Official:** Concur

Finding Number 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 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.

**View of Responsible Official:** Concur

Finding Number 2016-001

<u>Departmental Internal Controls - Planning, Zoning, and Environmental Services</u>

**Criteria:** Management is responsible for establishing and maintaining internal control. McLeod County's receipts policy indicates one purpose of cash management is to maximize accountability for all monies received. In addition, this policy states that all monies must be deposited with the Auditor-Treasurer once a week.

**Condition:** The following internal control deficiencies were noted at the Planning, Zoning, and Environmental Services Department:

- When a citizen of the County requests a permit, a County employee enters the appropriate information onto a paper receipt log. There are separate logs for each type of permit the County issues as well, which is also filled out by the employee at this time. A reconciliation is not performed between the information entered into the permit log and that entered into the receipt log to ensure that all permits have a valid receipt.

- Information entered into the receipt log does not include the dollar amount collected. Without this information, it is difficult to reconcile that all receipts for a given day were included in the deposit brought to the County Auditor-Treasurer's Office. Some employees began hand-writing the amount on the log in September 2017. The formal receipt log included the amount beginning on January 1, 2018.

- During the prior year's detail testing, instances of incorrect/missing information on the receipt log and incorrect/missing information on the permit logs were noted. One receipt was discovered to be miscoded. Instances of not following department procedures were also noted.

**Context:** The establishment of oversight of departmental control procedures is particularly important due to the increased risks of the loss of assets and the improper recording of transactions when cash is collected at a decentralized location.

**Effect:** Lack of controls over cash receipts puts the County at risk for a loss of revenue.

**Cause:** Lack of policies and procedures designed and implemented to provide oversight and safeguards for revenues.

**Recommendation:** We recommend the County implement policies and procedures to ensure the proper handling of cash receipts and deposits. We also recommend that proper reviews are done to ensure that policies and procedures have been followed.

**View of Responsible Official:** Concur

Finding Number 2016-002

<u>Credit Card Procedures</u>

**Criteria:** Counties have authority to make purchases using credit cards and the County Board has adopted a Credit Card Policy, which is further detailed in a Purchasing Card (P-Card) Program Procedures Manual, including management and internal control procedures. Internal control procedures over the use of credit cards includes a system for tracking all credit cards issued by the County as well as requiring all employees who have been issued a County credit card to sign a P-Card User Agreement form acknowledging they have read the Credit Card Policy.

**Condition:** The following internal control deficiencies were noted regarding credit cards in the County:

- Written documentation did not exist for some County employees who used County credit cards that they had received specific training on how to properly use the P-Card.

- There was an instance where a County department head approved their own credit card transactions and another instance where credit card transactions were not approved by a department head. Furthermore, some credit card transactions were not approved by the approver documented by the County as the proper approver of the credit card transactions.

**Context:** Pursuant to the County's Credit Card Policy, the County Auditor-Treasurer's Office tracks credit cards issued to all employees, and all employees with a County credit card are required to sign the P-Card User Agreement form and receive specific training on how to properly use the P-Card. The policy also states that department heads are responsible for all cards issued to their department and the use of those cards by their employees. Evidence was noted in 2017 that the County Auditor-Treasurer updated the procurement forms to the current approver and acquired documentation for authorized use of the P-Cards, but there were still issues noted.

**Effect:** Failure to follow the Credit Card Policy increases the likelihood for misuse of both the credit cards and County funds.

**Cause:** The County's policies and procedures have not been enforced.

**Recommendation:** We recommend the County follow the Board-approved Credit Card Policy and ensure that all individuals who have been issued a County credit card be tracked by the County Auditor-Treasurer's Office, and the employees who have an issued credit card sign the Credit Card User Agreement form. Furthermore, all County credit card transactions should be approved by department heads in accordance with the Credit Card Policy.

**View of Responsible Official:** Concur

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

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2016-003

Procurement and Suspension and Debarment - Written Procurement Policies and Procedures

**Program:** U.S. Department of Health and Human Services' Medicaid Cluster (CFDA No. 93.778), Award No. 05-1705MN5ADM, 2017

**Pass-Through Agency:** Minnesota Department of Human Services

**Criteria:** Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. In addition, Title 2 U.S. *Code of Federal Regulations* § 200.318 states that the non-federal entity must use its own documented procurement procedures which reflect applicable state, local, and tribal laws and regulations, provided that the procurements conform to applicable federal law and the standards identified in this regulation.

**Condition:** The County has written procurement policies; however, these policies do not include the required components in accordance with Title 2 U.S. *Code of Federal Regulations* § 200.318.

**Questioned Costs:** Not applicable.

**Context:** This issue was discovered during the audit of the major federal program; however, it impacts federal programs county-wide. Written policies that reflect the specific components of federal regulations improve controls to help ensure compliance with federal award requirements.

**Effect:** Written policies and procedures that are not updated to reflect the Uniform Guidance procurement requirements increase the risk of noncompliance with federal program requirements.

**Cause:** The County did not update its procurement policies for the Uniform Guidance.

**Recommendation:** We recommend the County include the specific components of the Uniform Guidance requirements in its written procurement policies and procedures.

**View of Responsible Official:** Concur

<u>ITEMS ARISING THIS YEAR</u>

Finding Number 2017-001

<u>Procurement and Suspension and Debarment</u>

**Program:** U.S. Department of Health and Human Services' Medicaid Cluster (CFDA No. 93.778), Award No. 05-1705MN5ADM, 2017

**Pass-Through Agency:** Minnesota Department of Human Services

**Criteria:** Title 2 U.S. *Code of Federal Regulations* § 200.318(i) states that the non-federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to, the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Non-federal entities must follow further federal guidance over verifying debarment, suspension, and exclusions as provided in Title 2 U.S. *Code of Federal Regulations* § 180.300, 200.213.

**Condition:** The following items were noted:

- The transaction exceeding $150,000 (the Simplified Acquisition Threshold) that was tested did not contain a history of procurement including documentation for the rationale of selecting the vendor and the basis for the price. There was no formal contract for this transaction.

- The County lacked documentation demonstrating that it verified the vendor was not suspended or debarred prior to entering into a transaction exceeding $25,000.

**Questioned Costs:** Not applicable.

**Context:** The County is currently in the process of entering into a contract with a vendor for the transactions tested above the Simplified Acquisition Threshold.

The sample sizes were based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

**Effect:** The County is not in compliance with federal regulations.

**Cause:** County staff were not aware that the documentation requirements were applicable to transactions that were partially funded by federal grants.

**Recommendation:** We recommend the County document the history of procurement transactions, including contract selection, in accordance with federal regulations. Prior to entering into the contract, the County should verify vendors are not debarred or suspended or that other exclusions apply, and maintain that documentation.

**View of Responsible Official:** Concur

Finding Number 2017-002

<u>Local Collaborative Time Study Reporting</u>

**Program:** U.S. Department of Health and Human Services' Medicaid Cluster (CFDA No. 93.778), Award No. 05-1705MN5ADM, 2017

**Pass-Through Agency:** Minnesota Department of Human Services (DHS)

**Criteria:** Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Requirements for Local Collaborative Time Study (LCTS) Cost Schedules (DHS-3220 reports) are described in DHS Bulletin #16-32-04 - *Local Collaborative Time Study (LCTS) Fiscal Operations*. The bulletin states that LCTS fiscal site contacts are required to verify that the information on the LCTS Fiscal and Cost Schedule is accurate and that it complies with all guidelines set forth in the LCTS Cost Schedule Instructions. It also states that the County's LCTS Fiscal Reporting and Payment Agent is required to review all cost schedules from participating agencies on or before the 20th calendar day following the end of each quarter.

**Condition:** The County did not receive quarterly LCTS reports prepared by its Collaborative to review and ensure the reports were accurate and properly reported to the State.

**Questioned Costs:** Not applicable.

**Context:** The DHS-3220 reports are submitted quarterly by each member of a collaborative to DHS for reimbursement of LCTS money, which is reimbursed to the County with federal Medical Assistance Program funds. The McLeod County Human Services Department acts as the LCTS Fiscal Reporting and Payment Agent for the local collaborative in McLeod County and is responsible for preparing and submitting the Annual Spending and Collaborative Reports.

The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

**Effect:** Lack of a review and approval process increases the risk that reports will not be submitted as required or will not be correct.

**Cause:** Staff from the County's Human Services Department indicated they were not aware of the review and approval requirements for the quarterly reports.

**Recommendation:** We recommend the County implement procedures to ensure the DHS-3220 reports required to be submitted are reviewed for accuracy and completeness by an individual independent of the preparer. Evidence of the review should be retained.

**View of Responsible Official:** Acknowledged

# IV. OTHER FINDINGS AND RECOMMENDATIONS

## A. MINNESOTA LEGAL COMPLIANCE

### ITEMS ARISING THIS YEAR

Finding Number 2017-003

Collateral Assignments

**Criteria:** Minn. Stat. § 118A.03 states, in part, "[a]ny collateral pledged shall be accompanied by a written assignment to the government entity from the financial institution. The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged."

**Condition:** The County could not provide documentation to verify the language pertaining to pledged collateral required by Minn. Stat. § 118A.03 was included in the original pledge agreements for 12 of the 19 securities pledged as collateral by Security Bank & Trust, and for all of the 15 securities pledged as collateral by First Minnesota Bank as of December 31, 2017.

**Context:** The depositories have pledged securities from its investment portfolios as collateral to secure the County's deposits in excess of the available federal deposit insurance. However, the written assignments of the collateral to the County contain outdated language.

**Effect:** Without the required language in the assignment, the County is not in compliance with state law. Without a proper written assignment of the pledged collateral, the County may not have an enforceable claim to the pledged collateral. Deposits held in excess of federal deposit insurance are at risk of loss should the depositories fail.

**Cause:** The original pledge agreements contain outdated language that has not been updated with current Minnesota statutes.

**Recommendation:** We recommend the County obtain new pledge agreements from those depositories that have pledged securities to secure the County's deposits in excess of the available federal deposit insurance. The assignments should include the statutory language required by Minn. Stat. § 118A.03, subd. 4, and should be approved by each depository's board of directors or loan committee, with the County receiving documentation of that approval.

**View of Responsible Official:** Concur

Finding Number 2017-004

Prompt Payment of Invoices

**Criteria:** As stated in Minn. Stat. § 471.425, the County is required to make payment on vendor invoices according to the terms of the contract, or within 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later.

**Condition:** Six of the 25 Human Services invoices tested for compliance with Minn. Stat. § 471.425 were not paid within 35 days.

**Context:** The approval process is lengthy in the Human Services Department, and payments are only made once a month. The invoices were paid not long after the 35-day requirement.

**Effect:** Making payment on invoices after 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later, is in noncompliance with Minnesota law.

**Cause:** The invoices were received right after the payment processing cut-off date and had to wait for the next payment processing cycle.

**Recommendation:** We recommend the County develop a process to ensure payments are made in accordance with Minn. Stat. § 471.425.

**View of Responsible Official:** Acknowledged

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 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, 2017, the County had individual ditch systems where liabilities and deferred inflows of resources exceeded assets, resulting in individual deficit fund balances.

**Context:** Twenty-five of the 57 individual ditch systems have deficit unassigned fund balances as of December 31, 2017, totaling $1,316,214, the largest being $279,061.

**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.

**View of Responsible Official:** Acknowledged

## V. PREVIOUSLY REPORTED ITEMS RESOLVED

2015-002 General Ledger Reconciliation to the Treasurer's Cash Trial Balance
2015-006 Contract Compliance

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830 11TH Street E
Glencoe, MN 55336
www.co.mcleod.mn.us
Fax: (320) 864-1809

Cindy Ford
Administrator
Phone (320) 864-1324
cindy.ford@co.mcleod.mn.us

Sheila Murphy
Deputy Administrator
Phone (320) 864-1320
sheila.murphy@co.mcleod.mn.us

Colleen Robeck
Accountant
Phone (320) 864-1262
colleen.robeck@co.mcleod.mn.us

Karin Hildremyr
Administrative Assistant
Phone (320) 864-1328
karin.hildremyr@co.mcleod.mn.us

**REPRESENTATION OF McLEOD COUNTY**
**GLENCOE, MINNESOTA**

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2017

**Finding Number: 1999-001**
**Finding Title: Accounting Policies and Procedures**

Name of Contact Person Responsible for Corrective Action:

Cindy Ford, McLeod County Administrator

Corrective Action Planned:

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.

Anticipated Completion Date:

McLeod County continues to work on these policies and procedures as time allows.

**Finding Number: 2007-001**
**Finding Title: Monitoring Internal Controls**

Name of Contact Person Responsible for Corrective Action:

Cindy Ford, McLeod County Administrator

Corrective Action Planned:

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.

Anticipated Completion Date:

McLeod County will continue to monitor the internal controls periodically throughout the year.

**Finding Number: 2016-001**
**Finding Title: Departmental Internal Controls - Planning and Zoning/Environmental Services**

Name of Contact Person Responsible for Corrective Action:

Cindy Ford, McLeod County Administrator and Marc Telecky, Environmental Services Director

Corrective Action Planned:

McLeod County recognized the importance of departmental controls over the receipting process and is working towards implementation of Cash Drawer receipting software through IFSpi to provide electronic receipts to customers eliminating hand written manual receipts. This will in ensure that all payments are accounted for daily.

Anticipated Completion Date:

December 31, 2018.

**Finding Number: 2016-002**
**Finding Title: Credit Card Procedures**

Name of Contact Person Responsible for Corrective Action:

Cindy Ford, McLeod County Administrator

Corrective Action Planned:

McLeod County recognizes the importance of following the credit card policy and ensuring that all individuals who have been issued a County credit card be tracked by the County Administrator's Office. All employees who have been issued credit cards are required to sign the Credit Card User Agreement Form.

Anticipated Completion Date:

December 31, 2018.

**Finding Number: 2016-003**
**Finding Title: Procurement Suspension and Debarment - Written Procurement Policies and Procedures**
**Program: U.S. Department of Health and Human Services' Medicaid Cluster (CFDA No. 93.778) Award No. 05-1705MN5ADM, 2017**
**Pass-Through Agency: Minnesota Department of Human Services**

Name of Contact Person Responsible for Corrective Action:

Cindy Ford, McLeod County Administrator

Corrective Action Planned:

McLeod County recognizes the importance of following the Uniform Guidance requirements to remain in compliance with federal programs. McLeod County will update the procurement policies and procedures to be in compliance with the Uniform Guidance requirements.

Anticipated Completion Date:

December 31, 2018.

**Finding Number: 2009-002**
**Finding Title: Ditch Fund Balance Deficits**

Name of Contact Person Responsible for Corrective Action:

Cindy Ford, McLeod County Administrator

Corrective Action Planned:

McLeod County recognizes the importance of having fund balance available to provide for the repair and maintenance costs of a county drainage system. The principal understanding is that each drainage system belongs to the property owners located within that watershed. McLeod County Commissioners manage the drainage systems in their respected districts though the funds do not belong to the county. Annually in October 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 disaster 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.

Anticipated Completion Date:

Indefinite

**Finding Number 2017-001**
**Finding Title: Procurement and Suspension and Debarment**
**Program: U.S. Department of Health and Human Services**
**Pass-Through Agency: Minnesota Department of Human Services**

Name of Contact Person Responsible for Corrective Action:

Cindy Ford, McLeod County Administrator

Corrective Action Planned:

McLeod County recognizes the importance of following the Uniform Guidance requirements to remain in compliance with federal programs. McLeod County will update the procurement policies and procedures to be in compliance with the Uniform Guidance requirements.

Anticipated Completion Date:

December 31, 2018.

**Finding Number 2017-002**
**Finding Title: LCTS Reporting**
**Program: U.S. Department of Health and Human Services Medicaid Cluster (CFDA No. 93.778) Award No. 05-1705MN5ADM, 2017**
**Pass-Through Agency: Minnesota Department of Human Services**

Name of Contact Person Responsible for Corrective Action:

Gary Sprynczynatyk, Social Services Director

Corrective Action Planned:

McLeod County recognizes the importance reviewing the DHS-3220 reports for accuracy and completeness. PACT for Families will send McLeod County a summary spreadsheet of the reporting agents' information by the deadlines and the Social Services Accountant will review the documents before they are submitted.

Anticipated Completion Date:

December 31, 2018.

**Finding Number 2017-003**
**Finding Title: Collateral Assignments**

Name of Contact Person Responsible for Corrective Action:

Cindy Ford, McLeod County Administrator

Corrective Action Planned:

McLeod County recognizes the importance of having pledge agreements with our depositories to secure the County's deposits in excess of the available federal deposit insurance and to be in compliance with Minn Stat 118A.03, subd 4. McLeod County has obtained new pledge agreements with its depositories.

Anticipated Completion Date:

August 31, 2018.

**Finding Number 2017-004**
**Finding Title: Prompt Payment of Invoices**

Name of Contact Person Responsible for Corrective Action:

Gary Sprynczynatyk, Social Services Director

Corrective Action Planned:

McLeod County recognizes the importance of prompt payment of invoices and will monitor the payment process to ensure that the County is in accordance with Minn. Stat 471.425.

Anticipated Completion Date:

October 31, 2018.

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830 11TH Street E
Glencoe, MN 55336
www.co.mcleod.mn.us
Fax: (320) 864-1809

Cindy Ford
Administrator
Phone (320) 864-1324
cindy.ford@co.mcleod.mn.us

Sheila Murphy
Deputy Administrator
Phone (320) 864-1320
sheila.murphy@co.mcleod.mn.us

Colleen Robeck
Accountant
Phone (320) 864-1262
colleen.robeck@co.mcleod.mn.us

Karin Hildremyr
Administrative Assistant
Phone (320) 864-1328
karin.hildremyr@co.mcleod.mn.us

**REPRESENTATION OF McLEOD COUNTY**
**GLENCOE, MINNESOTA**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

**Finding Number: 1999-001**
**Finding Title: Accounting Policies and Procedures**

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

**Summary of Corrective Action Previously Reported:** McLeod County is continuing to work towards implementing formalized policies and procedures for all accounting functions with limited time and resources**.**

**Status:** Not Corrected. McLeod County expects to update its payroll software by March 31, 2019 from the iSeries operating software to Windows operating software. Once implemented, a Payroll Policy and Procedures will be drafted and approved by the County Board of Commissioners with projected completion by June 30, 2019. The Board of County Commissioners McLeod County will work on the Financial Reporting Policy and Procedures with completion by December 31, 2019.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

**Finding Number: 2007-001**
**Finding Title: Monitoring Internal Controls**

**Summary of Condition:** Management has not yet formalized its assessments 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.

**Summary of Corrective Action Previously Reported:** The McLeod County Auditor-Treasurer continues to assess and monitor the internal controls periodically throughout the year with limited time and resources.

**Status:** Not Corrected. The McLeod County Auditor-Treasurer continues to assess and monitor the internal controls periodically throughout the year with limited time and resources. A procedure will be implemented by June 30, 2019.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

**Finding Number: 2015-002**
**Finding Title: General Ledger Reconciliation to the Treasurer's Cash Trial Balance**

**Summary of Condition:** At the time of the auditor's review of the County's reconciliation of the general ledger to the Treasurer's Cash Trial Balance, it was determined that of the 7 months selected for testing, reconciliations had not been performed until 2 months after the month end and in 2 of the cases the reconciliation was not performed until 5 months after the month end.

**Summary of Corrective Action Previously Reported:** The Auditor-Treasurer Accountant and the Deputy Auditor-Treasurer will re-implement the balancing on a monthly basis.

**Status:** Corrected. The Auditor-Treasurer Accountant and Deputy Auditor-Treasurer balanced the general ledger to the Treasurer's Cash Trial Balance in a timely manner during 2017. Documentation was signed and dated by the County Auditor-Treasurer on the completion date.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

**Finding Number: 2016-001**
**Finding Title: Department Internal Controls – Planning and Zoning/Environmental Services**

**Summary of Condition:** At the time of the auditor's review of the Planning and Zoning/Environmental Services Department, several internal control deficiencies were noted: A reconciliation is not performed between information entered into the permit log and that entered into the receipt log to ensure that all permits have a valid receipt; information entered into the receipt log does not include the dollar amount collected; and instances of incorrect/missing information on the receipt log and incorrect/missing information on the permit logs were noted.

**Summary of Corrective Action Previously Reported:** The County is working towards implementation of Cash Drawer receipting software through IFSpi to provide electronic receipts to customers eliminating hand written manual receipts. This will ensure that all payments are accounted for daily.

**Status:** Not Corrected. McLeod County is continuing to work towards implementation of Cash Drawer receipting software through IFSpi to provide electronic receipts to customers.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

**Finding Number: 2016-002**
**Finding Title: Credit Card Procedures**

**Summary of Condition:** Several internal control deficiencies were noted during the testing over credit cards in the County: Sheriff's department has four credit cards issued to one individual in the Department, but the cards can be used by several employees; when a County employee terminated their employment with the County their credit card was given to the County employee who was their replacement, without the new employee signing a P-Card User Agreement form or receiving specific training on how to use the P-Card; and a Department Head from a County Department was initially unaware of where the credit card was located.

**Summary of Corrective Action Previously Reported:** Partially Corrected. The McLeod County Auditor-Treasurer will determine those County employees that have been issued County credit cards and obtain a signed P-Card User Agreement from the respective County employee.

**Status:** Partially Corrected. The County Auditor-Treasurer updated the procurement forms to the current approver and acquired documentation for authorized use of the P-Cards.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

**Finding Number: 2016-003**
**Finding Title: Procurement and Suspension and Debarment - Written Procurement Policies and Procedures**
**Program: Highway Planning and Construction (CFDA No. 20.205)**

**Summary of Condition:** McLeod County has written procurement policies; however, these policies do not include the required components in accordance with Title 2 U.S. *Code of Federal Regulations* § 200.318.

**Summary of Corrective Action Previously Reported:** McLeod County will update the procurement policies and procedures to be in compliance with the Uniform Guidance requirements.

**Status:** Not Corrected. McLeod County has not updated its procurement policies and procedures to be in compliance with the Uniform Guidance requirements.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

**Finding Number: 2015-006**
**Finding Title: Contract Compliance**

**Summary of Condition:** Noncompliance with Minnesota Statutes was noted during the testing of compliance with the State of Minnesota contracting and bid laws: For two of four contracts tested, a final payment was made prior to receiving a Minnesota Department of Revenue approved Form IC-134 (required by Minn. Stat. §270C.66); one of the four contacts tested did not include the specific language required by Minn. Stat. § 471.425, subd. 4a; for one of the three contracts over $100,000 tested, the County did not receive a performance bond or a payment bond (required by Minn. Stat. §574.26).

**Summary of Corrective Action Previously Reported:** McLeod County will update the purchasing policy to include the contracting requirements.

**Status:** Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

**Finding Number: 2009-002**
**Finding Title: Ditch Fund Balance Deficits**

**Summary of Condition:** As of December 31, 2016, the County had individual ditch systems where liabilities and deferred inflows of resources exceeded assets, resulting in individual deficit fund balances.

**Summary of Corrective Action Previously Reported:** McLeod County will continue to monitor the fund balances of the drainage systems and work toward eliminating the deficits in the future.

**Status:** Not Corrected. McLeod County has attempted to bring all ditch systems to a positive balance, including Board action to approve loans from the General Fund to maintain a positive cash balance for individual ditches and the levying of special assessments for ditch cost repairs, however, the levy, at times, is spread out over several years to keep the repayment cost down for the landowners. Also, after assessments have been levied for the year, some ditches have required emergency repairs critical to the drainage system.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___