

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

McLEOD COUNTY
GLENCOE, MINNESOTA

YEAR ENDED DECEMBER 31, 2009

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

Year Ended December 31, 2009



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

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

**ORGANIZATION
2009**

Office	Name	Term of Office	
		From	To
Commissioners			
1st District	Ray Bayerl	June 1990	January 2013
2nd District	Kermit Terlinden*	January 1995	January 2011
3rd District	Paul Wright	January 2009	January 2013
4th District	Sheldon Nies	January 1995	January 2011
5th District	Beverly Wangerin	January 1989	January 2013
Officers			
Elected			
Attorney	Michael K. Junge	May 1987	January 2011
Auditor	Cindy Schultz	January 1995	January 2011
District Judge	Michael Savre	May 2004	January 2011
District Judge	Terrence E. Conkel	August 1998	January 2011
Recorder	Lynnette Schrupp	January 2003	January 2011
Sheriff	Scott Rehmann	January 1999	January 2011
Treasurer	Linda Radtke	January 1987	January 2011
Appointed			
Assessor	Sue Schulz	March 2005	January 2010
Court Administrator	Karen Messner	January 2008	Indefinite
Coroner	Dr. Amatuzio	January 2006	Indefinite
Highway Engineer	John Brunkhorst	November 2001	May 2010
Surveyor	Jeff Rausch	February 1996	January 2010
Veterans Service Officer	James Lauer	November 2004	January 2010
County Administrator	Pat Melvin	November 2008	Indefinite
Human Resources	Mary Jo Wieseler	March 2005	Indefinite
Human Services Director	Gary Sprynczynatyk	August 1995	Indefinite
Regional Extension Director	Sarah Chur	January 2006	Indefinite
Public Health Nursing Service			
Director	Kathy Nowak	May 2008	Indefinite
Zoning Administrator	Larry Gasow	February 2000	January 2010
Park Superintendent	Allan Koglin	August 1979	Indefinite
Agriculture and Weed			
Inspector	Allan Koglin	January 1997	January 2010
Building Services Supervisor	Wayne Rosenfeld	December 1989	Indefinite

*Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
McLeod County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of McLeod County, Minnesota, as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of McLeod County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the McLeod County Housing and Redevelopment Authority (HRA), as of and for the year then ended June 30, 2009, which is the discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the McLeod County HRA, is based solely upon the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of McLeod County as of December 31, 2009, and the McLeod County HRA as of June 30, 2009, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2010, on our consideration of McLeod County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009
(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, 2009. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The assets of McLeod County exceeded liabilities at the end of the current fiscal year by \$140,436,922 (net assets). Of this amount, \$25,287,191 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$7,491,043 (five percent). The increase is a combination of additional capital assets and budget savings from operations.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$11,146,365 or 78 percent, of total 2009 General Fund expenditures.
- Governmental funds' fund balances increased by \$6,854,926.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

The Statement of Activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

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

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

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

Fund Financial Statements

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

Governmental Funds

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

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

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

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

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

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

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

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

Fiduciary Funds

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

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

Notes to the Financial Statements

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

Other Information

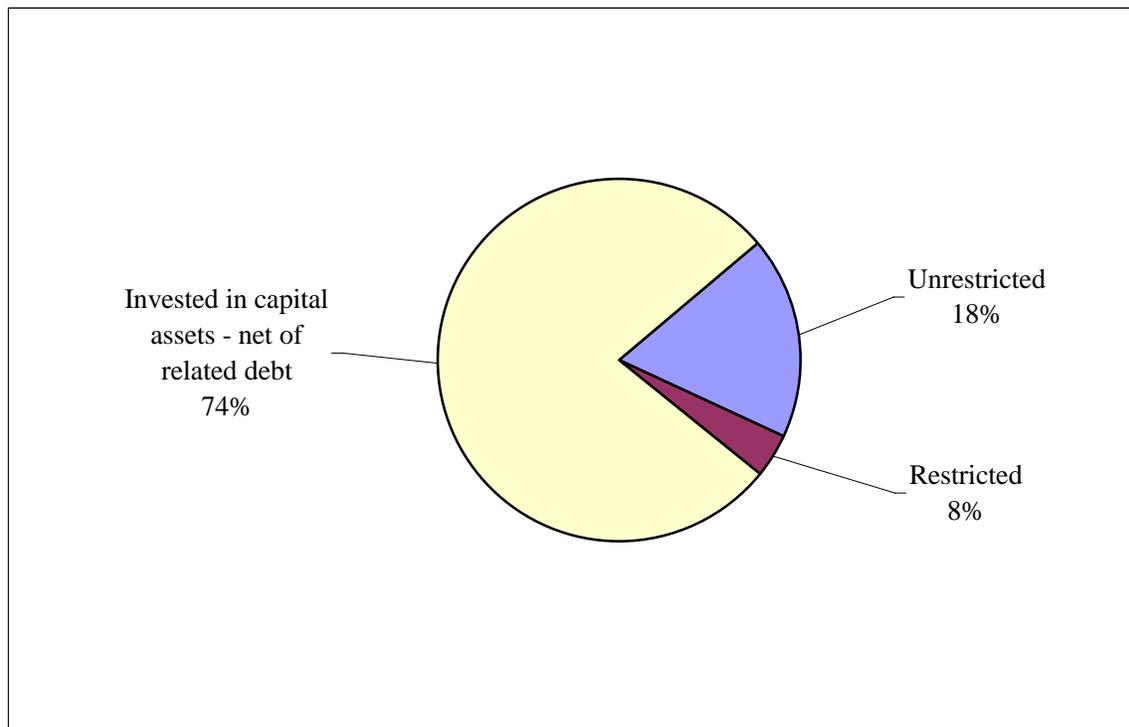
In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of McLeod County, assets exceeded liabilities by \$140,436,922 as of December 31, 2009. The investment in capital assets, net of related debt, is the largest portion of McLeod County's net assets at 74 percent. These capital assets are used to provide services to citizens and are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Approximately eight percent of McLeod County's net assets are subject to external restrictions on how they may be used and, therefore, are considered restricted. The remaining 18 percent or \$25,287,191 is unrestricted and available to be used to meet the government's ongoing obligations to citizens and creditors.

Net Assets



(Unaudited)

Net Assets

	<u>Governmental Activities</u>		<u>Discretely Presented Component Unit</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 40,348,064	\$ 33,682,498	\$ 183,400	\$ 204,761
Capital assets	<u>107,959,849</u>	<u>104,448,742</u>	<u>3,498,900</u>	<u>3,626,759</u>
Total Assets	\$ 148,307,913	\$ 138,131,240	\$ 3,682,300	\$ 3,831,520
Current and other liabilities	\$ 2,045,932	\$ 2,239,070	\$ 94,862	\$ 91,566
Long-term liabilities - due within one year	2,059,096	1,123,583	116,585	116,593
Long-term liabilities - due in more than one year	<u>3,765,963</u>	<u>1,822,708</u>	<u>3,821,351</u>	<u>3,937,841</u>
Total Liabilities	\$ 7,870,991	\$ 5,185,361	\$ 4,032,798	\$ 4,146,000
Net Assets				
Invested in capital assets - net of related debt	\$ 104,180,345	\$ 103,431,403	\$ (439,036)	\$ (427,675)
Restricted	10,969,386	6,778,808	42,866	85,976
Unrestricted	<u>25,287,191</u>	<u>22,735,668</u>	<u>45,672</u>	<u>27,219</u>
Total Net Assets	\$ 140,436,922	\$ 132,945,879	\$ (350,498)	\$ (314,480)

GOVERNMENTAL ACTIVITIES

McLeod County's governmental activities increased net assets by \$7,491,043 during the current fiscal year. This increase is primarily due to a donation from the estate of Anna Marie Tudhope of \$1,170,500, the issuance of \$3,000,000 of general obligation equipment notes, and an increase in capital assets, which included the following major items: highway and bridge construction, Honeywell energy retrofit project, and other improvement projects.

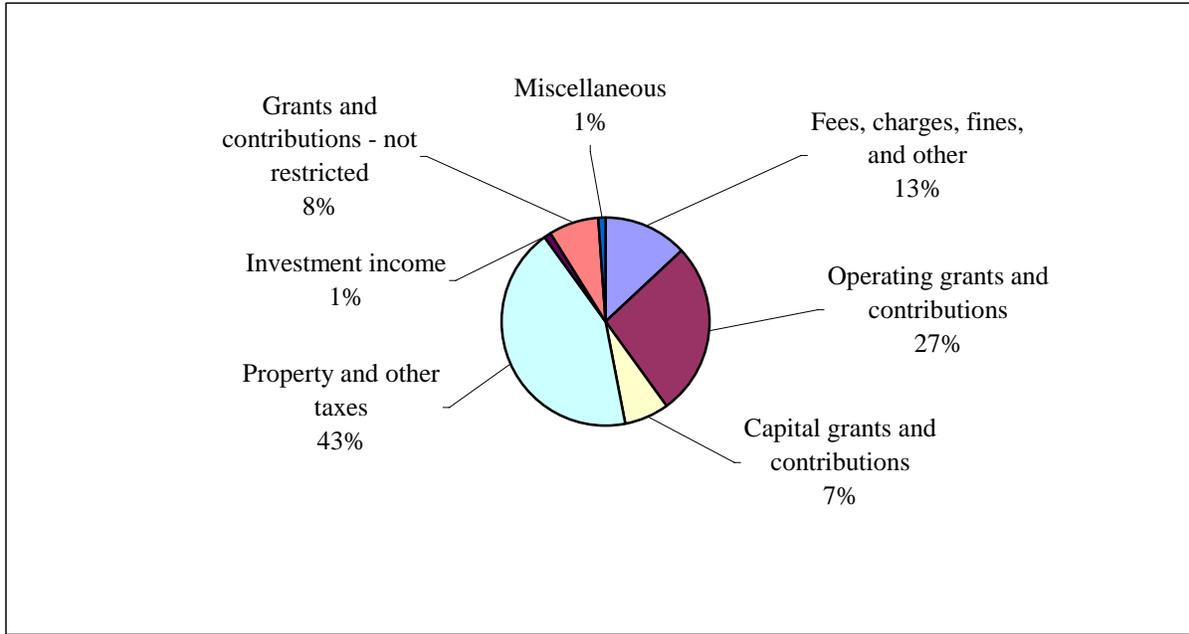
The McLeod County HRA is a discretely presented component unit of McLeod County. As of June 30, 2009, liabilities exceeded assets by \$350,498, and there was a decrease in net assets of \$36,018 from the prior year. The decrease is primarily due to expenditures in excess of revenues.

Changes in Net Assets

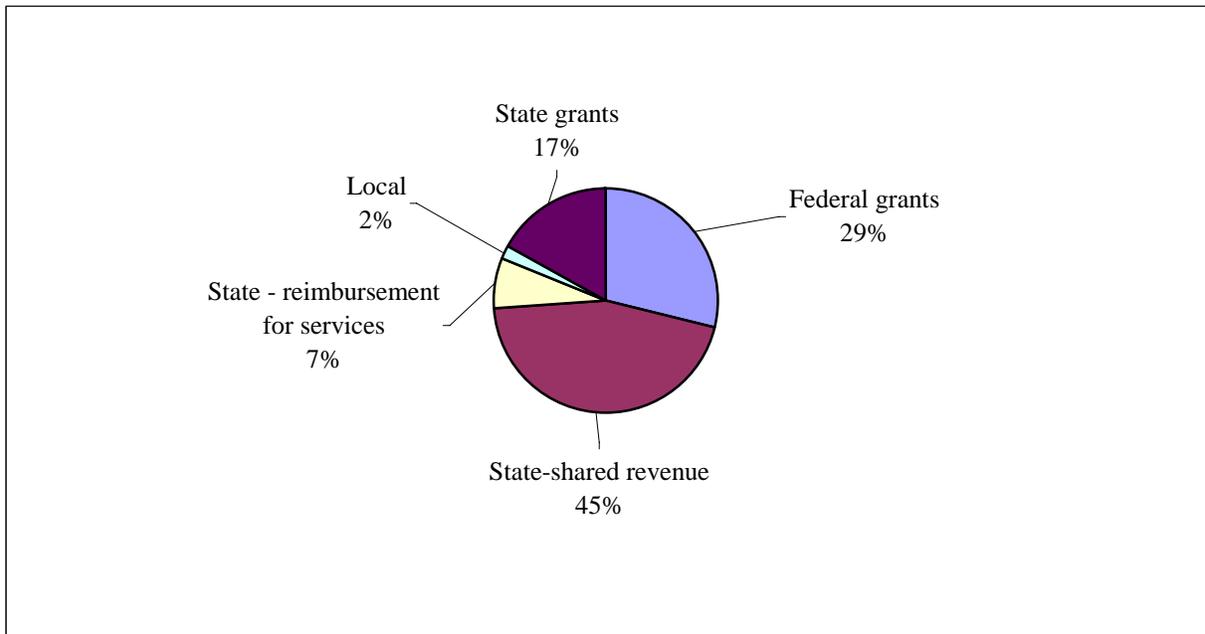
	Governmental Activities		Discretely Presented Component Unit	
	2009	2008	2009	2008
Revenues				
Program revenues				
Charges for services, fees, fines, and Other	\$ 5,044,605	\$ 5,305,346	\$ 799,568	\$ 806,276
Operating grants and contributions	10,663,523	11,702,267	-	-
Capital grants and contributions	2,838,587	2,408,107	-	-
General revenues				
Property taxes	16,872,846	15,964,045	-	-
Other taxes	96,431	167,166	-	-
Grants and contributions not restricted to specific programs	3,359,470	3,049,494	-	-
Investment income	451,038	792,150	1,967	2,466
Other	130,438	275,739	-	-
Total Revenues	\$ 39,456,938	\$ 39,664,314	\$ 801,535	\$ 808,742
Expenses				
General government	\$ 5,299,201	\$ 4,336,444	\$ -	\$ -
Public safety	4,362,909	7,472,378	-	-
Highways and streets	8,026,210	6,983,418	-	-
Sanitation	1,761,487	1,926,925	-	-
Human services	9,088,728	8,922,238	-	-
Health	2,077,041	2,083,697	-	-
Culture and recreation	555,296	598,612	-	-
Conservation of natural resources	733,060	943,919	-	-
Economic development	1,999	2,298	-	-
Interest	59,964	38,516	-	-
HRA	-	-	837,553	811,001
Total Expenses	\$ 31,965,895	\$ 33,308,445	\$ 837,553	\$ 811,001
Increase (Decrease) in Net Assets	\$ 7,491,043	\$ 6,355,869	\$ (36,018)	\$ (2,259)
Net Assets - January 1	132,945,879	126,590,010	(314,480)	(312,221)
Net Assets - December 31	\$ 140,436,922	\$ 132,945,879	\$ (350,498)	\$ (314,480)

The following charts show additional information on the revenues of McLeod County for the year ended December 31, 2009.

Revenues by Source - Governmental Activities



Intergovernmental Revenue



FINANCIAL ANALYSIS

Governmental Funds

At the end of 2009, McLeod County's governmental funds reported a combined fund balance of \$34,720,397. This is an increase of \$6,854,926 from the prior year. The General Fund fund balance increased by \$3,245,154 due to increased revenues. The fund balance in the Road and Bridge Special Revenue Fund decreased by \$100,912 due to increased capital asset expenditures. The fund balance in the Human Services Special Revenue Fund increased by \$315,514 due to increased revenues. There was also an increase in the nonmajor governmental funds of \$989,903.

General Fund Budgetary Highlights

In total, General Fund revenues for 2009 exceeded the amounts budgeted by \$1,442,006. Special assessments, charges for services, fines and forfeits, intergovernmental, and gifts and contributions came in higher than anticipated. Total General Fund expenditures were \$1,170,943 less than the final budget. This variance is attributed to the areas of general government and public safety.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

At the end of 2009, McLeod County had \$107,959,849 invested in capital assets, including land, infrastructure, buildings, improvements other than buildings, and equipment. The table below shows a summary of McLeod County's capital assets as of December 31.

	Capital Assets (Net of Depreciation)	
	2009	2008
Land	\$ 3,961,641	\$ 3,961,641
Right-of-way	3,115,215	3,136,218
Infrastructure	83,313,746	72,039,120
Buildings	14,036,248	12,861,433
Improvements other than buildings	868,473	418,101
Machinery and equipment	2,664,526	3,125,746
Construction in progress	-	8,906,483
Total	<u>\$ 107,959,849</u>	<u>\$ 104,448,742</u>

Major capital asset events during the year included the following:

- Honeywell energy retrofit for the jail and
- infrastructure construction continued in 2009.

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

Long-Term Debt

At the end of the current fiscal year, McLeod County had bonded debt and capital notes outstanding of \$4,378,302. This is an increase of \$2,790,415 from the beginning of the year. The increase is due to issuance of general obligation equipment notes.

Current and future County tax levies are used to finance the County's debt obligations. State statutes limit the amount of general obligation debt a county can incur to no more than three percent of the market value of taxable property in the county. The current debt limitation for McLeod County is \$108,603,360, which is significantly in excess of McLeod County's outstanding general obligation debt.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The unemployment rate for McLeod County is currently 9.7 percent. McLeod County's unemployment rate is more than the state unemployment rate of 7.4 percent, but less than the United States unemployment rate of 10 percent.
- Property tax levy increases have occurred over the past several years and are likely to continue. However, the tax base in McLeod County is also expanding, which diminishes the effect to the individual taxpayer.

All of these factors were considered in preparing McLeod County's budget for the 2010 fiscal year.

REQUESTS FOR INFORMATION

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

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2009**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 33,948,700	\$ 54,911
Petty cash and change funds	23,005	-
Departmental cash	8,395	-
Cash with fiscal agent	1,097,089	-
Taxes receivable		
Prior - net	413,497	-
Special assessments receivable		
Noncurrent - net	553,457	-
Prior	1,030	-
Accounts receivable - net	214,073	52
Accrued interest receivable	46,961	-
Due from other governments	3,708,232	-
Deferred charges - current	9,971	-
Inventories	303,709	-
Prepaid items	-	1,738
Restricted assets		
Cash and pooled investments	-	87,524
Deferred charges	19,945	39,175
Capital assets		
Non-depreciable	7,076,856	197,000
Depreciable - net of accumulated depreciation	100,882,993	3,301,900
Total Assets	\$ 148,307,913	\$ 3,682,300

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2009**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Liabilities</u>		
Accounts payable	\$ 684,105	\$ -
Salaries payable	497,407	-
Accrued payroll taxes	32,370	-
Other accrued liabilities	93,014	51,252
Retainage payable	123,552	-
Due to other governments	428,028	-
Accrued interest payable	24,098	-
Claims payable	128,780	-
Unavailable revenue	-	580
Unearned revenue	34,578	-
Long-term liabilities		
Due within one year	2,059,096	116,585
Due in more than one year	3,765,963	3,821,351
Liabilities payable from restricted assets (security deposits)	-	43,030
	\$ 7,870,991	\$ 4,032,798
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 104,180,345	\$ (439,036)
Restricted for		
General government	4,141,501	-
Public safety	1,455,019	-
Highways and streets	24,906	-
Conservation of natural resources	159,804	-
Sanitation	3,460,630	-
Economic development	-	42,866
Debt service	1,727,526	-
Unrestricted	25,287,191	45,672
	\$ 140,436,922	\$ (350,498)

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 5,299,201	\$ 971,284
Public safety	4,362,909	249,804
Highways and streets	8,026,210	230,405
Sanitation	1,761,487	1,570,000
Human services	9,088,728	1,103,956
Health	2,077,041	669,354
Culture and recreation	555,296	89,378
Conservation of natural resources	733,060	160,424
Economic development	1,999	-
Interest	59,964	-
	\$ 31,965,895	\$ 5,044,605
Total Primary Government	\$ 31,965,895	\$ 5,044,605
 Component Unit		
Housing and Redevelopment Authority	\$ 837,553	\$ 799,568

General Revenues

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

Total general revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Discretely Presented Component Unit
\$ 74,140	\$ -	\$ (4,253,777)	
1,576,129	-	(2,536,976)	
3,951,164	2,838,587	(1,006,054)	
-	-	(191,487)	
4,037,670	-	(3,947,102)	
900,030	-	(507,657)	
-	-	(465,918)	
124,390	-	(448,246)	
-	-	(1,999)	
-	-	(59,964)	
\$ 10,663,523	\$ 2,838,587	\$ (13,419,180)	
\$ -	\$ -		\$ (37,985)
		\$ 16,872,846	\$ -
		23,664	-
		72,767	-
		3,359,470	-
		451,038	1,967
		130,438	-
		\$ 20,910,223	\$ 1,967
		\$ 7,491,043	\$ (36,018)
		132,945,879	(314,480)
		\$ 140,436,922	\$ (350,498)

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 16,326,857	\$ 5,406,504
Petty cash and change funds	2,855	100
Departmental cash	8,395	-
Cash with fiscal agent	1,097,089	-
Taxes receivable		
Prior	213,523	70,153
Special assessments receivable		
Prior	-	-
Noncurrent	502,834	-
Accounts receivable	34,846	800
Accrued interest receivable	46,931	-
Due from other funds	5,784	-
Due from other governments	328,171	2,644,077
Inventories	9,251	294,458
Advances to other funds	103,800	-
	\$ 18,680,336	\$ 8,416,092
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 176,964	\$ 180,778
Salaries payable	274,109	63,436
Accrued payroll taxes	15,916	4,447
Accrued interest payable	-	-
Accrued expenses	58,157	8,514
Advances from other funds	-	-
Retainage payable	-	123,552
Due to other funds	353	-
Due to other governments	247,417	16,120
Deferred revenue - unavailable	726,639	2,523,114
Deferred revenue - unearned	34,578	-
Claims payable	102,702	-
	\$ 1,636,835	\$ 2,919,961

EXHIBIT 3

<u>Human Services</u>	<u>Solid Waste</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 4,305,668	\$ 3,496,854	\$ 2,564,942	\$ 1,847,875	\$ 33,948,700
-	20,050	-	-	23,005
-	-	-	-	8,395
-	-	-	-	1,097,089
94,537	-	35,124	160	413,497
-	-	-	1,030	1,030
-	-	-	50,623	553,457
35,506	142,477	-	444	214,073
-	-	-	30	46,961
187	-	-	-	5,971
722,802	1,282	-	11,900	3,708,232
-	-	-	-	303,709
-	-	-	-	103,800
\$ 5,158,700	\$ 3,660,663	\$ 2,600,066	\$ 1,912,062	\$ 40,427,919
\$ 246,789	\$ 68,311	\$ -	\$ 11,263	\$ 684,105
143,936	15,926	-	-	497,407
10,793	1,214	-	-	32,370
-	-	-	109	109
23,662	2,681	-	-	93,014
-	-	-	103,800	103,800
-	-	-	-	123,552
5,618	-	-	-	5,971
113,676	45,736	-	5,079	428,028
264,802	-	35,124	52,207	3,601,886
-	-	-	-	34,578
-	-	-	-	102,702
\$ 809,276	\$ 133,868	\$ 35,124	\$ 172,458	\$ 5,707,522

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009**

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
(Continued)		
Fund Balances		
Reserved for		
Advances to other funds	\$ 103,800	\$ -
Law library	158,372	-
Recorder's equipment	253,903	-
Inventories	9,251	294,458
New jail construction	1,211,524	-
New canine	5,247	-
Lidar and orthophotography	24,906	-
Snowmobile enforcement	6,159	-
Law enforcement	77,586	-
Land records technology	64,364	-
E-911	81,901	-
Veterans van	62,350	-
Drug enforcement	5,419	-
Conservation of natural resources	159,804	-
Petty cash	2,855	100
HAVA equipment	45,159	-
Capital assets	3,361,633	-
Court services	67,183	-
Records compliance	136,476	-
Records preservation	45,909	-
4-H after-school adventures	3,649	-
McLeod for Tomorrow	9,686	-
Solid waste abatement	-	-
Unreserved		
Designated for future expenditures	4,706,340	4,327,823
Undesignated	6,440,025	873,750
Unreserved, reported in nonmajor		
Special revenue fund	-	-
Debt service fund	-	-
	\$ 17,043,501	\$ 5,496,131
Total Fund Balances		
	\$ 17,043,501	\$ 5,496,131
Total Liabilities and Fund Balances	\$ 18,680,336	\$ 8,416,092

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>Solid Waste</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 103,800
-	-	-	-	158,372
-	-	-	-	253,903
-	-	-	-	303,709
-	-	-	-	1,211,524
-	-	-	-	5,247
-	-	-	-	24,906
-	-	-	-	6,159
-	-	-	-	77,586
-	-	-	-	64,364
-	-	-	-	81,901
-	-	-	-	62,350
-	-	-	-	5,419
-	-	-	-	159,804
-	20,050	-	-	23,005
-	-	-	-	45,159
-	-	-	-	3,361,633
-	-	-	-	67,183
-	-	-	-	136,476
-	-	-	-	45,909
-	-	-	-	3,649
-	-	-	-	9,686
-	3,460,630	-	-	3,460,630
2,727,655	-	-	-	11,761,818
1,621,769	46,115	2,564,942	-	11,546,601
-	-	-	12,078	12,078
-	-	-	1,727,526	1,727,526
<u>\$ 4,349,424</u>	<u>\$ 3,526,795</u>	<u>\$ 2,564,942</u>	<u>\$ 1,739,604</u>	<u>\$ 34,720,397</u>
<u>\$ 5,158,700</u>	<u>\$ 3,660,663</u>	<u>\$ 2,600,066</u>	<u>\$ 1,912,062</u>	<u>\$ 40,427,919</u>

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2009**

Fund balance - total governmental funds (Exhibit 3)		\$	34,720,397
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			107,959,849
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			3,601,886
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	\$	(3,780,000)	
Loans payable		(610,172)	
Additional claims payable		(26,078)	
Compensated absences		(1,280,383)	
OPEB liabilities		(166,374)	
Accrued interest payable		(23,989)	
Deferred debt issuance charges		29,916	
Unamortized discount on bonds		11,870	
		<u> </u>	<u>(5,845,210)</u>
Net Assets of Governmental Activities (Exhibit 1)		\$	<u>140,436,922</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>General</u>	<u>Road and Bridge</u>
Revenues		
Taxes	\$ 8,769,394	\$ 3,050,073
Special assessments	48,348	-
Licenses and permits	55,594	3,450
Intergovernmental	4,197,346	6,721,061
Charges for services	1,864,279	202,901
Fines and forfeits	27,154	-
Gifts and contributions	1,234,866	-
Investment earnings	434,766	-
Miscellaneous	381,871	39,453
	<u>\$ 17,013,618</u>	<u>\$ 10,016,938</u>
Total Revenues		
Expenditures		
Current		
General government	\$ 5,287,318	\$ -
Public safety	5,660,490	-
Highways and streets	-	10,105,780
Sanitation	-	-
Human services	-	-
Health	2,049,414	-
Culture and recreation	553,735	-
Conservation of natural resources	649,101	-
Economic development	1,999	-
Intergovernmental	-	184,534
Debt service		
Principal	9,810	-
Interest	1,865	-
Bond issue costs	-	-
Administrative charges	-	-
	<u>\$ 14,213,732</u>	<u>\$ 10,290,314</u>
Total Expenditures		
Excess of Revenues Over (Under) Expenditures	<u>\$ 2,799,886</u>	<u>\$ (273,376)</u>

EXHIBIT 5

<u>Human Services</u>	<u>Solid Waste</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 3,890,019	\$ -	\$ 2,294	\$ 1,184,817	\$ 16,896,597
-	-	-	60,928	109,276
-	8,780	-	-	67,824
4,475,921	91,497	-	105,781	15,591,606
907,413	1,514,293	-	-	4,488,886
-	-	-	-	27,154
-	-	-	-	1,234,866
-	-	15,121	1,151	451,038
196,543	54,647	8,500	-	681,014
\$ 9,469,896	\$ 1,669,217	\$ 25,915	\$ 1,352,677	\$ 39,548,261
\$ -	\$ -	\$ -	\$ 987	\$ 5,288,305
-	-	-	-	5,660,490
-	-	-	-	10,105,780
-	1,779,554	-	-	1,779,554
9,165,948	-	-	-	9,165,948
-	-	-	-	2,049,414
-	-	-	-	553,735
-	-	-	62,334	711,435
-	-	-	-	1,999
-	-	-	-	184,534
-	-	-	250,000	259,810
-	-	-	36,440	38,305
-	-	17,550	-	17,550
-	-	-	5,000	5,000
\$ 9,165,948	\$ 1,779,554	\$ 17,550	\$ 354,761	\$ 35,821,859
\$ 303,948	\$ (110,337)	\$ 8,365	\$ 997,916	\$ 3,726,402

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>General</u>	<u>Road and Bridge</u>
Other Financing Sources (Uses)		
Transfers in	\$ 331,055	\$ 207,140
Transfers out	(987)	-
Discount on bonds	-	-
Loan issued	107,901	-
Proceeds from the sale of bonds	-	-
Proceeds from the sale of capital assets	8,817	35,423
	<u>8,817</u>	<u>35,423</u>
Total Other Financing Sources (Uses)	\$ 446,786	\$ 242,563
Net Change in Fund Balance	\$ 3,246,672	\$ (30,813)
Fund Balance - January 1	13,798,347	5,597,043
Increase (decrease) in reserved for inventories	(1,518)	(70,099)
	<u>(1,518)</u>	<u>(70,099)</u>
Fund Balance - December 31	\$ 17,043,501	\$ 5,496,131
	<u><u>17,043,501</u></u>	<u><u>5,496,131</u></u>

EXHIBIT 5
(Continued)

<u>Human Services</u>	<u>Solid Waste</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 11,566	\$ -	\$ -	\$ 987	\$ 550,748
-	-	(549,761)	-	(550,748)
-	-	(9,000)	-	(9,000)
-	-	-	-	107,901
-	-	3,000,000	-	3,000,000
-	57,000	-	-	101,240
<u>\$ 11,566</u>	<u>\$ 57,000</u>	<u>\$ 2,441,239</u>	<u>\$ 987</u>	<u>\$ 3,200,141</u>
\$ 315,514	\$ (53,337)	\$ 2,449,604	\$ 998,903	\$ 6,926,543
4,033,910	3,580,132	115,338	740,701	27,865,471
-	-	-	-	(71,617)
<u>\$ 4,349,424</u>	<u>\$ 3,526,795</u>	<u>\$ 2,564,942</u>	<u>\$ 1,739,604</u>	<u>\$ 34,720,397</u>

**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, 2009**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 6,926,543

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

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

Deferred revenue - December 31	\$ 3,601,886	
Deferred revenue - January 1	(3,563,339)	38,547

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

Expenditures for general capital assets and infrastructure	\$ 7,224,184	
Net book value of disposed assets	(106,601)	
Current year depreciation	(3,606,476)	3,511,107

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

Loans issued		(107,901)
Bonds issued - net of discounts		(2,991,000)
Bond issuance costs		17,550
Principal repayments - general obligation bonds		250,000
Principal repayments - Minnesota Pollution Control Agency loans		9,810

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

Change in accrued interest payable	\$ (11,582)	
Amortization of deferred issuance charges	(4,121)	
Amortization of discount on bonds	(956)	
Change in compensated absences	(6,381)	
Change in additional claims payable	13,016	
Change in OPEB liability	(81,972)	
Change in inventories	(71,617)	(163,613)

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 7,491,043

FIDUCIARY FUNDS

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McLEOD COUNTY
GLENCOE, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2009

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ 1,084,561
Accounts receivable	5,946
Due from other governments	<u>380,083</u>
Total Assets	<u>\$ 1,470,590</u>
<u>Liabilities</u>	
Accounts payable	\$ 17,410
Salaries payable	12,330
Accrued payroll taxes	884
Accrued expenses	1,708
Due to other governments	<u>1,438,258</u>
Total Liabilities	<u>\$ 1,470,590</u>

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2009. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Discretely Presented Component Unit

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government and its component unit. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

In the government-wide statement of net assets, the governmental activities: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

The County's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

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

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

Additionally, the County reports the following fund types:

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. McLeod County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2009,

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2009 were \$451,038.

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

2. Receivables and Payables

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

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

3. Inventories

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

4. Restricted Assets

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

5. Capital Assets

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Capital Assets (Continued)

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

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

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

6. Compensated Absences

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

7. Deferred Revenue

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

9. Fund Equity

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

10. Use of Estimates

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Revenues

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs. The modified accrual basis of accounting is used by all governmental fund types. Under this basis, revenue is not recognized in the financial statements unless it is available to finance current expenditures.

Imposed Nonexchange Transactions

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

Intergovernmental

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues (Continued)

Exchange Transactions

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

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The Ditch Special Revenue Fund had a fund balance of \$12,078 as of December 31, 2009. Ditch system deficits will be eliminated in future years with special assessment levies against benefited properties. Following is a summary of the individual ditch systems:

38 ditches with positive balances	\$ 113,277
18 ditches with deficit balances	<u>(101,199)</u>
Net Fund Balance	<u>\$ 12,078</u>

B. Component Unit Deficit

The McLeod County HRA at June 30, 2009, had deficit net assets of \$350,498, an increase from the previous year's deficit balance of \$314,480. The decrease in net assets is due, in part, to expenses in excess of revenues.

C. Excess of Expenditures Over Appropriations

In the Road and Bridge Special Revenue Fund, the expenditures exceeded appropriations for the year ended December 31, 2009, by \$2,511,088.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Governmental funds		
Cash and pooled investments	\$	33,948,700
Petty cash and change funds		23,005
Cash with fiscal agent		1,097,089
Departmental cash		8,395
Agency fund		
Cash and pooled investments		1,084,561
Total Cash and Investments	\$	36,161,750
Deposits	\$	24,994,891
Petty cash and change funds		23,005
Departmental cash		8,395
Investments		11,135,459
Total Deposits, Cash on Hand, and Investments	\$	36,161,750

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. The County is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a financial institution failure, the County'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, 2009, McLeod County's deposits were not exposed to custodial credit risk.

b. Investments

The County may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute. Currently, the County has a mutual fund with Wells Fargo rated AAAM by Standard and Poor's and Aaa by Moody's.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy regarding custodial credit risk. At December 31, 2009, all of the investments held in the fiscal agent account listed on the next page totaling \$1,097,089 were subject to custodial credit risk.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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

The following table presents the County's investment balances at December 31, 2009, and information relating to potential investment risks:

Investment - Issuer	Concentration Risk Percent (%)	Interest Rate Risk Maturity Date	Fair Value
McLeod County			
Mutual fund - Public Financial Management			
Cash Management Fund (MAGIC Fund)	80.06		\$ 8,915,370
HH Bonds US Treasury	10.08	N/A	<u>1,123,000</u>
Total mutual fund - Public Financial Management			<u>\$ 10,038,370</u>
Fiscal agent			
Money market			
M&I Bank	0.85	N/A	<u>\$ 93,482</u>
Negotiable certificates of deposit			
Wells Fargo			
Lehman Commercial Bank	0.54	01/25/2010	\$ 60,216
Wachovia Bank - Las Vegas, NV	0.54	02/22/2010	60,216
Capital One National Association - McLean, VA	0.54	03/24/2010	60,216
Capital One Bank USA - Glen Allen, VA	0.54	06/03/2010	60,216
Frontier Bank - Everett, WA	0.54	07/16/2010	60,216
American Express Bank - UT	0.55	09/20/2010	60,832
GMAC Bank - Midvale, UT	0.55	10/14/2010	60,832
CIT Bank	0.55	12/03/2010	61,445
GE Money Bank	0.54	12/20/2010	60,216
Columbus Bank	0.55	12/27/2010	61,445
American Express Centurion Bank - Salt Lake City, UT	0.55	02/07/2011	61,445
Barclays Bank - Delaware	0.55	02/22/2011	61,445
Bank of Whitman	0.55	04/29/2011	61,445
GE Money Bank, UT	0.54	06/20/2011	<u>60,216</u>
Total negotiable certificates of deposit			<u>\$ 850,401</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Investment - Issuer	Concentration Risk Percent (%)	Interest Rate Risk Maturity Date	Fair Value
Mutual fund Wells Fargo Advantage Government MMF Service*	1.38	N/A	\$ 153,206
Total fiscal agent			\$ 1,097,089
Total Investments			\$ 11,135,459

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

2. Receivables

Receivables as of December 31, 2009, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 413,497	\$ -
Special assessments	554,487	553,457
Due from other governments	3,708,232	-
Accounts	214,073	-
Interest	46,961	-
Total Governmental Activities	\$ 4,937,250	\$ 553,457

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 3,961,641	\$ -	\$ -	\$ 3,961,641
Construction in progress	8,906,483	-	8,906,483	-
Infrastructure - right-of-way	3,136,218	14,420	35,423	3,115,215
Total capital assets not depreciated	\$ 16,004,342	\$ 14,420	\$ 8,941,906	\$ 7,076,856
Capital assets depreciated				
Buildings	\$ 19,663,116	\$ 1,898,154	\$ -	\$ 21,561,270
Machinery, furniture, and equipment	8,898,758	516,760	342,557	9,072,961
Improvements other than buildings	772,685	499,248	-	1,271,933
Infrastructure	98,632,774	13,202,085	-	111,834,859
Total capital assets depreciated	\$ 127,967,333	\$ 16,116,247	\$ 342,557	\$ 143,741,023
Less: accumulated depreciation for				
Buildings	\$ 6,801,683	\$ 723,339	\$ -	\$ 7,525,022
Machinery, furniture, and equipment	5,773,012	906,802	271,379	6,408,435
Improvements other than buildings	354,584	48,876	-	403,460
Infrastructure	26,593,654	1,927,459	-	28,521,113
Total accumulated depreciation	\$ 39,522,933	\$ 3,606,476	\$ 271,379	\$ 42,858,030
Total capital assets depreciated, net	\$ 88,444,400	\$ 12,509,771	\$ 71,178	\$ 100,882,993
Governmental Activities Capital Assets, Net	\$ 104,448,742	\$ 12,524,191	\$ 9,013,084	\$ 107,959,849

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

Governmental Activities	
General government	\$ 650,645
Public safety	348,579
Highways and streets, including depreciation of infrastructure assets	2,308,618
Human services	49,701
Health	9,264
Culture and recreation	7,313
Conservation of natural resources	17,861
Sanitation	214,495
Total Depreciation Expense - Governmental Activities	<u>\$ 3,606,476</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. The composition of interfund balances as of December 31, 2009, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	General	\$ 166
	Human Services	5,618
Human Services	General	187
Total Due To/From Other Funds		\$ 5,971

Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch	\$ 103,800

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2009, consisted of the following:

Transfer to General Fund from Capital Projects Fund	\$ 205,080	Capital equipment
Transfer to General Fund from Capital Projects Fund	125,975	Capital equipment
Transfer to Road and Bridge Fund from Capital Projects Fund	207,140	Capital equipment
Transfer to Human Services Fund from Capital Projects Fund	11,566	Capital equipment
Transfer to Forfeited Tax Fund from General Fund	987	Cover negative balance
Total Interfund Transfers	\$ 550,748	

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables of the governmental funds at December 31, 2009, were as follows:

Accounts	\$	684,105
Salaries		497,407
Accrued payroll taxes		32,370
Other accrued liabilities		93,014
Retainage		123,552
Due to other governments		428,028
Claims		102,702
Total Payables	\$	1,961,178

2. Construction Commitments

The County did not have active construction projects as of December 31, 2009. All projects were completed, and only retainage was due to the contractors.

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2009
2005 Capital Improvement Refunding Bonds	2012	\$245,000 - \$270,000	2.45 - 3.10	\$ 1,275,000	\$ 780,000
2009 Capital Notes	2012	\$910,000 - \$1,055,000	0.90 - 1.35	3,000,000	3,000,000
Less: unamortized discount					(11,870)
Net General Obligation Bonds and Capital Notes					\$ 3,768,130
Minnesota Pollution Control Agency (MNPCA) loans	2021	N/A	2.00	629,599	\$ 610,172

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

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, 2009, was \$103,643, which was the principal of the loan. Principal payments of \$9,810 were made in 2009.

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 2009, the loan amount was amended by an additional \$4,502. The total amount disbursed through December 31, 2009, was \$219,502. Repayment of the principal will not begin until 2010.

In 2009, 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, 2009, was \$58,455. Repayment is estimated to begin in 2011.

In 2009, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Crow River Watershed septic system loans. According to the agreement, the County can borrow as much as \$248,000. The total amount disbursed through December 31, 2009, was \$248,000. Repayment is estimated to begin in 2011.

In 2009, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Crow River Watershed septic system loans. According to the agreement, the County can borrow as much as \$300,000. As of December 31, 2009, nothing has been disbursed. Repayment is estimated to begin in 2013.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2009, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds (2005)		General Obligation Capital Equipment Notes (2009)	
	Principal	Interest	Principal	Interest
2010	\$ 250,000	\$ 19,540	\$ 910,000	\$ 29,981
2011	260,000	12,205	1,035,000	20,064
2012	270,000	4,185	1,055,000	7,121
2013	-	-	-	-
2014	-	-	-	-
2015 - 2019	-	-	-	-
2020 - 2021	-	-	-	-
Total	<u>\$ 780,000</u>	<u>\$ 35,930</u>	<u>\$ 3,000,000</u>	<u>\$ 57,166</u>

Year Ending December 31	High Island Watershed Septic System Loans (2004)		High Island Creek Watershed Septic System Loans (2008)	
	Principal	Interest	Principal	Interest
2010	\$ 10,007	\$ 1,669	\$ -	\$ -
2011	10,207	1,467	3,099	667
2012	10,413	1,262	5,397	1,057
2013	10,622	1,053	5,505	949
2014	10,836	839	5,616	838
2015 - 2019	32,131	1,194	29,830	2,442
2020 - 2021	-	-	9,008	135
Total	<u>\$ 84,216</u>	<u>\$ 7,484</u>	<u>\$ 58,455</u>	<u>\$ 6,088</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements

Governmental Activities (Continued)

Year Ending December 31	Crow River Watershed Septic System Loans		Buffalo Creek Watershed Septic System Loans	
	Principal	Interest	Principal	Interest
2010	\$ -	\$ -	\$ 20,989	\$ 4,495
2011	1,869	413	21,411	4,073
2012	22,668	4,715	21,841	3,643
2013	23,125	4,258	22,280	3,204
2014	23,592	3,791	22,728	2,756
2015 - 2019	125,298	11,618	110,252	6,736
2020 - 2021	51,448	1,035	-	-
Total	\$ 248,000	\$ 25,830	\$ 219,501	\$ 24,907

Year Ending December 31	Total	
	Principal	Interest
2010	\$ 1,190,996	\$ 55,685
2011	1,331,586	38,889
2012	1,385,319	21,983
2013	61,532	9,464
2014	62,772	8,224
2015 - 2019	297,511	21,990
2020 - 2021	60,456	1,170
Total	\$ 4,390,172	\$ 157,405

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 1,030,000	\$ -	\$ 250,000	\$ 780,000	\$ 250,000
General obligation capital equipment notes	-	3,000,000	-	3,000,000	910,000
MNPCA loans	561,713	58,269	9,810	610,172	30,996
Less: discounts	3,826	(956)	(9,000)	11,870	-
Total bonds and loans payable	\$ 1,587,887	\$ 3,059,225	\$ 268,810	\$ 4,378,302	\$ 1,190,996
OPEB liability	84,402	81,972	-	166,374	-
Compensated absences	1,274,002	6,381	-	1,280,383	868,100
Long-Term Liabilities	\$ 2,946,291	\$ 3,147,578	\$ 268,810	\$ 5,825,059	\$ 2,059,096

6. Bond Refunding

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

4. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT), formerly the Minnesota Counties Insurance Trust. 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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

4. Risk Management (Continued)

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 \$430,000 per claim in 2009. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

In 2000, the County entered into an agreement with Sibley County to provide a mechanism for utilizing a pooled, self-funded health insurance program under the authority granted to counties in Minn. Stat. § 471.59. Premiums are paid to MCIT, which provides bookkeeping services to the counties, including the payment of claims. For both 2009 and 2010, the County has retained risk up to a \$125,000 stop-loss per covered person per year (\$1,000,000 aggregate) for the health plan.

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

4. Risk Management (Continued)

Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended December 31	
	2009	2008
Unpaid claims, beginning of fiscal year	\$ 149,130	\$ 78,256
Incurred claims (including IBNRs)	1,763,290	1,152,507
Claims payments	(1,783,640)	(1,081,633)
Unpaid Claims, End of Fiscal Year	\$ 128,780	\$ 149,130

5. Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.00 percent, respectively, of their annual covered salary in 2009. Public Employees Police and Fire Fund members are required to contribute 9.40 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2009, 2008, and 2007, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Public Employees Retirement Fund	\$ 637,195	\$ 626,391	\$ 520,741
Public Employees Police and Fire Fund	197,092	187,987	156,865
Public Employees Correctional Fund	70,790	73,075	72,309

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

B. Defined Contribution Plan

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2009, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 6,869	\$ 6,869
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

6. Other Postemployment Benefits (OPEB)

A. Plan Description

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

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, Humana Dental, and Minnesota Life. The required contributions are based on projected pay-as-you-go financing requirements. For fiscal year 2009, the County contributed \$53,852 to the plan. As of January 1, 2009, there were 11 retirees receiving health benefits from the County's health plan.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

6. Other Postemployment Benefits (OPEB) (Continued)

C. Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$	135,824
Interest on net OPEB obligation		-
Adjustment to ARC		-
		-
Annual OPEB cost	\$	135,824
Contributions made		(53,852)
		(53,852)
Increase in net OPEB obligation	\$	81,972
Net OPEB Obligation - Beginning of Year		84,402
		84,402
Net OPEB Obligation - End of Year	<u>\$</u>	<u>166,374</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 and 2009 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2008	\$ 133,406	36.73%	\$ 84,402
December 31, 2009	135,824	39.64	166,374

D. Funded Status and Funding Progress

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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 trends. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

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

For January 1, 2008, the actuarial valuation date, the projected unit credit cost method was used. The actuarial assumptions included a 4.5 percent discount rate, which is based on the investment yield expected to finance benefits. The County currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 9.0 percent initially, reduced incrementally to an ultimate rate of 5.0 percent.

7. Summary of Significant Contingencies and Other Items

A. Secondary Liability for Bonds

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

A. Secondary Liability for Bonds (Continued)

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

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

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

B. Contingent Liabilities

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

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

C. Conduit Debt Obligation

The County has issued Commercial Development Revenue Bonds (Southwest Minnesota Foundation Project) for the purpose of financing all or a portion of the costs of acquisition of land and the construction of an administration building. The bonds are secured by the financed property and are payable solely from the revenue of the project. The bonds do not constitute a charge, lien, or encumbrance, legal or equitable, upon any property or funds of the County, nor is the County subject to any liability thereon. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The amount of outstanding principal was \$3,500,000 as of December 31, 2009.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

D. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board

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

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

Meeker-McLeod-Sibley Community Health Services Board

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Minnesota River Basin

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

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

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

Regional Library

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Southwest Metro Drug Task Force

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

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

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

Prime West Health System

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Prime West Health System (Continued)

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

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

Crow River Joint Powers Agreement

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

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

Trailblazer Transit Board

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Trailblazer Transit Board (Continued)

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

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

Supporting Hands Nurse Family Partnership

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

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

E. Jointly-Governed Organizations

McLeod Family Connection Collaborative

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations

McLeod Family Connection Collaborative (Continued)

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

Minnesota Rural Counties Caucus

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

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

A. Summary of Significant Accounting Policies

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

A. Summary of Significant Accounting Policies (Continued)

Property and Equipment

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

Bond Issuance Costs

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

Use of Estimates

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

B. Cash and Investments

The HRA's cash and investments at June 30, 2009, are summarized as follows:

Cash on deposit	
Restricted	\$ 55,825
Unrestricted	<u>54,911</u>
Total cash on deposit	\$ 110,736
Certificates of deposit, due within one year	
Restricted	<u>31,699</u>
Total Cash and Investments	<u>\$ 142,435</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

B. Cash and Investments (Continued)

Deposits

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

The carrying amount of the HRA's deposits with financial institutions was \$110,736 as of June 30, 2009. Bank balances were \$119,676 as of June 30, 2009, 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 by the HRA treasurer or in a financial institution other than that furnishing the collateral. The market value of collateral pledged must generally exceed deposits not covered by insurance or bonds by at least ten percent. The HRA was in compliance with these Minnesota statutes at all times during the year ended June 30, 2009.

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:

- (1) direct obligations or obligations guaranteed by the United States or its agencies;
- (2) shares of investment companies registered under the Federal Investment Company Act of 1940 whose only investments are in securities described in Minnesota statutes;
- (3) general obligations of the State of Minnesota or any of its municipalities and other state and local government obligations as listed in Minnesota statutes;
- (4) bankers' acceptances of United States banks, eligible for purchase by the Federal Reserve System;

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

B. Cash and Investments

Investments (Continued)

- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is of the highest quality and matures in 270 days or less;
- (6) repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in United States government securities reporting to the Federal Reserve Bank of New York, certain Minnesota securities broker-dealers, or a bank qualified as a depository; and
- (7) guaranteed investment contracts issued or guaranteed by a United States commercial bank or domestic branch of a foreign bank or a United States insurance company or its Canadian or United States subsidiary, provided it ranks on a parity with the senior unsecured debt obligations of the issuer or guarantor and meets other requirements as stated in Minnesota statutes.

C. Property and Equipment

The following is a summary of property and equipment transactions:

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2009</u>
Land	\$ 197,000	\$ -	\$ -	\$ 197,000
Site improvements	166,884	-	-	166,884
Building	4,343,003	-	-	4,343,003
Appliances	117,433	-	-	117,433
Total	\$ 4,824,320	\$ -	\$ -	\$ 4,824,320
Less: accumulated depreciation	<u>(1,197,561)</u>	<u>(127,859)</u>	<u>-</u>	<u>(1,325,420)</u>
Totals	\$ 3,626,759	\$ (127,859)	\$ -	\$ 3,498,900

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

D. Long-Term Debt Payable

The following is a summary of long-term debt transactions for the year ended June 30, 2009:

	<u>June 30, 2008</u>	<u>Issued</u>	<u>Payments</u>	<u>June 30, 2009</u>
Essential Function Housing Development Bond of 1996	\$ 971,180	\$ -	\$ 30,804	\$ 940,376
Essential Function Housing Development Bond of 1997	991,469	-	29,596	961,873
Essential Function Housing Development Bond of 1999	967,479	-	25,354	942,125
Essential Function Housing Development Bond of 2001	1,111,569	-	24,894	1,086,675
Assessments payable	12,737	-	5,850	6,887
Totals	<u>\$ 4,054,434</u>	<u>\$ -</u>	<u>\$ 116,498</u>	<u>\$ 3,937,936</u>

The Essential Function Housing Development Revenue Bond of 1996 matures on September 1, 2027. The bond currently bears an interest rate of 5.0 percent per annum until July 1, 2013, at which time the rate is renegotiated according to the market interest rate and is thereafter adjustable periodically over the life of the bond. Principal and interest are payable monthly. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are insufficient to meet the bond obligations, the HRA may request funds from the McLeod County General Fund by ordering a County-wide tax levy not to exceed \$120,000. The HRA agrees to repay the funds to McLeod County from any subsequent excess cash flows.

The Essential Function Housing Development Revenue Bond of 1997 matures on April 1, 2028. The bond currently bears an interest rate of 5.0 percent per annum until July 1, 2013, at which time the rate is renegotiated according to the market interest rate and is thereafter adjustable periodically over the life of the bond. Principal and interest are payable monthly. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are insufficient to meet the bond obligations, the HRA may request funds from the McLeod County General Fund by ordering a County-wide tax levy not to exceed \$120,000. The HRA agrees to repay the funds to McLeod County from any subsequent excess cash flows.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

D. Long-Term Debt Payable (Continued)

The Essential Function Housing Development Revenue Bond of 1999 matures on May 1, 2030. The bond bears an interest rate of 5.0 percent per annum until July 1, 2013, at which time the rate is renegotiated according to the market interest rate and is thereafter adjustable periodically over the life of the bond. Principal and interest are payable monthly. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are insufficient to meet the operation and maintenance costs, the HRA may request funds from the McLeod County General Fund by ordering a County-wide tax levy not to exceed \$75,000 each calendar year. The HRA agrees to repay the funds to McLeod County after bond obligations have been fulfilled.

The Essential Function Housing Development Revenue Bond of 2001 matures on June 1, 2022. The bond bears an interest rate of 5.4 percent per annum payable monthly; the interest rate shall be adjusted periodically over the life of the bond. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are insufficient to meet the operation and maintenance costs, the HRA may request funds from the McLeod County General Fund by ordering a County-wide tax levy not to exceed \$75,000 each calendar year. The HRA agrees to repay the funds to McLeod County after bond obligations have been fulfilled.

The assessment is payable to the City of Glencoe for the installation of sewer and water facilities. The debt matures April 1, 2009, and bears interest at the rate of 5.0 percent. Payments of \$2,369, including principal and interest, are payable quarterly beginning January 1, 2005. The debt is secured by the property in Glencoe.

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

D. Long-Term Debt Payable (Continued)

The estimated debt service requirements as of June 30, 2009, are as follows:

<u>Years Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 116,585	\$ 197,325	\$ 313,910
2011	122,631	191,279	313,910
2012	128,987	184,922	313,909
2013	135,677	178,234	313,911
2014	142,712	171,200	313,912
2015 - 2019	832,528	736,954	1,569,482
2020 - 2024	1,071,862	497,369	1,569,231
2025 - 2029	1,140,191	197,890	1,338,081
2030 - 2034	246,763	13,428	260,191
Totals	<u>\$ 3,937,936</u>	<u>\$ 2,368,601</u>	<u>\$ 6,306,537</u>

E. Risk Management

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

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

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 9,578,244	\$ 9,578,244	\$ 8,769,394	\$ (808,850)
Special assessments	17,227	17,227	48,348	31,121
Licenses and permits	86,175	86,175	55,594	(30,581)
Intergovernmental	3,304,195	3,304,195	4,197,346	893,151
Charges for services	1,639,517	1,639,517	1,864,279	224,762
Fines and forfeits	26,500	26,500	27,154	654
Gifts and contributions	13,400	13,400	1,234,866	1,221,466
Investment earnings	503,550	503,550	434,766	(68,784)
Miscellaneous	402,804	402,804	381,871	(20,933)
Total Revenues	\$ 15,571,612	\$ 15,571,612	\$ 17,013,618	\$ 1,442,006
Expenditures				
Current				
General government				
Commissioners	\$ 280,662	\$ 280,662	\$ 241,941	\$ 38,721
County-wide	396,546	396,546	15,614	380,932
Courts	132,000	132,000	129,756	2,244
Law library	40,000	40,000	46,159	(6,159)
County administrator	256,806	256,806	257,573	(767)
County auditor	549,542	549,542	527,632	21,910
County treasurer	221,258	221,258	207,171	14,087
County assessor	412,246	412,246	377,025	35,221
Elections	67,251	67,251	9,231	58,020
Data processing	862,570	862,570	716,422	146,148
Central services	224,966	224,966	227,380	(2,414)
Attorney	599,885	599,885	566,632	33,253
Recorder	441,609	441,609	287,485	154,124
Planning and zoning	226,838	226,838	201,028	25,810
Buildings	646,753	646,753	669,977	(23,224)
County insurance	264,376	264,376	129,181	135,195
Veterans service officer	145,678	145,678	146,961	(1,283)
Fairgrounds	248,596	248,596	250,571	(1,975)
Safety	5,415	5,415	4,447	968
Other general government	1,500	1,500	275,132	(273,632)
Total general government	\$ 6,024,497	\$ 6,024,497	\$ 5,287,318	\$ 737,179

**McLEOD COUNTY
GLENCOE, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 3,484,126	\$ 3,484,126	\$ 3,220,730	\$ 263,396
Inmate account	13,500	13,500	2,136	11,364
Probation officer	349,407	349,407	377,235	(27,828)
County jail	1,970,238	1,970,238	1,737,623	232,615
Juvenile detention	2,300	2,300	3,790	(1,490)
Sheriff posse	36,000	36,000	42,802	(6,802)
E-Citation	-	-	63,071	(63,071)
Coroner	99,526	99,526	99,526	-
Emergency services	101,253	101,253	113,577	(12,324)
Total public safety	\$ 6,056,350	\$ 6,056,350	\$ 5,660,490	\$ 395,860
Health				
Nursing service	\$ 2,019,684	\$ 2,019,684	\$ 2,049,414	\$ (29,730)
Culture and recreation				
Historical society	\$ 41,600	\$ 41,600	\$ 41,600	\$ -
Regional library	179,848	179,848	179,848	-
Other	32,520	32,520	31,176	1,344
Parks	278,473	278,473	273,265	5,208
Snowmobile trail grant	30,000	30,000	27,846	2,154
Total culture and recreation	\$ 562,441	\$ 562,441	\$ 553,735	\$ 8,706
Conservation of natural resources				
Soil and water conservation	\$ 63,400	\$ 63,400	\$ 63,400	\$ -
County extension	238,373	238,373	215,588	22,785
Agriculture ditch inspector	19,819	19,819	14,982	4,837
Water planning	32,571	32,571	33,331	(760)
Wetland	31,974	31,974	32,696	(722)
Shoreland	6,808	6,808	7,027	(219)
Board of adjustment	2,842	2,842	1,357	1,485
Feedlot	62,900	62,900	66,125	(3,225)
Environmental services	146,551	146,551	112,626	33,925
Other	11,957	11,957	11,311	646
Ag programming	3,000	3,000	3,842	(842)
Septic loans	87,357	87,357	86,816	541
Total conservation of natural resources	\$ 707,552	\$ 707,552	\$ 649,101	\$ 58,451

**McLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Housing and redevelopment authority	\$ 2,476	\$ 2,476	\$ 1,999	\$ 477
Debt service				
Principal	\$ 9,810	\$ 9,810	\$ 9,810	\$ -
Interest	1,865	1,865	1,865	-
Total debt service	<u>\$ 11,675</u>	<u>\$ 11,675</u>	<u>\$ 11,675</u>	<u>\$ -</u>
Total Expenditures	<u>\$ 15,384,675</u>	<u>\$ 15,384,675</u>	<u>\$ 14,213,732</u>	<u>\$ 1,170,943</u>
Excess of Revenues Over (Under)				
Expenditures	<u>\$ 186,937</u>	<u>\$ 186,937</u>	<u>\$ 2,799,886</u>	<u>\$ 2,612,949</u>
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 331,055	\$ 331,055
Transfers out	-	-	(987)	(987)
Loan issued	-	-	107,901	107,901
Proceeds from the sale of capital assets	5,000	5,000	8,817	3,817
Total Other Financing Sources (Uses)	<u>\$ 5,000</u>	<u>\$ 5,000</u>	<u>\$ 446,786</u>	<u>\$ 441,786</u>
Net Change in Fund Balance	<u>\$ 191,937</u>	<u>\$ 191,937</u>	<u>\$ 3,246,672</u>	<u>\$ 3,054,735</u>
Fund Balance - January 1	13,798,347	13,798,347	13,798,347	-
Increase (decrease) in reserved for inventories	<u>-</u>	<u>-</u>	<u>(1,518)</u>	<u>(1,518)</u>
Fund Balance - December 31	<u><u>\$ 13,990,284</u></u>	<u><u>\$ 13,990,284</u></u>	<u><u>\$ 17,043,501</u></u>	<u><u>\$ 3,053,217</u></u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,411,097	\$ 3,411,097	\$ 3,050,073	\$ (361,024)
Licenses and permits	5,000	5,000	3,450	(1,550)
Intergovernmental	4,224,000	4,224,000	6,721,061	2,497,061
Charges for services	247,000	247,000	202,901	(44,099)
Miscellaneous	32,000	32,000	39,453	7,453
Total Revenues	\$ 7,919,097	\$ 7,919,097	\$ 10,016,938	\$ 2,097,841
Expenditures				
Current				
Highways and streets				
Administration	\$ 804,169	\$ 804,169	\$ 725,590	\$ 78,579
GIS	183,542	183,542	135,488	48,054
Maintenance	1,997,337	1,997,337	1,705,752	291,585
Engineering/construction	4,006,000	4,006,000	6,925,109	(2,919,109)
Equipment, maintenance, and shop	788,178	788,178	613,841	174,337
Total highways and streets	\$ 7,779,226	\$ 7,779,226	\$ 10,105,780	\$ (2,326,554)
Intergovernmental	-	-	184,534	(184,534)
Total Expenditures	\$ 7,779,226	\$ 7,779,226	\$ 10,290,314	\$ (2,511,088)
Excess of Revenues Over (Under)				
Expenditures	\$ 139,871	\$ 139,871	\$ (273,376)	\$ (413,247)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 207,140	\$ 207,140
Proceeds from the sale of capital assets	-	-	35,423	35,423
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 242,563	\$ 242,563
Net Change in Fund Balance	\$ 139,871	\$ 139,871	\$ (30,813)	\$ (170,684)
Fund Balance - January 1	5,597,043	5,597,043	5,597,043	-
Increase (decrease) in reserved for inventories	-	-	(70,099)	(70,099)
Fund Balance - December 31	\$ 5,736,914	\$ 5,736,914	\$ 5,496,131	\$ (240,783)

**McLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 4,275,401	\$ 4,275,401	\$ 3,890,019	\$ (385,382)
Intergovernmental	3,657,424	3,657,424	4,475,921	818,497
Charges for services	1,014,240	1,014,240	907,413	(106,827)
Miscellaneous	182,000	182,000	196,543	14,543
Total Revenues	\$ 9,129,065	\$ 9,129,065	\$ 9,469,896	\$ 340,831
Expenditures				
Current				
Human services				
Income maintenance	\$ 2,180,407	\$ 2,180,407	\$ 2,081,350	\$ 99,057
Social services	6,571,407	6,571,407	6,449,894	121,513
Transit authority	447,600	447,600	634,704	(187,104)
Total Expenditures	\$ 9,199,414	\$ 9,199,414	\$ 9,165,948	\$ 33,466
Excess of Revenues Over (Under) Expenditures	\$ (70,349)	\$ (70,349)	\$ 303,948	\$ 374,297
Other Financing Sources (Uses)				
Transfers in	-	-	11,566	11,566
Net Change in Fund Balance	\$ (70,349)	\$ (70,349)	\$ 315,514	\$ 385,863
Fund Balance - January 1	4,033,910	4,033,910	4,033,910	-
Fund Balance - December 31	\$ 3,963,561	\$ 3,963,561	\$ 4,349,424	\$ 385,863

**McLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 5,500	\$ 5,500	\$ 8,780	\$ 3,280
Intergovernmental	90,793	90,793	91,497	704
Charges for services	1,618,500	1,618,500	1,514,293	(104,207)
Miscellaneous	43,001	43,001	54,647	11,646
Total Revenues	\$ 1,757,794	\$ 1,757,794	\$ 1,669,217	\$ (88,577)
Expenditures				
Current				
Sanitation				
Recycling	2,495,089	2,495,089	1,779,554	715,535
Excess of Revenues Over (Under)				
Expenditures	\$ (737,295)	\$ (737,295)	\$ (110,337)	\$ 626,958
Other Financing Sources (Uses)				
Transfers in	\$ 1,625,146	\$ 1,625,146	\$ -	\$ (1,625,146)
Transfers out	(1,621,046)	(1,621,046)	-	1,621,046
Proceeds from the sale of capital assets	-	-	57,000	57,000
Total Other Financing Sources (Uses)	\$ 4,100	\$ 4,100	\$ 57,000	\$ 52,900
Net Change in Fund Balance	\$ (733,195)	\$ (733,195)	\$ (53,337)	\$ 679,858
Fund Balance - January 1	3,580,132	3,580,132	3,580,132	-
Fund Balance - December 31	\$ 2,846,937	\$ 2,846,937	\$ 3,526,795	\$ 679,858

**McLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 5

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2009**

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

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2009**

1. Budgetary Information

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

On December 16, 2008, the Board approved the budgets for the General Fund, Road and Bridge Special Revenue Fund, Solid Waste Special Revenue Fund, Human Services Special Revenue Fund, and the Debt Service Fund.

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

2. Excess of Expenditures Over Appropriations

In the General Fund, the following departments' expenditures exceeded appropriations for the year ended December 31, 2009:

Law Library	\$	6,159
County Administrator		767
Central Services		2,414
Buildings		23,224
Veterans Service Officer		1,283
Fairgrounds		1,975
Other General Government		273,632
Public Health Nursing		29,730
Probation Officer		27,828
Juvenile Detention		1,490
Sheriff Posse		6,802
E-Citation		63,071
Emergency Services		12,324
Water Planning		760
Wetland		722
Shoreland		219
Feedlot		3,225
Ag Programming		842

In the Road and Bridge Special Revenue Fund, the expenditures exceeded appropriations for the year ended December 31, 2009, by \$2,511,088.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Other Postemployment Benefits

Beginning in 2008, McLeod County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Currently, only one year's worth of data is available. Future reports will provide additional trend analysis to meet the three-year funding status requirement as the information becomes available.

SUPPLEMENTARY INFORMATION

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**MCLEOD COUNTY
GLENCOE, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The special revenue funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for specified purposes. The Ditch Fund and the Forfeited Tax Fund do not have legally adopted budgets.

The Ditch Fund accounts for funds used to maintain County ditches. Financing is provided by special assessments against the benefited properties.

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. This fund was closed in 2009.

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**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2009**

	Ditch Special Revenue	Debt Service	Total
<u>Assets</u>			
Cash and pooled investments	\$ 120,349	\$ 1,727,526	\$ 1,847,875
Taxes receivable			
Prior	-	160	160
Special assessments receivable			
Prior	1,030	-	1,030
Noncurrent	50,623	-	50,623
Accounts receivable	444	-	444
Accrued interest receivable	30	-	30
Due from other governments	11,900	-	11,900
	\$ 184,376	\$ 1,727,686	\$ 1,912,062
Total Assets	\$ 184,376	\$ 1,727,686	\$ 1,912,062
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 11,263	\$ -	\$ 11,263
Accrued interest payable	109	-	109
Advance from other funds	103,800	-	103,800
Due to other governments	5,079	-	5,079
Deferred revenue - unavailable	52,047	160	52,207
	\$ 172,298	\$ 160	\$ 172,458
Total Liabilities	\$ 172,298	\$ 160	\$ 172,458
Fund Balances			
Unreserved			
Designated for debt service	\$ -	\$ 1,727,526	\$ 1,727,526
Undesignated	12,078	-	12,078
	\$ 12,078	\$ 1,727,526	\$ 1,739,604
Total Fund Balances	\$ 12,078	\$ 1,727,526	\$ 1,739,604
Total Liabilities and Fund Balances	\$ 184,376	\$ 1,727,686	\$ 1,912,062

**McLEOD COUNTY
GLENCOE, MINNESOTA**

Statement 2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Total</u>
	<u>Ditch</u>	<u>Forfeited Tax</u>		
Revenues				
Taxes	\$ -	\$ -	\$ 1,184,817	\$ 1,184,817
Special assessments	60,928	-	-	60,928
Intergovernmental	-	-	105,781	105,781
Investment earnings	1,151	-	-	1,151
Total Revenues	\$ 62,079	\$ -	\$ 1,290,598	\$ 1,352,677
Expenditures				
Current				
General government	\$ -	\$ 987	\$ -	\$ 987
Conservation of natural resources	62,334	-	-	62,334
Debt service				
Principal	-	-	250,000	250,000
Interest	4,092	-	32,348	36,440
Administrative - fiscal charges	-	-	5,000	5,000
Total Expenditures	\$ 66,426	\$ 987	\$ 287,348	\$ 354,761
Excess of Revenues Over (Under)				
Expenditures	\$ (4,347)	\$ (987)	\$ 1,003,250	\$ 997,916
Other Financing Sources (Uses)				
Transfers in	-	987	-	987
Net Change in Fund Balance	\$ (4,347)	\$ -	\$ 1,003,250	\$ 998,903
Fund Balance - January 1	16,425	-	724,276	740,701
Fund Balance - December 31	\$ 12,078	\$ -	\$ 1,727,526	\$ 1,739,604

**McLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,293,105	\$ 1,293,105	\$ 1,184,817	\$ (108,288)
Intergovernmental	-	-	105,781	105,781
Total Revenues	\$ 1,293,105	\$ 1,293,105	\$ 1,290,598	\$ (2,507)
Expenditures				
Debt service				
Principal	\$ 1,250,000	\$ 1,250,000	\$ 250,000	\$ 1,000,000
Interest	26,290	26,290	32,348	(6,058)
Administrative charges	500	500	5,000	(4,500)
Total Expenditures	\$ 1,276,790	\$ 1,276,790	\$ 287,348	\$ 989,442
Excess of Revenues Over (Under)				
Expenditures	\$ 16,315	\$ 16,315	\$ 1,003,250	\$ 986,935
Fund Balance - January 1	724,276	724,276	724,276	-
Fund Balance - December 31	\$ 740,591	\$ 740,591	\$ 1,727,526	\$ 986,935

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AGENCY FUNDS

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 117,913	\$ 2,046,278	\$ 1,801,422	\$ 362,769
Due from other governments	280,105	295,006	280,105	295,006
Total Assets	\$ 398,018	\$ 2,341,284	\$ 2,081,527	\$ 657,775
<u>Liabilities</u>				
Accounts payable	\$ 891	\$ 10,373	\$ 891	\$ 10,373
Due to other governments	397,127	647,402	397,127	647,402
Total Liabilities	\$ 398,018	\$ 657,775	\$ 398,018	\$ 657,775
 <u>SUPPORTING HANDS NURSE FAMILY PARTNERSHIP FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 107,072	\$ 547,474	502,444	\$ 152,102
Accounts receivable	16,726	-	16,726	-
Due from other governments	27,852	62,744	27,852	62,744
Total Assets	\$ 151,650	\$ 610,218	\$ 547,022	\$ 214,846
<u>Liabilities</u>				
Accounts payable	\$ 60	\$ 589	\$ 60	\$ 589
Salaries payable	8,951	12,330	8,951	12,330
Accrued payroll taxes	637	884	637	884
Accrued expenses	1,223	1,708	1,223	1,708
Due to other governments	140,779	199,335	140,779	199,335
Total Liabilities	\$ 151,650	\$ 214,846	\$ 151,650	\$ 214,846

**McLEOD COUNTY
GLENCOE, MINNESOTA**

Statement 3
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 291,326	\$ 41,184,232	\$ 41,211,610	\$ 263,948
<u>Liabilities</u>				
Accounts payable	\$ 276	\$ 6,376	\$ 276	\$ 6,376
Due to other governments	291,050	257,572	291,050	257,572
Total Liabilities	\$ 291,326	\$ 263,948	\$ 291,326	\$ 263,948
 <u>STATE AGENCY FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 85,002	\$ 3,374,361	\$ 3,363,326	\$ 96,037
Accounts receivable	705	5,946	705	5,946
Due from other governments	9,708	22,333	9,708	22,333
Total Assets	\$ 95,415	\$ 3,402,640	\$ 3,373,739	\$ 124,316
<u>Liabilities</u>				
Due to other governments	\$ 95,415	\$ 124,316	\$ 95,415	\$ 124,316

**McLEOD COUNTY
GLENCOE, MINNESOTA**

Statement 3
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Balance January 1	Additions	Deductions	Balance December 31
<u>COUNTY COLLABORATIVE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 216,401	\$ 12,407	\$ 19,103	\$ 209,705
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 72	\$ -	\$ 72
Due to other governments	216,401	209,633	216,401	209,633
Total Assets	\$ 216,401	\$ 209,705	\$ 216,401	\$ 209,705
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 817,714	\$ 47,164,752	\$ 46,897,905	\$ 1,084,561
Accounts receivable	17,431	5,946	17,431	5,946
Due from other governments	317,665	380,083	317,665	380,083
Total Assets	\$ 1,152,810	\$ 47,550,781	\$ 47,233,001	\$ 1,470,590
<u>Liabilities</u>				
Accounts payable	\$ 1,227	\$ 17,410	\$ 1,227	\$ 17,410
Salaries payable	8,951	12,330	8,951	12,330
Accrued payroll taxes	637	884	637	884
Accrued expenses	1,223	1,708	1,223	1,708
Due to other governments	1,140,772	1,438,258	1,140,772	1,438,258
Total Liabilities	\$ 1,152,810	\$ 1,470,590	\$ 1,152,810	\$ 1,470,590

**McLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 7

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2009**

Shared Revenue

State

Highway users tax	\$	3,396,395
Market value credit		1,510,662
PERA rate reimbursement		36,151
Disparity reduction aid		60,756
County program aid		1,751,901
Police aid		168,779
E-911		73,013
		73,013

Total shared revenue **\$ 6,997,657**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	1,128,634
		1,128,634

Payments

Local

Payments in lieu of taxes	\$	141,883
		141,883

Grants

Local

Highway	\$	157,567
		157,567

State

Minnesota Department/Board of		
Corrections	\$	100,947
Transportation		966,903
Health		190,662
Natural Resources		32,738
Human Services		1,222,942
Water and Soil Resources		88,752
Veterans Affairs		9,870
Pollution Control Agency		91,497
		91,497

Total state **\$ 2,704,311**

Federal

Department of		
Agriculture	\$	353,616
Justice		84,573
Transportation		1,944,570
Health and Human Services		2,034,270
Homeland Security		44,525
		44,525

Total federal **\$ 4,461,554**

Total local, state, and federal grants **\$ 7,323,432**

Total Intergovernmental Revenue **\$ 15,591,606**

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 8

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009

I. SUMMARY OF AUDITOR'S RESULTS

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

Highway Planning and Construction Cluster	
Highway Planning and Construction	CFDA #20.205
Highway Planning and Construction - ARRA	CFDA #20.205
Temporary Assistance for Needy Families	CFDA #93.558
Child Support Enforcement Cluster	
Child Support Enforcement	CFDA #93.563
Child Support Enforcement - ARRA	CFDA #93.563

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

I. McLeod County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-1 Accounting Policies and Procedures

Previous reports have recommended that a comprehensive manual of accounting policies and procedures be developed. As noted in the prior year report, the County Board did adopt a receipts policy in 2009. Of importance to the County's overall internal controls are written procedures covering the payroll process and financial reporting. These areas are significant to the County's financial operations and should help in providing consistency over time and guidance to new officials and staff.

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

Client's Response:

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

07-1 Monitoring Internal Controls

In our previous reports, we commented on the responsibility of County management for monitoring its internal controls and performing a risk assessment of existing controls over significant functions of its accounting system used to produce financial information. Significant functions and internal controls include and cover such areas as cash, capital assets, major funding sources, expenditure processing, and payroll. We also commented

on the need for the County to formalize its assessments of risks in its review of internal controls; to document the significant internal controls; to perform monitoring activity of the internal controls on a regular basis, no less than annually; and to document the monitoring activity.

No changes have been made in monitoring internal controls. We again recommend that the County document the significant internal controls in the accounting system and formalize a plan to assess and monitor these controls on a regular basis, no less than annually. The monitoring should be documented to show the results of the review, changes required as a result of the risk assessment, and who performed the work.

Client's Response:

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

ITEM ARISING THIS YEAR

09-1 Segregation of Duties - Fairground

Our review of the County Fairground Department found that one individual is responsible for the renting of the facilities, including entering into the rental agreement and determining the amount of rent charged based on the County Board-Approved Fee Schedule; invoicing the tenant for the rent, if not collected on the date of the rental; collecting the rent; and preparing the deposit to be submitted to the County Treasurer. Management should be aware of this condition and realize that the concentration of duties and responsibilities in one person is not desirable from an internal control point of view, increasing the risk that errors or irregularities may occur and not be detected in a timely manner.

We recommend that McLeod County management be aware of the lack of segregation of duties at the Fairground and, where possible, implement oversight procedures to ensure that internal control policies and procedures are being followed by staff.

Client's Response:

McLeod County understands the need for segregation of duties at the fairgrounds. Because of the small fairgrounds staff, the parks superintendent and the extension office secretary will be involved with the invoicing and collections procedures.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

09-2 Ditch Fund Balance Deficits

Eighteen of the 56 individual ditch systems have deficit unreserved, undesignated fund balances as of December 31, 2009, totaling \$101,199, the largest being \$20,081. These 18 ditches combined with the remaining ditch systems leave the Ditch Special Revenue Fund with a positive unreserved, undesignated fund balance of \$12,078.

As provided by Minn. Stat. § 103E.735, subd. 1 (2009), 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 \$40,000, whichever is larger. In 2010, the repair fund monetary cap was increased to \$100,000. See 2010 Minn. Laws, ch. 298, § 7.

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

Client's Response:

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

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

The Commissioners realize Minn. Stat. § 103E.735, subd. 1, gives the authority to establish a fund balance not to exceed 20 percent of the assessed benefits for the drainage system or \$40,000, 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.

B. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of this standard is to enhance the usefulness of information included in the financial report about fund balance through clearer fund balance classifications that can be more consistently applied, as well as to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance reserved, unreserved, designated, and undesignated are being replaced by nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in Statement 54. Interpretations of certain terms within the definition of special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of GASB Statement 54 are effective for McLeod County for the year ended December 31, 2011.



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

Board of County Commissioners
McLeod County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of McLeod County as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 2010. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the McLeod County Housing and Redevelopment Authority (HRA), as described in our report on McLeod County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 99-1, 07-1, and 09-1, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention to those charged with governance.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

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

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

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2010

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

Board of County Commissioners
McLeod County

Compliance

We have audited the compliance of McLeod County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. McLeod County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

McLeod County's financial statements include the operations of the Housing and Redevelopment Authority (HRA) discretely presented component unit, which expended \$307,973 in federal awards during the year ended June 30, 2009, which are not included in the accompanying Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the McLeod County HRA because the McLeod County HRA was audited by other auditors.

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

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

In our opinion, McLeod County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of McLeod County as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 2010. We did not audit the financial statements of the McLeod County HRA, a component unit

of McLeod County. Our audit was performed for the purpose of forming opinions on the County's financial statements that collectively comprise McLeod County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2010

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 9

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Meeker-McLeod-Sibley Community Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 193,930
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster		
State Administrative Matching Grants for SNAP	10.561	153,763
State Administrative Matching Grants for SNAP - ARRA	10.561	4,828
		<hr/>
Total U.S. Department of Agriculture		\$ 352,521
U.S. Department of Justice		
Direct		
State Criminal Alien Assistance Program	16.606	\$ 19,327
Bulletproof Vest Partnership Program	16.607	2,175
Passed Through Minnesota Department of Public Safety Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories - ARRA	16.803	63,071
		<hr/>
Total U.S. Department of Justice		\$ 84,573
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster		
Highway Planning and Construction	20.205	\$ 1,955,618
Highway Planning and Construction - ARRA	20.205	317,742
Passed Through Minnesota Department of Public Safety		
State and Community Highway Safety	20.600	6,000
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	5,577
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	499
Passed Through the City of Glencoe State and Community Highway Safety	20.600	6,876
		<hr/>
Total U.S. Department of Transportation		\$ 2,292,312

**McLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 9
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	\$ 2,984
Temporary Assistance for Needy Families	93.558	278,723
Child Support Enforcement Cluster		
Child Support Enforcement	93.563	514,552
Child Support Enforcement - ARRA	93.563	82,033
Refugee and Entrant Assistance - State-Administered Programs	93.566	384
Child Welfare Services - State Grants	93.645	9,521
Foster Care - Title IV-E Cluster		
Foster Care - Title IV-E	93.658	168,356
Foster Care - Title IV-E - ARRA	93.658	6,524
Social Services Block Grant	93.667	191,287
Chafee Foster Care Independence Program	93.674	2,461
Medical Assistance Program	93.778	531,865
Block Grants for Community Mental Health Services	93.958	2,021
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	22,686
Passed Through Meeker-McLeod-Sibley Community Health Services		
Public Health Emergency Preparedness	93.069	20,634
Immunization Grants	93.268	620
Drug-Free Communities Support Program Grants	93.276	76,373
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	43,936
Temporary Assistance for Needy Families	93.558	28,770
Medical Assistance Program	93.778	31,993
Maternal and Child Health Services Block Grant to States	93.994	32,055
Total U.S. Department of Health and Human Services		\$ 2,047,778
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Hazard Mitigation Grant	97.039	\$ 24,750
Emergency Management Performance Grants	97.042	19,775
Total U.S. Department of Homeland Security		\$ 44,525
Total Federal Awards		\$ 4,821,709

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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 \$307,973 in federal awards during the year ended June 30, 2009, which are not included in the Schedule of Expenditures of Federal Awards.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of McLeod County under programs of the federal government for the year ended December 31, 2009. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of McLeod County, it is not intended to and does not present the financial position or changes in net assets of McLeod County.

3. Summary of Significant Accounting Policies

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 4,461,554
Grants received more than 60 days after year-end, deferred in 2009	
Highway Planning and Construction	347,742
Foster Care - Title IV-E	10,375
Medical Assistance Program	82,984
Child Support Enforcement	24,900
Deferred in 2008, recognized as revenue in 2009	
Special Supplemental Nutrition Program for Women, Infants, and Children	(1,095)
Foster Care - Title IV-E	(1,671)
Drug-Free Communities Support Program Grants	(10,606)
Medical Assistance Program	(76,238)
Child Support Enforcement	(16,236)
	<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 4,821,709

5. Subrecipients

During 2009, McLeod County did not pass any federal money to subrecipients.

6. American Recovery and Reinvestment Act

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