

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

McLEOD COUNTY
GLENCOE, MINNESOTA

YEAR ENDED DECEMBER 31, 2016

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 650 public pension funds; and

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

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

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

Year Ended December 31, 2016



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

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

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GLENCOE, MINNESOTA**

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GLENCOE, MINNESOTA**

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

ORGANIZATION
2016

Office	Name	Term of Office	
		From	To
Commissioners			
1st District	Ron Shimanski	January 2014	January 2017
2nd District	Doug Krueger	January 2015	January 2019
3rd District	Paul Wright*	January 2009	January 2017
4th District	Sheldon Nies	January 1995	January 2017
5th District	Joe Nagel	January 2015	January 2019
Officers			
Elected			
Attorney	Michael K. Junge	May 1987	January 2019
Auditor-Treasurer	Cindy Schultz Ford	January 1995	January 2019
Recorder	Lynnette Schrupp	January 2003	January 2019
Sheriff	Scott Rehmann	January 2007	January 2019
District Judge	Michael Savre	May 2004	January 2019
District Judge	Terrence E. Conkel	August 1998	January 2019
Appointed			
Agriculture & Weed Inspector	Allan Koglin	January 1997	January 2017
Assessor	Sue Schulz	March 2005	January 2017
Coroner	Dr. Quinn Strobl	January 2011	December 2016
County Administrator	Pat Melvin	November 2008	Indefinite
Court Administrator	Karen Messner	January 2008	Indefinite
Environmentalist	Roger Berggren	October 1995	Indefinite
Highway Engineer	John Brunkhorst	November 2001	May 2018
Human Services Director	Gary Sprynczynatyk	August 1995	Indefinite
Information Systems Director	Vince Traver	November 2012	Indefinite
Park Superintendent	Allan Koglin	August 1979	Indefinite
Public Health Nurse Director	Jennifer Hauser	June 2015	Indefinite
Regional Extension Director	Sarah Chur	January 2006	Indefinite
Surveyor	Jeff Rausch	February 1996	January 2017
Solid Waste Director	Ed Homan	December 1973	Indefinite
Veterans Service Officer	James Lauer	November 2004	January 2017
Zoning Administrator	Larry Gasow	February 2000	January 2017

*Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
McLeod County
Glencoe, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of McLeod County, Minnesota, as of and for the year ended December 31, 2016, including the McLeod County Housing and Redevelopment Authority (HRA) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

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

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

Opinions

In our opinion, based on our report and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of McLeod County as of December 31, 2016, including the McLeod County HRA as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise McLeod County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to

the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2017, on our consideration of McLeod County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McLeod County's internal control over financial reporting and compliance. It does not include the McLeod County HRA, which was audited by other auditors.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 11, 2017

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(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, 2016. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of McLeod County exceeded liabilities and deferred inflows of resources at the end of the current fiscal year by \$159,172,164 (net position). Of this amount, \$19,918,652 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position decreased by \$460,769 (0.3 percent). The decrease is because of the pension reporting requirements.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$13,934,564, or 68.1 percent, of total 2016 General Fund expenditures.
- Governmental funds' fund balances decreased by \$2,322,069.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

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

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

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

- General Fund - used to account for all financial resources not required to be accounted for in another fund.
- Special Revenue Funds - used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The special revenue funds include Road and Bridge, Human Services, Solid Waste, Ditch, and Forfeited Tax.
- Capital Projects Fund - used to account for financial resources to be used for capital acquisition, construction, or improvement of capital facilities.
- Debt Service Fund - used to account for the accumulation of resources for, and the payment of, principal, interest, and related costs of general long-term debt.

Fiduciary Funds

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

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

Notes to the Financial Statements

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

Other Information

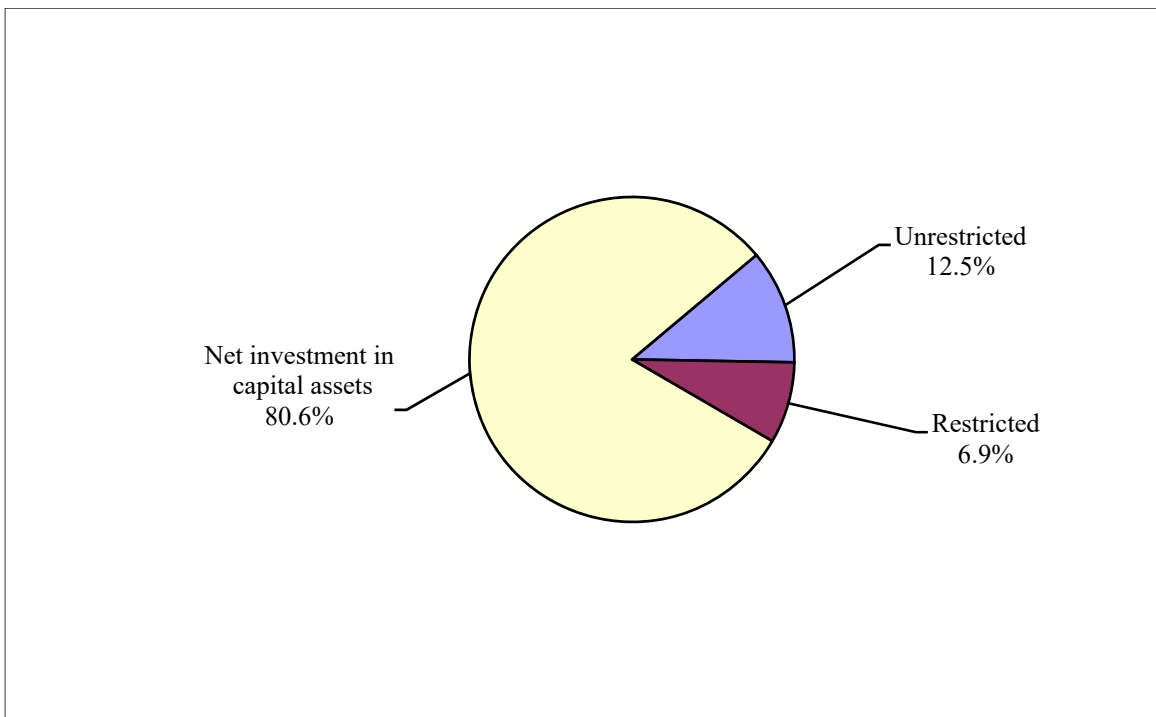
In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of McLeod County, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$159,172,164 as of December 31, 2016. The net investment in capital assets is the largest portion of McLeod County's net position at 80.6 percent. These capital assets are used to provide services to citizens and are not available for future spending.

Approximately 6.9 percent of McLeod County's net position is subject to external restrictions on how they may be used and, therefore, are considered restricted. The remaining 12.5 percent, or \$19,918,652, is unrestricted and available to be used to meet the government's ongoing obligations to citizens and creditors.

Net Position



Net Position

	Governmental Activities		Discretely Presented Component Unit	
	2016	2015	2016	2015
Current and other assets	\$ 56,683,687	\$ 55,236,164	\$ 159,102	\$ 103,142
Capital assets	135,104,216	132,124,475	2,731,611	2,836,000
Total Assets	\$ 191,787,903	\$ 187,360,639	\$ 2,890,713	\$ 2,939,142
Deferred outflows of resources	\$ 12,355,969	\$ 1,949,194	-	-
Current and other liabilities	\$ 4,005,506	\$ 3,239,991	\$ 111,920	\$ 96,106
Long-term liabilities - due within one year	2,116,793	2,074,544	174,364	157,898
Long-term liabilities - due in more than one year	36,618,290	23,297,431	2,798,154	2,980,593
Total Liabilities	\$ 42,740,589	\$ 28,611,966	\$ 3,084,438	\$ 3,234,597
Deferred inflows of resources	\$ 2,231,119	\$ 1,064,934	-	-
Net Position				
Investment in capital assets	\$ 128,217,199	\$ 125,486,101	\$ (240,907)	\$ (302,491)
Restricted	11,036,313	13,846,479	7,845	1,575
Unrestricted	19,918,652	20,300,353	39,337	5,461
Total Net Position	\$ 159,172,164	\$ 159,632,933	\$ (193,725)	\$ (295,455)

GOVERNMENTAL ACTIVITIES

McLeod County's governmental activities decreased net position by \$460,769 during the current fiscal year. This decrease is primarily due to an increase in net pension obligation.

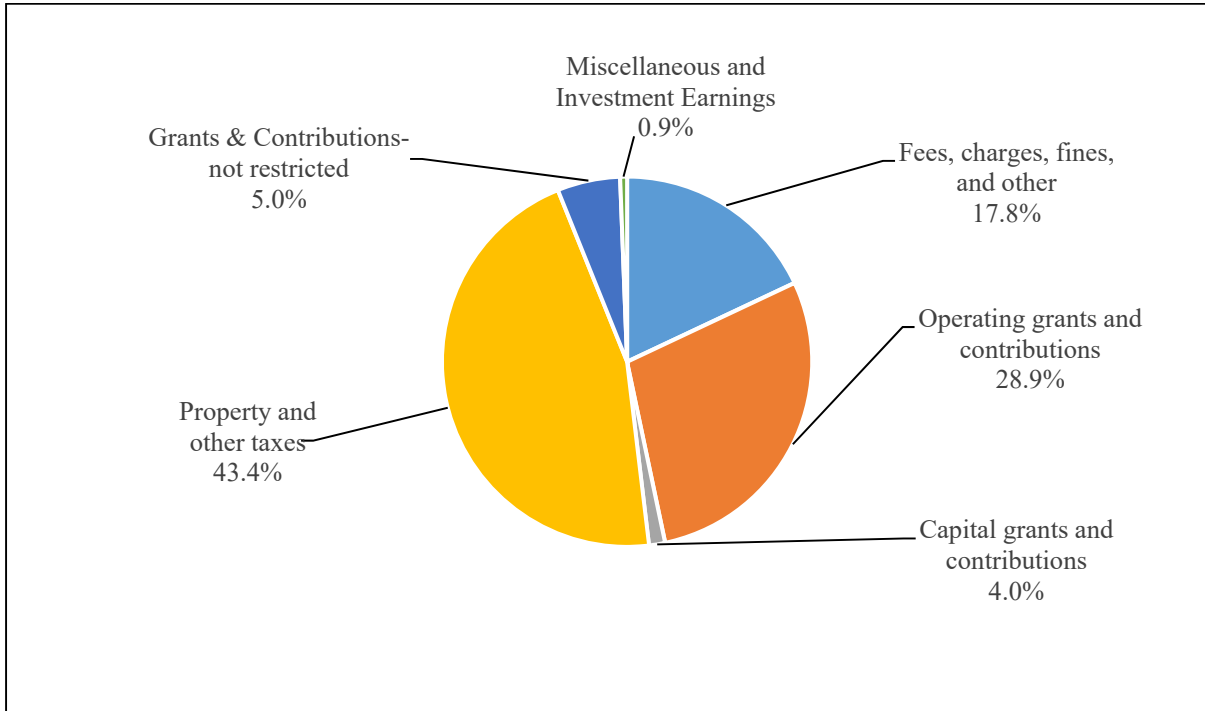
The McLeod County HRA is a discretely presented component unit of McLeod County. As of June 30, 2016, liabilities exceeded assets by \$193,725, and there was an increase in net position of \$101,730 from the prior year. The increase is primarily due to revenues in excess of expenses.

Changes in Net Position

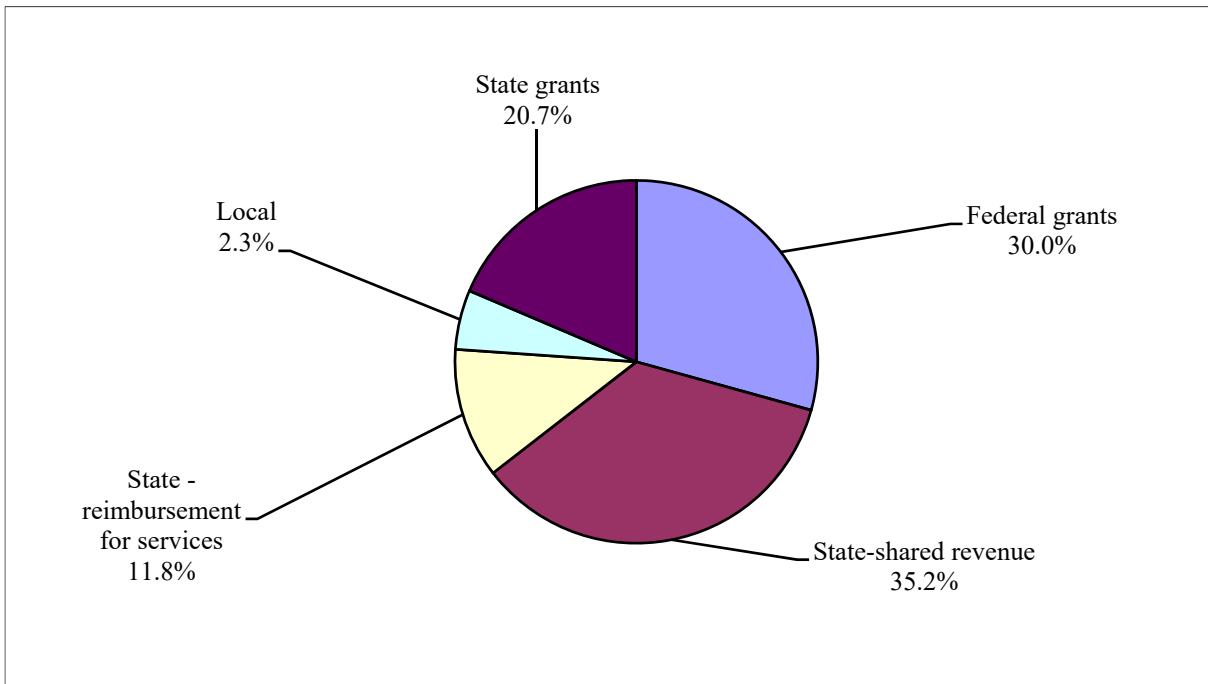
	Governmental Activities		Discretely Presented Component Unit	
	2016	2015	2016	2015
Revenues				
Program revenues				
Fees, charges, fines, and other	\$ 7,774,502	\$ 7,250,718	\$ 555,187	\$ 503,402
Operating grants and contributions	12,634,871	11,529,152	497,060	386,911
Capital grants and contributions	1,755,563	551,963	-	-
General revenues				
Property taxes	18,498,365	17,959,194	-	-
Other taxes	478,847	456,979	-	-
Grants and contributions not restricted to specific programs	2,205,807	2,193,620	-	-
Investment income	141,416	159,017	179	145
Miscellaneous	285,906	119,095	9,047	-
Total Revenues	\$ 43,775,277	\$ 40,219,738	\$ 1,061,473	\$ 890,458
Expenses				
General government	\$ 7,550,824	\$ 6,972,748	\$ -	\$ -
Public safety	7,631,045	6,194,917	-	-
Highways and streets	7,822,036	7,956,516	-	-
Sanitation	3,667,878	3,760,543	-	-
Human services	11,542,825	10,386,221	-	-
Health	3,151,667	2,656,747	-	-
Culture and recreation	728,364	670,590	-	-
Conservation of natural resources	1,928,204	2,171,652	-	-
Economic development	15,193	1,895	-	-
Interest	198,010	149,443	-	-
HRA	-	-	959,743	850,745
Total Expenses	\$ 44,236,046	\$ 40,921,272	\$ 959,743	\$ 850,745
Increase (Decrease) in Net Position	\$ (460,769)	\$ (701,534)	\$ 101,730	\$ 39,713
Net Position - January 1	159,632,933	160,334,467	(295,455)	(335,168)
Net Position - December 31	\$ 159,172,164	\$ 159,632,933	\$ (193,725)	\$ (295,455)

The following charts show additional information on the revenues of McLeod County for the year ended December 31, 2016.

Revenues by Source - Governmental Activities



Intergovernmental Revenue



(Unaudited)

FINANCIAL ANALYSIS

Governmental Funds

At the end of 2016, McLeod County's governmental funds reported a combined fund balance of \$44,908,935. This is a decrease of \$2,322,069 from the prior year. The fund balance in the General Fund decreased by \$2,942,138 due to increased expenditures. The fund balance in the Road and Bridge Special Revenue Fund increased by \$925,616 due to a transfer in from the Capital Projects Fund. The fund balance in the Human Services Special Revenue Fund increased by \$333,241 due to increased revenues. The fund balance in the Solid Waste Special Revenue Fund decreased by \$1,230,805 due in part to transfers to the Debt Service Fund for bond payments. The fund balance in the Ditch Special Revenue Fund increased by \$1,852,292 due to the issuance of bonds. There was also a decrease in the nonmajor governmental funds of \$1,260,275 due to a transfer to the Road and Bridge Special Revenue Fund.

General Fund Budgetary Highlights

In total, General Fund revenues for 2016 exceeded the amounts budgeted by \$333,869. Licenses and permits, intergovernmental, charges for services, fines and forfeits, and miscellaneous came in higher than anticipated. Total General Fund expenditures were \$1,638,370 more than the final budget. This variance is primarily attributed to public safety capital outlay related to construction of the new jail.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

At the end of 2016, McLeod County had \$135,104,216 invested in capital assets, including land; construction in progress; infrastructure right-of-way; infrastructure; buildings; machinery, furniture, and equipment; and improvements other than buildings. The table below shows a summary of McLeod County's capital assets as of December 31.

	Capital Assets (Net of Depreciation)	
	2016	2015
Land	\$ 3,956,141	\$ 3,956,141
Construction in progress	3,255,504	100,942
Infrastructure - right-of-way	3,304,987	3,173,372
Buildings	14,622,974	15,470,770
Machinery, furniture, and equipment	4,463,144	4,854,616
Improvements other than buildings	667,002	704,877
Infrastructure	104,834,464	103,863,757
Total	\$ 135,104,216	\$ 132,124,475

Major capital asset events during the year included the following:

- New Jail construction in 2016.
- Infrastructure construction continued in 2016.

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

Long-Term Debt

At the end of current fiscal year, McLeod County had bonded debt outstanding of \$11,220,000. This is an increase in bonded debt outstanding of \$1,435,000 due to the issuance of ditch bonds. McLeod County had loans outstanding of \$1,367,711. This is an increase in loans payable of \$81,934 from the beginning of the year. The increase was from additional septic loans.

Current and future County tax levies are used to finance the County's debt obligations. State statutes limit the amount of general obligation debt a county can incur to no more than three percent of the market value of taxable property in the county. The current debt limitation for McLeod County is \$114,269,226.

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 5.0 percent. McLeod County's unemployment rate is more than the state unemployment rate of 4.0 percent, and more than the United States unemployment rate of 4.7 percent.
- The property tax levy increased in 2016, and could increase in the future to cover rising costs. However, the tax base in McLeod County is also expanding, which diminishes the effect to the individual taxpayer.

All of these factors were considered in preparing McLeod County's budget for the 2017 fiscal year.

REQUESTS FOR INFORMATION

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

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2016**

	<u>Primary Government Governmental Activities</u>	<u>Housing and Redevelopment Authority Component Unit</u>
<u>Assets</u>		
Cash and pooled investments	\$ 44,515,216	\$ 96,237
Petty cash and change funds	22,555	-
Departmental cash	46,096	-
Cash with fiscal agent	662,765	-
Taxes receivable		
Delinquent	371,363	-
Special assessments receivable		
Delinquent	25,624	-
Noncurrent	2,087,369	-
Accounts receivable	478,778	4,403
Accrued interest receivable	8,872	-
Due from other governments	7,846,594	-
Inventories	618,455	-
Prepaid items	-	2,687
Restricted assets		
Cash and pooled investments	-	55,775
Capital assets		
Non-depreciable	10,516,632	197,000
Depreciable - net of accumulated depreciation	<u>124,587,584</u>	<u>2,534,611</u>
Total Assets	<u>\$ 191,787,903</u>	<u>\$ 2,890,713</u>
<u>Deferred Outflows of Resources</u>		
Deferred pension outflows	<u>\$ 12,355,969</u>	<u>\$ -</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET POSITION
DECEMBER 31, 2016**

	Primary Government Governmental Activities	Housing and Redevelopment Authority Component Unit
<u>Liabilities</u>		
Accounts payable	\$ 1,620,249	\$ 11,062
Salaries payable	916,526	-
Accrued payroll taxes	66,148	-
Accrued interest payable	2,816	-
Other accrued expenses	520,094	37,913
Retainage payable	21,700	-
Due to other governments	457,618	-
Unearned revenue	86,216	16,481
Claims payable	314,139	-
Long-term liabilities		
Due within one year	2,116,793	174,364
Due in more than one year	11,957,590	2,798,154
Net pension obligations	23,535,451	-
Net other postemployment benefits obligations	1,125,249	-
Liabilities payable from restricted assets (security deposits)	-	46,464
	\$ 42,740,589	\$ 3,084,438
<u>Deferred Inflows of Resources</u>		
Deferred pension inflows	\$ 2,231,119	\$ -
<u>Net Position</u>		
Net investment in capital assets	\$ 128,217,199	\$ (240,907)
Restricted for		
General government	731,121	-
Public safety	1,477,454	-
Sanitation	2,975,101	-
Conservation of natural resources	3,064,516	-
Economic development	-	7,845
Capital projects	2,008,269	-
Debt service	779,852	-
Unrestricted	19,918,652	39,337
	\$ 159,172,164	\$ (193,725)

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 7,550,824	\$ 1,093,119
Public safety	7,631,045	254,351
Highways and streets	7,822,036	169,398
Sanitation	3,667,878	2,508,442
Human services	11,542,825	1,513,562
Health	3,151,667	1,006,800
Culture and recreation	728,364	100,125
Conservation of natural resources	1,928,204	1,128,705
Economic development	15,193	-
Interest	198,010	-
	\$ 44,236,046	\$ 7,774,502
Total Primary Government	\$ 44,236,046	\$ 7,774,502
Component unit		
Housing and Redevelopment Authority	\$ 959,743	\$ 555,187

General Revenues

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

Total general revenues

Change in net position

Net Position - Beginning

Net Position - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Position	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Discretely Presented Component Unit
\$ 23,654	\$ -	\$ (6,434,051)	
479,118	-	(6,897,576)	
5,026,370	1,755,563	(870,705)	
-	-	(1,159,436)	
5,461,516	-	(4,567,747)	
1,409,043	-	(735,824)	
-	-	(628,239)	
235,170	-	(564,329)	
-	-	(15,193)	
-	-	(198,010)	
\$ 12,634,871	\$ 1,755,563	\$ (22,071,110)	
\$ 497,060	\$ -		\$ 92,504
		\$ 18,498,365	\$ -
		28,640	-
		376,374	-
		73,833	-
		2,205,807	-
		141,416	179
		285,906	9,047
		\$ 21,610,341	\$ 9,226
		\$ (460,769)	\$ 101,730
		159,632,933	(295,455)
		\$ 159,172,164	\$ (193,725)

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 22,952,207	\$ 7,156,240
Petty cash and change funds	12,130	100
Departmental cash	6,495	-
Cash with fiscal agent	662,765	-
Taxes receivable		
Delinquent	228,136	65,599
Special assessments receivable		
Delinquent	16,781	-
Noncurrent	645,933	-
Accounts receivable	79,072	2,400
Accrued interest receivable	8,872	-
Due from other governments	597,387	6,250,223
Inventories	4,915	613,540
Advances to other funds	963,800	-
	\$ 26,178,493	\$ 14,088,102
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 643,305	\$ 278,724
Salaries payable	497,013	104,146
Accrued payroll taxes	34,423	7,967
Accrued interest payable	-	-
Accrued expenses	429,427	16,802
Advances from other funds	-	-
Retainage payable	-	21,700
Due to other governments	192,046	13,811
Unearned revenue	86,216	-
Claims payable	314,139	-
	\$ 2,196,569	\$ 443,150
Deferred Inflows of Resources		
Unavailable revenue	\$ 1,087,956	\$ 5,010,153

EXHIBIT 3

<u>Human Services</u>	<u>Solid Waste</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 6,776,591	\$ 3,117,021	\$ 1,699,054	\$ 2,814,103	\$ 44,515,216
-	10,325	-	-	22,555
-	39,601	-	-	46,096
-	-	-	-	662,765
77,628	-	-	-	371,363
-	-	4,657	4,186	25,624
-	-	1,441,436	-	2,087,369
280,279	115,998	1,029	-	478,778
-	-	-	-	8,872
986,374	-	12,610	-	7,846,594
-	-	-	-	618,455
-	-	-	-	963,800
<u>\$ 8,120,872</u>	<u>\$ 3,282,945</u>	<u>\$ 3,158,786</u>	<u>\$ 2,818,289</u>	<u>\$ 57,647,487</u>
\$ 409,438	\$ 247,077	\$ 31,708	\$ 9,997	\$ 1,620,249
288,199	27,168	-	-	916,526
21,726	2,032	-	-	66,148
-	-	2,816	-	2,816
67,622	6,243	-	-	520,094
-	-	963,800	-	963,800
-	-	-	-	21,700
209,961	23,951	17,849	-	457,618
-	-	-	-	86,216
-	-	-	-	314,139
<u>\$ 996,946</u>	<u>\$ 306,471</u>	<u>\$ 1,016,173</u>	<u>\$ 9,997</u>	<u>\$ 4,969,306</u>
<u>\$ 208,248</u>	<u>\$ -</u>	<u>\$ 1,458,703</u>	<u>\$ 4,186</u>	<u>\$ 7,769,246</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	General	Road and Bridge
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
(Continued)		
Fund Balances		
Nonspendable		
Inventories	\$ 4,915	\$ 613,540
Advances to other funds	963,800	-
Restricted for		
E-911	61,841	-
Law library	65,750	-
Capital projects	-	-
Recorder's equipment purchases	210,807	-
New jail construction	1,403,203	-
Land records technology	31,704	-
Drug enforcement	12,410	-
Conservation	524,698	-
Debt service	-	-
Records compliance	354,547	-
Solid waste abatement	-	-
Aquatic invasive species	132,811	-
Forfeited tax	-	-
Escrow	48,142	-
Ditch maintenance and construction	-	-
Assigned for		
Capital projects	4,578,772	-
Assigned for 4H after school program	5,321	-
Aerial photos	42,110	-
Veterans van	55,665	-
New canine	13,107	-
Ag programing	202	-
Assigned for ARMER radio enhancements	30,000	-
Record preservation	44,590	-
Snowmobile enforcement	251	-
Law enforcement	164,757	-
Court services	110,001	-
Contracted projects	100,000	-
Highways and streets	-	8,021,259
Human services	-	-
Unassigned	13,934,564	-
Total Fund Balances	\$ 22,893,968	\$ 8,634,799
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 26,178,493	\$ 14,088,102

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>Solid Waste</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 618,455
-	-	-	-	963,800
-	-	-	-	61,841
-	-	-	-	65,750
-	-	-	2,008,269	2,008,269
-	-	-	-	210,807
-	-	-	-	1,403,203
-	-	-	-	31,704
-	-	-	-	12,410
-	-	-	-	524,698
-	-	-	779,852	779,852
-	-	-	-	354,547
-	2,976,474	-	-	2,976,474
-	-	-	-	132,811
-	-	-	15,985	15,985
-	-	-	-	48,142
-	-	1,661,079	-	1,661,079
-	-	-	-	4,578,772
-	-	-	-	5,321
-	-	-	-	42,110
-	-	-	-	55,665
-	-	-	-	13,107
-	-	-	-	202
-	-	-	-	30,000
-	-	-	-	44,590
-	-	-	-	251
-	-	-	-	164,757
-	-	-	-	110,001
-	-	-	-	100,000
-	-	-	-	8,021,259
6,915,678	-	-	-	6,915,678
-	-	(977,169)	-	12,957,395
\$ 6,915,678	\$ 2,976,474	\$ 683,910	\$ 2,804,106	\$ 44,908,935
\$ 8,120,872	\$ 3,282,945	\$ 3,158,786	\$ 2,818,289	\$ 57,647,487

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2016**

Fund balance - total governmental funds (Exhibit 3)	\$	44,908,935
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		135,104,216
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		7,769,246
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	\$ (11,220,000)	
Unamortized premium on bonds	(175,282)	
Loans payable	(1,367,711)	
Compensated absences	(1,311,390)	
Net other postemployment benefits obligations	(1,125,249)	
Net pension obligations	<u>(23,535,451)</u>	(38,735,083)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.		
Deferred pension outflows	\$ 12,355,969	
Deferred pension inflows	<u>(2,231,119)</u>	<u>10,124,850</u>
Net Position of Governmental Activities (Exhibit 1)		<u>\$ 159,172,164</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	General	Road and Bridge
Revenues		
Taxes	\$ 10,576,867	\$ 3,562,620
Special assessments	155,340	-
Licenses and permits	84,727	15,375
Intergovernmental	3,576,135	4,536,235
Charges for services	2,224,649	216,758
Fines and forfeits	33,546	-
Gifts and contributions	20,547	-
Investment earnings	138,202	-
Miscellaneous	484,279	2,155
	\$ 17,294,292	\$ 8,333,143
Expenditures		
Current		
General government	\$ 7,006,732	\$ -
Public safety	6,122,911	-
Highways and streets	-	8,386,040
Sanitation	-	-
Human services	-	-
Health	2,912,478	-
Culture and recreation	691,620	-
Conservation of natural resources	804,644	-
Economic development	15,193	-
Capital outlay	2,776,149	-
Intergovernmental	-	268,011
Debt service		
Principal	130,057	-
Interest	15,765	-
	\$ 20,475,549	\$ 8,654,051
Excess of Revenues Over (Under) Expenditures	\$ (3,181,257)	\$ (320,908)
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ 1,200,000
Transfers out	-	-
Loan issued	211,991	-
Bonds issued	-	-
Proceeds from the sale of capital assets	28,524	10,528
	\$ 240,515	\$ 1,210,528
Net Change in Fund Balance	\$ (2,940,742)	\$ 889,620
Fund Balance - January 1	25,836,106	7,709,183
Increase (decrease) in inventories	(1,396)	35,996
	\$ 22,893,968	\$ 8,634,799
Fund Balance - December 31	\$ 22,893,968	\$ 8,634,799

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

EXHIBIT 5

<u>Human Services</u>	<u>Solid Waste</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 4,006,913	\$ -	\$ -	\$ 693,258	\$ 18,839,658
-	-	465,325	-	620,665
-	7,145	-	-	107,247
5,828,437	105,002	-	13,718	14,059,527
693,113	2,398,313	-	-	5,532,833
-	-	-	26,601	60,147
-	-	-	-	20,547
-	-	3,214	-	141,416
858,843	104,359	-	2,079	1,451,715
\$ 11,387,306	\$ 2,614,819	\$ 468,539	\$ 735,656	\$ 40,833,755
\$ -	\$ -	\$ -	\$ 29,849	\$ 7,036,581
-	-	-	-	6,122,911
-	-	-	-	8,386,040
-	3,235,141	-	-	3,235,141
11,054,065	-	-	-	11,054,065
-	-	-	-	2,912,478
-	-	-	-	691,620
-	-	1,092,976	-	1,897,620
-	-	-	-	15,193
-	-	-	133,115	2,909,264
-	-	-	-	268,011
-	-	-	1,055,000	1,185,057
-	-	13,271	188,450	217,486
\$ 11,054,065	\$ 3,235,141	\$ 1,106,247	\$ 1,406,414	\$ 45,931,467
\$ 333,241	\$ (620,322)	\$ (637,708)	\$ (670,758)	\$ (5,097,712)
\$ -	\$ -	\$ -	\$ 610,483	\$ 1,810,483
-	(610,483)	-	(1,200,000)	(1,810,483)
-	-	-	-	211,991
-	-	2,490,000	-	2,490,000
-	-	-	-	39,052
\$ -	\$ (610,483)	\$ 2,490,000	\$ (589,517)	\$ 2,741,043
\$ 333,241	\$ (1,230,805)	\$ 1,852,292	\$ (1,260,275)	\$ (2,356,669)
6,582,437	4,207,279	(1,168,382)	4,064,381	47,231,004
-	-	-	-	34,600
\$ 6,915,678	\$ 2,976,474	\$ 683,910	\$ 2,804,106	\$ 44,908,935

**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, 2016**

Net change in fund balance - total governmental funds (Exhibit 5) \$ (2,356,669)

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

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

Unavailable revenue - December 31	\$ 7,769,246	
Unavailable revenue - January 1	(4,765,169)	3,004,077

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

Expenditures for general capital assets and infrastructure	\$ 8,316,020	
Net book value of disposed assets	(21,361)	
Current year depreciation	(5,314,918)	2,979,741

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

Loan issued	\$ (211,991)	
Bonds issued	(2,490,000)	
Principal repayments - general obligation bonds	1,055,000	
Principal repayments - Minnesota Pollution Control Agency loans	130,057	(1,516,934)

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

Amortization of premiums on bonds	\$ 19,476	
Change in compensated absences	539	
Change in net other postemployment benefits obligations	(161,464)	
Change in net pension obligations	(11,704,725)	
Change in deferred pension outflows	10,406,775	
Change in deferred pension inflows	(1,166,185)	
Change in inventories	34,600	(2,570,984)

Change in Net Position of Governmental Activities (Exhibit 2) \$ (460,769)

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

FIDUCIARY FUNDS

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2016**

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ 666,783
Departmental cash	6,663
Accounts receivable	2,978
Due from other governments	<u>585,999</u>
Total Assets	<u>\$ 1,262,423</u>
<u>Liabilities</u>	
Accounts payable	\$ 52,321
Salaries payable	15,740
Accrued payroll taxes	1,092
Accrued expenses	2,866
Due to other governments	<u>1,190,404</u>
Total Liabilities	<u>\$ 1,262,423</u>

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2016. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Discretely Presented Component Unit

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

Component Unit	Component Unit Included in Reporting Entity Because	Separate Financial Statements
McLeod County Housing and Redevelopment Authority (HRA) provides services pursuant to Minn. Stat. §§ 469.001-469.047.	The County appoints the members, and the HRA is a financial burden.	McLeod County HRA 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 and Jointly-Governed Organizations

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

The County's net position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor-Treasurer for the purpose of increasing earnings through investment activities. Investments are reported at their fair value at December 31, 2016. A market approach is used to value all investments other than external investment pools, which are measured at the net asset or fair value per share. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. In 2016, the County reported pooled investment earnings of \$138,202.

McLeod County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The investment in the pool is measured at the net asset value per share provided by the pool.

2. Receivables and Payables

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables (Continued)

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

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

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable. No provision has been made for an estimated uncollectible amount.

Special assessments receivable consist of delinquent special assessments payable in the years 2009 to 2016 and noncurrent special assessments payable in 2016 and after. No provision has been made for an estimated uncollectible amount.

3. Inventories

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Capital Assets (Continued)

more than the established threshold and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value.

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

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

<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
Machinery, furniture, and equipment	5,000	3 - 20

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid accumulated, vacation, comp time, vested sick leave balances, and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion is based on percentages predetermined by management based on historical information. The noncurrent portion consists of the remaining amount of vacation and vested sick leave. Compensated absences are liquidated through the General Fund and the Road and Bridge, Human Services, and Solid Waste Special Revenue Funds.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Long-Term Obligations

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

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

7. Pension Plan

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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the County has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows arise

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Deferred Outflows/Inflows of Resources (Continued)

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

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue or reduction of expense) until that time. The County has two such items that qualify for reporting in this category. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The County also has deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

9. Unearned Revenue

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Classification of Net Position

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

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

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

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

11. Classification of Fund Balance

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balance (Continued)

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

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

12. Use of Estimates

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

E. Revenues

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

Imposed Nonexchange Transactions

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

Intergovernmental

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues

Intergovernmental (Continued)

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

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

Exchange Transactions

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

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The Ditch Special Revenue Fund had a positive fund balance of \$683,910 as of December 31, 2016, although 24 ditches had deficit balances. The deficits will be eliminated with future special assessment levies against the benefited properties. The following is a summary of the individual ditch systems:

33 ditches with positive fund balances	\$ 1,661,079
24 ditches with deficit fund balances	<u>(977,169)</u>
Total Fund Balance	<u>\$ 683,910</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

2. Stewardship, Compliance, and Accountability (Continued)

B. Component Unit Deficit

The McLeod County HRA, at June 30, 2016, had a deficit net position of \$193,725, an improvement from the previous year's deficit balance of \$295,455. The increase in net position is due, in part, to revenues in excess of expenses.

C. New Jail Construction

The fund balance restricted for new jail construction, and a portion of the net position restricted for public safety, was donated to McLeod County by the estate of Annamarie Tudhope. The table below summarizes the donations and interest received from the estate each year.

Year Ending December 31	Donations	Interest
2009	\$ 1,170,500	\$ 41,024
2010	2,264,482	24,445
2011	150,000	39,997
2012	130,432	26,760
2013	-	22,196
2014	-	13,222
2015	-	11,398
2016	-	10,913

As of December 31, 2016, \$1,403,203 was restricted for new jail construction.

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	\$	44,515,216
Petty cash and change funds		22,555
Departmental cash		46,096
Cash with fiscal agent		662,765
Agency fund		
Cash and pooled investments		666,783
Departmental cash		6,663
		673,447
Total Cash and Investments	\$	45,920,078

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Deposits	\$ 32,042,497
Petty cash and change funds	22,555
Departmental cash	52,759
Cash with fiscal agent	662,765
Investments	<u>13,139,502</u>
Total Deposits, Cash on Hand, and Investments	<u>\$ 45,920,078</u>

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a policy on custodial credit risk for deposits. As of December 31, 2016, McLeod County's deposits were not exposed to custodial credit risk.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy regarding custodial credit risk. At December 31, 2016, the County's investments were not exposed 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, 2016, and information relating to potential investment risks:

<u>Investment - Issuer</u>	<u>Concentration Risk Percent (%)</u>	<u>Interest Rate Risk Maturity Date</u>	<u>Carrying (Fair) Value</u>
MAGIC Portfolio fund - Public Financial Management	N/A		\$ 8,892,047
MAGIC Term fund - Public Financial Management	N/A	04/17/2017	<u>1,000,000</u>
Total MAGIC funds			<u>\$ 9,892,047</u>
Negotiable Certificates of Deposit - Wells Fargo Advisors			
GE Capital Bank		07/27/2018	\$ 247,117
GE Capital Bank		07/27/2018	<u>247,117</u>
Total Negotiable Certificates of Deposit	3.65		<u>\$ 494,234</u>
Money Market Accounts - Wells Fargo Advisors			
Treasury Money Market	20.34	N/A	<u>\$ 2,753,221</u>
Total Investments			<u>\$ 13,139,502</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

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

At December 31, 2016, the County had the following recurring fair value measurements:

	December 31, 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
Negotiable certificates of deposit	\$ 494,234	\$ -	\$ 494,234	\$ -
Investments measured at the net asset value (NAV)				
MAGIC Portfolio	\$ 8,892,047			
MAGIC Term	1,000,000			
Money Market Mutual Funds	2,753,221			
Total Investments Measured at the NAV	\$ 12,645,268			

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

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

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

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2016, are as follows:

	Governmental Activities	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes	\$ 371,363	\$ -
Special assessments	2,112,993	2,087,369
Accounts	478,778	-
Accrued interest	8,872	-
Due from other governments	7,846,594	-
Total Receivables	\$ 10,818,600	\$ 2,087,369

3. Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 3,956,141	\$ -	\$ -	\$ 3,956,141
Construction in progress	100,942	3,199,077	44,515	3,255,504
Infrastructure - right-of-way	3,173,372	131,615	-	3,304,987
Total capital assets not depreciated	\$ 7,230,455	\$ 3,330,692	\$ 44,515	\$ 10,516,632
Capital assets depreciated				
Buildings	\$ 27,622,427	\$ 128,676	\$ -	\$ 27,751,103
Machinery, furniture, and equipment	15,418,859	1,072,571	505,815	15,985,615
Improvements other than buildings	1,462,055	41,756	-	1,503,811
Infrastructure	146,998,164	3,786,840	-	150,785,004
Total capital assets depreciated	\$ 191,501,505	\$ 5,029,843	\$ 505,815	\$ 196,025,533

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 12,151,657	\$ 976,472	\$ -	\$ 13,128,129
Machinery, furniture, and equipment	10,564,243	1,442,682	484,454	11,522,471
Improvements other than buildings	757,178	79,631	-	836,809
Infrastructure	43,134,407	2,816,133	-	45,950,540
Total accumulated depreciation	<u>\$ 66,607,485</u>	<u>\$ 5,314,918</u>	<u>\$ 484,454</u>	<u>\$ 71,437,949</u>
Total capital assets depreciated, net	<u>\$ 124,894,020</u>	<u>\$ (285,075)</u>	<u>\$ 21,361</u>	<u>\$ 124,587,584</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 132,124,475</u>	<u>\$ 3,045,617</u>	<u>\$ 65,876</u>	<u>\$ 135,104,216</u>

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

Governmental Activities	
General government	\$ 798,185
Public safety	536,292
Highways and streets, including depreciation of infrastructure assets	3,407,472
Sanitation	426,281
Human services	94,863
Health	15,241
Culture and recreation	33,722
Conservation of natural resources	2,862
Total Depreciation Expense - Governmental Activities	<u>\$ 5,314,918</u>

B. Interfund Receivables, Payables, and Transfers

1. The composition of interfund balances as of December 31, 2016, is as follows:

Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch	<u>\$ 963,800</u>

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2016, consisted of the following:

Transfer to Road and Bridge Special Revenue Fund from Capital Projects Fund	\$ 1,200,000	County road construction projects
Transfer to Debt Service Fund from Solid Waste Special Revenue Fund	<u>610,483</u>	Debt repayment
Total	<u>\$ 1,810,483</u>	

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2016, were as follows:

	Governmental Activities
Accounts	\$ 1,620,249
Salaries	916,526
Accrued payroll taxes	66,148
Accrued interest	2,816
Other accrued expenses	520,094
Retainage	21,700
Due to other governments	457,618
Claims	<u>314,139</u>
Total Payables	<u>\$ 3,919,290</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

2. Construction Commitments

The County has active construction projects as of December 31, 2016. The projects include the following:

	Spent-to-Date	Remaining Commitment
Xerox Tax/Cama Project	\$ 56,427	\$ 371,073
New Jail Construction	3,199,077	4,502,122

3. Unearned Revenue/Deferred Inflows of Resources

Unearned revenue and deferred inflows of resources consist of state grants and other receivables received but not yet earned, and special assessments, taxes, state grants, and other receivables not collected soon enough after year-end to pay liabilities of the current period. Unearned revenue and deferred inflows of resources at December 31, 2016, are summarized below by fund:

	Special Assessments	Taxes	Grants	Other	Total
Major governmental funds					
General	\$ 450,723	\$ 251,966	\$ 467,387	\$ 4,096	\$ 1,174,172
Road and Bridge	-	72,439	4,937,523	191	5,010,153
Human Services	-	85,673	65,983	56,592	208,248
Ditch	1,446,093	-	-	12,610	1,458,703
Nonmajor governmental funds					
Forfeited Tax	4,186	-	-	-	4,186
Total	\$ 1,901,002	\$ 410,078	\$ 5,470,893	\$ 73,489	\$ 7,855,462
Liability					
Unearned revenue	\$ -	\$ -	\$ 86,216	\$ -	\$ 86,216
Deferred inflows of resources					
Unavailable revenue	1,901,002	410,078	5,384,677	73,489	7,769,246
Total	\$ 1,901,002	\$ 410,078	\$ 5,470,893	\$ 73,489	\$ 7,855,462

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

4. Long-Term Debt

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2016</u>
2014 General Obligation Bonds	2025	\$900,000 - \$1,055,000	2.000 - 2.125	\$ 9,785,000	\$ 8,730,000
2016 General Obligation Drainage Bonds	2032	\$150,000 - \$175,000	1.000 - 2.000	2,490,000	2,490,000
Minnesota Pollution Control Agency (MnPCA) loans	2024	N/A	2.000	1,992,881	<u>1,367,711</u>
Total					<u>\$ 12,587,711</u>

In 2004, the County entered into a loan agreement with the Minnesota Pollution Control Agency for High Island Creek Watershed septic system loans. According to the agreement, the County could borrow as much as \$191,000. The total amount disbursed through December 31, 2016, was \$103,643, which was the principal of the loan; accumulated interest is \$1,700. Principal payments of \$11,276 were made in 2016.

In 2008, the County entered into a loan agreement with the Minnesota Pollution Control Agency for High Island Creek Watershed septic system loans. According to the agreement, the County could borrow as much as \$115,000. The total amount disbursed through December 31, 2016, was \$115,000; accumulated interest is \$2,352. Principal payments of \$11,833 were made in 2016.

In 2008, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Buffalo Creek Watershed septic system loans. According to the agreement, the County can borrow as much as \$215,000. In 2010, the loan amount was amended by an additional \$4,502. The total amount disbursed through December 31, 2016, was \$219,502; accumulated interest is \$10,429. Principal payments of \$23,651 were made in 2016.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Long-Term Debt (Continued)

In 2008, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Crow River Watershed septic system loans. According to the agreement, the County can borrow as much as \$248,000. In 2010, the loan amount was amended by an additional \$50,000. The total amount disbursed through December 31, 2016, was \$298,000; accumulated interest is \$13,017. Principal payments of \$31,051 were made in 2016.

In 2009, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Crow River Watershed septic system loans. According to the agreement, the County can borrow as much as \$300,000. In 2013, the loan amount was amended by an additional \$27,589. The total amount disbursed through December 31, 2016, was \$327,589; accumulated interest is \$15,476. Principal payments of \$32,588 were made in 2016.

In 2011, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Buffalo Creek Watershed septic system loans. According to the agreement, the County can borrow as much as \$200,000. The total amount disbursed through December 31, 2016, was \$199,494; accumulated interest is \$9,514. Principal payments of \$19,657 were made in 2016.

In 2012, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Crow River Watershed septic system loans. According to the agreement, the County can borrow as much as \$300,000. The total amount disbursed through December 31, 2016, was \$300,000. Repayment is estimated to begin in 2017.

In 2013, the County entered into a loan agreement with the Minnesota Pollution Control Agency for the High Island Creek Watershed septic system loans. According to the agreement, the County can borrow as much as \$120,000. The total amount disbursed through December 31, 2016, was \$27,745. Repayment is estimated to begin in 2017.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Long-Term Debt (Continued)

In 2015, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Crow River Basin septic system loans. According to the agreement, the County can borrow as much as \$350,000. The total amount disbursed through December 31, 2016, was \$349,420. Repayment is estimated to begin in 2017.

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

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

5. Debt Service Requirements

Debt service requirements at December 31, 2016, were as follows:

Year Ending December 31	High Island Creek Watershed Septic System Loans (2004)		High Island Creek Watershed Septic System Loans (2008)	
	Principal	Interest	Principal	Interest
2017	\$ 11,502	\$ 173	\$ 12,071	\$ 935
2018	-	-	12,314	693
2019	-	-	12,561	445
2020	-	-	12,814	193
Total	<u>\$ 11,502</u>	<u>\$ 173</u>	<u>\$ 49,760</u>	<u>\$ 2,266</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

5. Debt Service Requirements (Continued)

Year Ending December 31	Buffalo Creek Watershed Septic System Loans (2008)		Crow River Watershed Septic System Loans (2008)	
	Principal	Interest	Principal	Interest
2017	\$ 24,126	\$ 1,357	\$ 31,675	\$ 2,795
2018	24,611	872	32,312	2,158
2019	25,107	377	32,961	1,509
2020	-	-	33,624	846
2021	-	-	17,064	171
Total	<u>\$ 73,844</u>	<u>\$ 2,606</u>	<u>\$ 147,636</u>	<u>\$ 7,479</u>

Year Ending December 31	Crow River Watershed Septic System Loans (2009)		Buffalo Creek Watershed Septic System Loans (2011)	
	Principal	Interest	Principal	Interest
2017	\$ 33,243	\$ 4,779	\$ 20,053	\$ 3,112
2018	33,911	4,111	20,455	2,709
2019	34,593	3,429	20,867	2,297
2020	35,288	2,734	21,286	1,878
2021	35,998	2,025	21,714	1,451
2022 - 2026	74,180	1,863	56,214	1,698
Total	<u>\$ 247,213</u>	<u>\$ 18,941</u>	<u>\$ 160,589</u>	<u>\$ 13,145</u>

Year Ending December 31	General Obligation Bonds (2014)		General Obligation Drainage Bonds (2016)	
	Principal	Interest	Principal	Interest
2017	\$ 1,095,000	\$ 166,950	\$ -	\$ 27,874
2018	1,095,000	145,050	175,000	37,135
2019	1,105,000	123,050	175,000	35,385
2020	1,120,000	100,800	170,000	33,660
2021	830,000	81,300	170,000	31,705
2022 - 2026	3,485,000	149,550	850,000	123,080
2027 - 2031	-	-	800,000	52,940
2032	-	-	150,000	1,500
Total	<u>\$ 8,730,000</u>	<u>\$ 766,700</u>	<u>\$ 2,490,000</u>	<u>\$ 343,279</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

5. Debt Service Requirements (Continued)

Year Ending December 31	Total	
	Principal	Interest
2017	\$ 1,227,670	\$ 207,975
2018	1,393,603	192,728
2019	1,406,089	166,492
2020	1,393,012	140,111
2021	1,074,776	116,652
2022 - 2026	4,465,394	276,191
2027 - 2031	800,000	52,940
2032	150,000	1,500
Total	<u>\$ 11,910,544</u>	<u>\$ 1,154,589</u>

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

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

The 2015 Crow River Basin Septic Loans that were approved in 2015 are not included in the debt service requirements because a fixed repayment schedule is not available.

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
MnPCA loans	\$ 1,285,777	\$ 211,991	\$ 130,057	\$ 1,367,711	\$ 132,670
General obligation bonds	9,785,000	2,490,000	1,055,000	11,220,000	1,095,000
Bond premium	194,758	-	19,476	175,282	-
Compensated absences	1,311,929	779,896	780,435	1,311,390	889,123
Long-Term Liabilities	<u>\$ 12,577,464</u>	<u>\$ 3,481,887</u>	<u>\$ 1,984,968</u>	<u>\$ 14,074,383</u>	<u>\$ 2,116,793</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

6. Changes in Long-Term Liabilities (Continued)

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

4. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 per claim in 2016 and \$500,000 in 2017. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

4. Risk Management (Continued)

In 2000, the County entered into an agreement with Sibley County to provide a mechanism for utilizing a pooled, self-funded health insurance program under the authority granted to counties in Minn. Stat. § 471.59. Premiums are paid to MCIT, which provides bookkeeping services to the counties, including the payment of claims. For 2016, the County has retained risk up to a \$125,000 stop-loss per covered person per year (\$1,000,000 aggregate) for the health plan.

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

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

	Year Ended December 31	
	2016	2015
Unpaid claims, beginning of fiscal year	\$ 264,437	\$ 102,554
Incurred claims (including IBNRs)	2,048,938	2,041,414
Claims payments	(1,999,236)	(1,879,531)
Unpaid Claims, End of Fiscal Year	\$ 314,139	\$ 264,437

5. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

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

General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Plan (accounted for in the Police and Fire Fund). For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after 10 years and increasing 5 percent for each year of service until fully vested after 20 years.

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans (Continued)

2. Benefits Provided

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

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. Minneapolis Employees Retirement Fund members have an annuity accrual rate of 2.0 percent of average salary for each of the first ten years of service and 2.5 percent for each remaining year. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Plan members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Basic members, Coordinated members, and Minneapolis Employees Retirement Fund members were required to contribute 9.10 percent, 6.50 percent, and 9.75 percent, respectively, of their annual covered salary in 2016. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2016. Public Employees Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2016.

In 2016, the County was required to contribute the following percentages of annual covered salary:

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

3. Contributions (Continued)

The County's contributions for the year ended December 31, 2016, to the pension plans were:

General Employees Retirement Plan	\$	897,080
Public Employees Police and Fire Plan		242,953
Public Employees Correctional Plan		78,909

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

4. Pension Costs

General Employees Retirement Plan

At December 31, 2016, the County reported a liability of \$15,477,661 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.1907 percent. It was 0.1915 percent measured as of June 30, 2015. The County recognized pension expense of \$2,177,623 for its proportionate share of the General Employees Retirement Plan's pension expense.

The County also recognized \$60,271 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

County's proportionate share of the net pension liability	\$ 15,477,661
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>202,136</u>
Total	<u>\$ 15,679,797</u>

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 1,258,896
Changes in actuarial assumptions	3,030,540	-
Difference between projected and actual investment earnings	2,941,034	-
Changes in proportion	-	190,329
Contributions paid to PERA subsequent to the measurement date	<u>453,937</u>	<u>-</u>
Total	<u>\$ 6,425,511</u>	<u>\$ 1,449,225</u>

The \$453,937 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2017	\$ 1,238,948
2018	1,238,948
2019	1,485,372
2020	559,081

Public Employees Police and Fire Plan

At December 31, 2016, the County reported a liability of \$6,340,815 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.158 percent. It was 0.161 percent measured as of June 30, 2015. The County recognized pension expense of \$1,095,810 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

The County also recognized \$14,220 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Plan. Legislation requires the State of Minnesota to contribute \$9 million to the Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 731,834
Changes in actuarial assumptions	3,489,628	-
Difference between projected and actual investment earnings	972,107	-
Changes in proportion	14,401	28,406
Contributions paid to PERA subsequent to the measurement date	123,199	-
Total	\$ 4,599,335	\$ 760,240

The \$123,199 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	\$ 800,559
2018	800,559
2019	800,559
2020	720,876
2021	593,343

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Correctional Plan

At December 31, 2016, the County reported a liability of \$1,716,975 for its proportionate share of the Public Employees Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.47 percent. It was 0.49 percent measured as of June 30, 2015. The County recognized pension expense of \$484,135 for its proportionate share of the Public Employees Correctional Plan's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,344	\$ 19,335
Changes in actuarial assumptions	1,093,920	-
Difference between projected and actual investment earnings	194,840	-
Changes in proportion	377	2,319
Contributions paid to PERA subsequent to the measurement date	40,642	-
	<hr/>	<hr/>
Total	\$ 1,331,123	\$ 21,654

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Plan (Continued)

The \$40,642 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2017	\$ 407,495
2018	407,495
2019	416,974
2020	36,863

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2016, was \$3,757,568.

5. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

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

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was for the period 2008 through 2015. The experience study for the Public Employees Police and Fire Plan was for the period 2004 through 2009. The experience study for the Public Employees Correctional Plan was for the period 2006 through 2011.

On August 16, 2016, an updated experience study was done for PERA's Public Employees Police and Fire Plan for the period 2011 through 2015, which would result in a larger pension liability. However, PERA will implement the changes in assumptions for its June 30, 2017, estimate of pension liability.

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2016, a reduction of the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. In the Public Employees Police and Fire Plan and the Public Employees Correctional Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056, and June 30, 2058, respectively. Beginning in fiscal years ended June 30, 2057, for the Police and Fire Plan and June 30, 2059, for the Public Employees Correctional Plan, when projected benefit payments exceed the Plans' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60 percent for the Public Employees Police and Fire Plan and 5.31 percent for the Public Employees Correctional Plan was determined that produced approximately the same present value of the projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits through the point of asset depletion and 2.85 percent thereafter.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans (Continued)

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Police and Fire Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions (Continued)

Public Employees Correctional Plan

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

8. Pension Liability Sensitivity

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

	Proportionate Share of the					
	General Employees Retirement Plan		Public Employees Police and Fire Plan		Public Employees Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 21,982,866	4.60%	\$ 8,876,299	4.31%	\$ 2,585,235
Current	7.50	15,477,661	5.60	6,340,815	5.31	1,716,975
1% Increase	8.50	10,119,143	6.60	4,269,132	6.31	1,039,132

9. Pension Plan Fiduciary Net Position

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans (Continued)

B. Defined Contribution Pension Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2016, were:

	Employee	Employer
Contribution amount	\$ 8,507	\$ 8,507
Percentage of covered payroll	5%	5%

6. Other Postemployment Benefits (OPEB)

A. Plan Description

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

6. Other Postemployment Benefits (OPEB) (Continued)

B. Funding Policy

Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the County based on contract terms with Medica, Midwest Dental, and Minnesota Life. The required contributions are based on projected pay-as-you-go financing requirements. For fiscal year 2016, the County contributed \$43,944 to the plan. As of January 1, 2016, there were four retirees receiving health benefits from the County's health plan.

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

C. Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$	210,629
Interest on net OPEB obligation		34,180
Adjustment to ARC		(39,401)

Annual OPEB cost	\$	205,408
Contributions made		(43,944)

Increase in net OPEB obligation	\$	161,464
Net OPEB Obligation - Beginning of Year		963,785

Net OPEB Obligation - End of Year	\$	1,125,249

**McLEOD COUNTY
GLENCOE, MINNESOTA**

6. Other Postemployment Benefits (OPEB)

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

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for 2014, 2015, and 2016, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2014	\$ 213,373	17.12%	\$ 834,249
December 31, 2015	189,491	31.64	963,785
December 31, 2016	205,408	21.39	1,125,249

D. Funded Status and Funding Progress

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

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

E. Actuarial Methods and Assumptions

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

6. Other Postemployment Benefits (OPEB)

E. Actuarial Methods and Assumptions (Continued)

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

For January 1, 2016, the actuarial valuation date, the projected unit credit cost method was used. The actuarial assumptions included a 3.5 percent discount rate, which is based on the investment yield expected to finance benefits. The County currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 6.75 percent initially, reduced incrementally over seven years to an ultimate rate of 5.0 percent. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at January 1, 2016, was 22 to 30 years, depending on base type.

7. Summary of Significant Contingencies and Other Items

A. Secondary Liability for Bonds

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

The Essential Function Housing Development Revenue Bond of 1997 was issued by the HRA for \$1,200,000. McLeod County is secondarily liable for up to \$120,000 if the HRA would fail to pay.

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

B. Contingent Liabilities

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

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

C. Conduit Debt Obligation

The County has issued Commercial Development Revenue Bonds (Southwest Initiative Foundation) for the purpose of financing all or a portion of the costs of acquisition of land and the construction of an administration building. The bonds are secured by the financed property and are payable solely from the revenue of the project. The bonds do not constitute a charge, lien, or encumbrance, legal or equitable, upon any property or funds of the County, nor is the County subject to any liability thereon. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The amount of outstanding principal was \$1,724,547 as of June 30, 2016.

D. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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

A complete financial report of the Southwestern Minnesota Adult Mental Health Consortium Board can be obtained by contacting DVHHS at 11 Fourth Street, Windom, Minnesota 56111.

Meeker-McLeod-Sibley Community Health Services Board

The Meeker-McLeod-Sibley Community Health Services Board was established pursuant to Minn. Stat. §§ 145A.09 to 145A.16, Minn. Stat. § 471.59, and a joint powers agreement, effective April 19, 1990. The Community Health Services Board consists of 15 members, 5 each from Meeker, McLeod, and Sibley Counties. The primary function of the joint venture is to provide health services and to promote efficiency and economy in the delivery of health services. The joint venture is financed primarily from state and federal grants. McLeod County is the fiscal agent.

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

Pioneerland Regional Library System

McLeod County, along with 32 cities and 9 other counties, participates in the Pioneerland Library System in order to provide efficient and improved regional library service. The Pioneerland Library System is governed by the Pioneerland Library System Board composed of 35 members appointed by member cities and counties. During the year McLeod County contributed \$194,217 to the System.

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

**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 Chanhassen, Chaska, Hutchinson, Minnetrista, Mound, Shakopee, South Lake Minnetonka, and West Hennepin. The Drug Task Force's objectives are to detect, investigate, and apprehend controlled substance offenders in the three-county area.

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

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

PrimeWest Rural Minnesota Health Care Access Initiative

In December 1998, McLeod County became a member of the PrimeWest Central County-Based Purchasing Initiative Joint Powers Board (since renamed PrimeWest Rural Minnesota Health Care Access Initiative) with Big Stone, Douglas, Grant, Meeker, Pipestone, Pope, Renville, Stevens, and Traverse Counties, under the authority of Minn. Stat. § 471.59. Beltrami, Clearwater, and Hubbard Counties were later added to the PrimeWest Rural Health Care Access Initiative. Pipestone County has since joined Southwest Health and Human Services for public health and human services functions. The partnership is organized to directly purchase health care services for county residents who are eligible for Medical Assistance and General Assistance Medical Care as authorized by Minn. Stat. § 256B.692. County-based purchasing is the local control alternative favored for improved coordination of services to prepaid Medical Assistance programs in complying with Minnesota Department of Health requirements as set forth in Minn. Stat. chs. 62D and 62N.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

PrimeWest Rural Minnesota Health Care Access Initiative (Continued)

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

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

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

Complete financial information can be obtained from its administrative office at PrimeWest Rural Health Care Access Initiative, 3905 Dakota Street, Alexandria, Minnesota 56308.

Crow River Joint Powers Agreement

In April 1999, the County entered into a joint powers agreement with Carver, Hennepin, Kandiyohi, Meeker, Pope, Renville, Sibley, Stearns, and Wright Counties creating the Crow River Joint Powers Agreement. The Agreement is authorized by Minn. Stat. §§ 103B.311 and 103B.315. The Prairie County Resource Conservation and Development Council is the fiscal agent for this Joint Powers Agreement.

The Board of Directors meets at least two times per year, or more often if needed, at the location to be set by the chair of the Joint Powers Board. The purpose of this Agreement is the joint exercise of powers by the member counties to promote the orderly water quality improvement and management of the Crow River Watershed through information sharing, education, coordination, and related support to the member counties by assisting in the implementation and goal achievement of comprehensive water plans.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Crow River Joint Powers Agreement (Continued)

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

Putting All Communities Together for Families Collaborative

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

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Trailblazer Transit Board

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

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

Financing is primarily provided from state and federal grants. Member counties are committed to providing the local match necessary to meet the requirements for state and federal funding. In 2016, McLeod County made no contributions.

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

Supporting Hands Nurse Family Partnership Board

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

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2016, McLeod County contributed \$22,281 to the Partnership.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Supporting Hands Nurse Family Partnership Board (Continued)

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

Central Minnesota Jobs and Training Services, Inc.

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

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

E. Jointly-Governed Organizations

Minnesota Counties Computer Cooperative

Under Minnesota Joint Powers Law, Minn. Stat. § 471.59, Minnesota counties have created Minnesota Counties Computer Cooperative (MCCC) to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During the year, McLeod County expended \$132,933 to the MCCC.

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Aitkin, Beltrami, Clay, Douglas, Grant, Itasca, Kittson, Koochiching, Lake of the Woods, Mahnomon, Marshall, McLeod, Mille Lacs, Norman, Otter Tail, Pennington, Polk,

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations

Minnesota Rural Counties Caucus (Continued)

Pope, Red Lake, Redwood, Roseau, Stevens, Todd, Traverse, and Wadena Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, which is composed of ten directors, each with an alternate, who are appointed annually by each respective County Board. The County's responsibility does not extend beyond making this appointment.

South Central Minnesota Emergency Communications Board

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

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

Blue Earth County acts as the fiscal agent for the Board. During 2016, McLeod County did not contribute to the Board. The Chair of the Board is Kip Bruender, and the address is P. O. Box 8608, Mankato, Minnesota 56002-8608.

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

McLeod County has not entered into any property tax abatement agreements under Minnesota Statute 469.1813 with local businesses (which meets the criteria for disclosure under Governmental Accounting Standards Board (GASB) Statement No. 77). Under this statute, the County may grant property tax abatements not to

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

F. Tax Abatements - Pay-As-You-Go Tax Increment (Continued)

exceed (1) 10% of the net tax capacity of the political subdivision for the taxes payable year with which the abatement applies, or (2) \$200,000, whichever is greater for the purpose of attracting or retaining business within their jurisdictions. The abatements may be granted to any business located within or promises to relocate to the County.

The Cities of Glencoe, Hutchinson, and Winsted in McLeod County have entered into tax increment financing agreements (which meet the criteria for disclosure under GASB No. 77, Tax Abatement Disclosures). The City's authority to enter into these agreements comes from Minnesota Statute 469 for the purpose of encouraging private development, redevelopment, renovation and renewal, growth in low-to-moderate income housing, and economic development within a City. During 2016, there were 13 pay-as-you-go notes within the County. The tax increment collections during 2016 associated with these notes totaled \$677,204. The County's portion of the captured tax capacity and related property taxes was approximately 30%, which is approximately \$203,161.

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.

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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

A. Summary of Significant Accounting Policies (Continued)

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, 2016, are summarized as follows:

Cash on deposit	
Restricted	\$ 22,291
Unrestricted	<u>96,237</u>
Total cash on deposit	\$ 118,528
 Certificates of deposit, due within one year	
Restricted	<u>33,484</u>
Total Cash and Investments	<u><u>\$ 152,012</u></u>

Deposits

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

The carrying amount of the HRA's deposits with financial institutions was \$152,012 as of June 30, 2016. The bank balance was \$148,641 as of June 30, 2016, which was insured by the FDIC.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

B. Cash and Investments

Deposits (Continued)

Minnesota statutes require that all HRA deposits be protected by insurance, surety bond, or collateral and that securities pledged as collateral be legal instruments and be held in safekeeping in a restricted account at the Federal Reserve Bank or in a financial institution other than that furnishing the collateral. The market value of collateral pledged must generally exceed deposits not covered by insurance or bonds by at least ten percent. The HRA was in compliance with these Minnesota statutes at all times during the year ended June 30, 2016.

Investments

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

- direct obligations or obligations guaranteed by the United States or its agencies;
- shares of registered investment companies through a mutual fund provided the mutual fund receives certain ratings depending on its investments;
- general obligations of the State of Minnesota or any of its municipalities and other state and local government obligations as listed in Minnesota statutes;
- bankers' acceptances of United States banks;
- commercial paper issued by United States corporations or their Canadian subsidiaries that is of the highest quality and matures in 270 days or less; and
- repurchase agreements, securities lending agreements, joint powers in investment trusts and guaranteed investment contracts, with certain restrictions.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

C. Property and Equipment

The following is a summary of property and equipment transactions:

	June 30, 2015	Additions	Disposals	June 30, 2016
Land	\$ 197,000	\$ -	\$ -	\$ 197,000
Site improvements	209,772	3,460	-	213,232
Buildings	4,343,003	-	-	4,343,003
Appliances	127,330	9,359	505	136,184
Total	\$ 4,877,105	\$ 12,819	\$ 505	\$ 4,889,419
Accumulated depreciation	2,041,105	117,208	505	2,157,808
Totals	\$ 2,836,000	\$ (104,389)	\$ -	\$ 2,731,611

D. Long-Term Debt Payable

The following is a summary of long-term debt transactions for the year ended June 30, 2016:

	2015	Issued	Payments	2016
Essential Function Housing Development Bond of 1996	\$ 719,483	\$ -	\$ 45,948	\$ 673,535
Essential Function Housing Development Bond of 1997	746,245	-	44,893	701,352
Essential Function Housing Development Bond of 1999	763,715	-	37,684	726,031
Essential Function Housing Development Bond of 2001	903,841	-	36,728	867,113
Assessments payable	5,207	-	720	4,487
Totals	\$ 3,138,491	\$ -	\$ 165,973	\$ 2,972,518

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

D. Long-Term Debt Payable (Continued)

The Essential Function Housing Development Revenue Bond of 1996 matures on September 1, 2027. The bond currently bears an interest rate of 4.1 percent per annum. The rate is renegotiated according to the market interest rate and is thereafter adjustable periodically over the life of the bond. Principal and interest are payable monthly. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are insufficient to meet the bond obligations, the HRA may request funds from the McLeod County General Fund by ordering a County-wide tax levy not to exceed \$120,000. The HRA agrees to repay the funds to McLeod County from any subsequent excess cash flows.

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

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

The Essential Function Housing Development Revenue Bond of 2001 matures on June 1, 2031. The bond bears an interest rate of 5.0 percent per annum payable monthly; the interest rate shall be adjusted periodically over the life of the bond. The bond is secured by all real and personal property as well as by all revenues of the

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

D. Long-Term Debt Payable (Continued)

housing project. If the net revenues from operations are insufficient to meet the bond obligations, the HRA may request funds from the McLeod County General Fund by ordering a County-wide tax levy not to exceed \$75,000 each calendar year. The HRA agrees to repay the funds to McLeod County after bond obligations have been fulfilled.

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

The estimated debt service requirements as of June 30, 2016, are as follows:

<u>Years Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 174,365	\$ 126,461	\$ 300,826
2018	182,023	118,802	300,825
2019	190,021	110,804	300,825
2020	198,375	102,452	300,827
2021 - 2025	1,570,113	294,522	1,864,635
2026 - 2030	657,621	50,903	708,524
Totals	<u>\$ 2,972,518</u>	<u>\$ 803,944</u>	<u>\$ 3,776,462</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.

F. Subsequent Event

The HRA issued a \$970,000 Essential Function Housing Development Revenue Refunding Bond on August 31, 2017, to refinance the remaining debt of the Essential Function Housing Development Revenue Bond of 2001.

REQUIRED SUPPLEMENTARY INFORMATION

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 10,942,148	\$ 10,942,148	\$ 10,576,867	\$ (365,281)
Special assessments	187,317	187,317	155,340	(31,977)
Licenses and permits	70,975	70,975	84,727	13,752
Intergovernmental	3,108,739	3,108,739	3,576,135	467,396
Charges for services	1,985,746	1,985,746	2,224,649	238,903
Fines and forfeits	21,200	21,200	33,546	12,346
Gifts and contributions	22,750	22,750	20,547	(2,203)
Investment earnings	180,572	180,572	138,202	(42,370)
Miscellaneous	440,976	440,976	484,279	43,303
Total Revenues	\$ 16,960,423	\$ 16,960,423	\$ 17,294,292	\$ 333,869
Expenditures				
Current				
General government				
Commissioners	\$ 323,444	\$ 323,444	\$ 302,870	\$ 20,574
County-wide	539,900	539,900	716,392	(176,492)
Courts	149,500	149,500	185,957	(36,457)
Law library	40,000	40,000	8,881	31,119
County administrator	449,955	449,955	416,566	33,389
County auditor-treasurer	768,443	768,443	773,081	(4,638)
County assessor	411,641	411,641	388,736	22,905
Elections	89,802	89,802	97,065	(7,263)
Data processing	992,935	992,935	822,312	170,623
Central services	247,900	247,900	104,319	143,581
Attorney	637,549	637,549	619,713	17,836
Recorder	647,251	647,251	525,180	122,071
Planning and zoning	245,795	245,795	242,736	3,059
Buildings	814,379	814,379	657,941	156,438
County insurance	206,546	206,546	130,535	76,011
Veterans service officer	232,629	232,629	215,040	17,589
Fairgrounds	273,350	273,350	272,049	1,301
Safety	5,550	5,550	4,530	1,020
Other general government	322,568	322,568	522,829	(200,261)
Total general government	\$ 7,399,137	\$ 7,399,137	\$ 7,006,732	\$ 392,405

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<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	\$ 4,132,501	\$ 4,132,501	\$ 3,819,040	\$ 313,461
Inmate account	8,500	8,500	20,071	(11,571)
Probation officer	375,435	375,435	332,509	42,926
County jail	2,283,430	2,283,430	1,802,080	481,350
Juvenile detention	2,500	2,500	385	2,115
Sheriff posse	35,000	35,000	38,175	(3,175)
Mounted posse	1,500	1,500	-	1,500
Emergency services	131,869	131,869	110,651	21,218
Total public safety	\$ 6,970,735	\$ 6,970,735	\$ 6,122,911	\$ 847,824
Health				
Nursing service	\$ 2,882,354	\$ 2,882,354	\$ 2,912,478	\$ (30,124)
Culture and recreation				
Historical society	\$ 57,225	\$ 57,225	\$ 70,299	\$ (13,074)
Regional library	194,217	194,217	194,217	-
Other	35,197	35,197	34,280	917
Parks	347,611	347,611	352,671	(5,060)
Snowmobile trail grant	44,640	44,640	40,153	4,487
Total culture and recreation	\$ 678,890	\$ 678,890	\$ 691,620	\$ (12,730)
Conservation of natural resources				
Soil and water conservation	\$ 60,000	\$ 60,000	\$ 60,000	\$ -
County extension	269,392	269,392	250,761	18,631
Agriculture ditch inspector	20,186	20,186	13,486	6,700
Water planning	20,746	20,746	20,746	-
Wetland	27,894	27,894	32,894	(5,000)
Shoreland	5,976	5,976	6,096	(120)
Feedlot	54,547	54,547	58,271	(3,724)
Environmental services	145,109	145,109	122,788	22,321
Other	18,600	18,600	23,600	(5,000)
Ag programming	4,000	4,000	613	3,387
Septic loans	60,000	60,000	194,070	(134,070)
Aquatic invasive species	18,000	18,000	21,319	(3,319)
Total conservation of natural resources	\$ 704,450	\$ 704,450	\$ 804,644	\$ (100,194)

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<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	\$ 14,296	\$ 14,296	\$ 15,193	\$ (897)
Capital Outlay				
Public safety	\$ -	\$ -	\$ 2,776,149	\$ (2,776,149)
Debt service				
Principal	\$ 164,491	\$ 164,491	\$ 130,057	\$ 34,434
Interest	22,826	22,826	15,765	7,061
Total debt service	\$ 187,317	\$ 187,317	\$ 145,822	\$ 41,495
Total Expenditures	\$ 18,837,179	\$ 18,837,179	\$ 20,475,549	\$ (1,638,370)
Excess of Revenues Over (Under) Expenditures	\$ (1,876,756)	\$ (1,876,756)	\$ (3,181,257)	\$ (1,304,501)
Other Financing Sources (Uses)				
Transfers in	\$ 520,000	\$ 520,000	\$ -	\$ (520,000)
Loan issued	-	-	211,991	211,991
Proceeds from the sale of capital assets	5,000	5,000	28,524	23,524
Total Other Financing Sources (Uses)	\$ 525,000	\$ 525,000	\$ 240,515	\$ (284,485)
Net Change in Fund Balance	\$ (1,351,756)	\$ (1,351,756)	\$ (2,940,742)	\$ (1,588,986)
Fund Balance - January 1	25,836,106	25,836,106	25,836,106	-
Increase (decrease) in inventories	-	-	(1,396)	(1,396)
Fund Balance - December 31	\$ 24,484,350	\$ 24,484,350	\$ 22,893,968	\$ (1,590,382)

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,640,097	\$ 3,640,097	\$ 3,562,620	\$ (77,477)
Licenses and permits	10,000	10,000	15,375	5,375
Intergovernmental	3,957,000	3,957,000	4,536,235	579,235
Charges for services	165,000	165,000	216,758	51,758
Miscellaneous	7,000	7,000	2,155	(4,845)
Total Revenues	\$ 7,779,097	\$ 7,779,097	\$ 8,333,143	\$ 554,046
Expenditures				
Current				
Highways and streets				
Administration	\$ 815,843	\$ 815,843	\$ 774,933	\$ 40,910
GIS	156,644	156,644	152,798	3,846
Maintenance	1,595,086	1,595,086	1,452,004	143,082
Engineering/construction	6,513,500	6,513,500	5,207,844	1,305,656
Equipment, maintenance, and shop	988,767	988,767	798,461	190,306
Total highways and streets	\$ 10,069,840	\$ 10,069,840	\$ 8,386,040	\$ 1,683,800
Intergovernmental				
Highways and streets	264,000	264,000	268,011	(4,011)
Total Expenditures	\$ 10,333,840	\$ 10,333,840	\$ 8,654,051	\$ 1,679,789
Excess of Revenues Over (Under)				
Expenditures	\$ (2,554,743)	\$ (2,554,743)	\$ (320,908)	\$ 2,233,835
Other Financing Sources (Uses)				
Transfers in	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ -
Proceeds from the sale of capital assets	45,000	45,000	10,528	(34,472)
Total Other Financing Sources (Uses)	\$ 1,245,000	\$ 1,245,000	\$ 1,210,528	\$ (34,472)
Net Change in Fund Balance	\$ (1,309,743)	\$ (1,309,743)	\$ 889,620	\$ 2,199,363
Fund Balance - January 1	7,709,183	7,709,183	7,709,183	-
Increase (decrease) in inventories	-	-	35,996	35,996
Fund Balance - December 31	\$ 6,399,440	\$ 6,399,440	\$ 8,634,799	\$ 2,235,359

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 4,129,311	\$ 4,129,311	\$ 4,006,913	\$ (122,398)
Intergovernmental	4,370,373	4,370,373	5,828,437	1,458,064
Charges for services	630,218	630,218	693,113	62,895
Miscellaneous	225,500	225,500	858,843	633,343
Total Revenues	\$ 9,355,402	\$ 9,355,402	\$ 11,387,306	\$ 2,031,904
Expenditures				
Current				
Human services				
Income maintenance	\$ 2,557,093	\$ 2,557,093	\$ 2,628,929	\$ (71,836)
Social services	7,009,795	7,009,795	8,425,136	(1,415,341)
Transit authority	265,000	265,000	-	265,000
Total Expenditures	\$ 9,831,888	\$ 9,831,888	\$ 11,054,065	\$ (1,222,177)
Net Change in Fund Balance	\$ (476,486)	\$ (476,486)	\$ 333,241	\$ 809,727
Fund Balance - January 1	6,582,437	6,582,437	6,582,437	-
Fund Balance - December 31	\$ 6,105,951	\$ 6,105,951	\$ 6,915,678	\$ 809,727

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 5,250	\$ 5,250	\$ 7,145	\$ 1,895
Intergovernmental	111,202	111,202	105,002	(6,200)
Charges for services	2,353,600	2,353,600	2,398,313	44,713
Miscellaneous	56,052	56,052	104,359	48,307
Total Revenues	\$ 2,526,104	\$ 2,526,104	\$ 2,614,819	\$ 88,715
Expenditures				
Current				
Sanitation				
Recycling	3,295,365	3,295,365	3,235,141	60,224
Excess of Revenues Over (Under)				
Expenditures	\$ (769,261)	\$ (769,261)	\$ (620,322)	\$ 148,939
Other Financing Sources (Uses)				
Transfers in	\$ 985,360	\$ 985,360	\$ -	\$ (985,360)
Transfers out	(1,595,843)	(1,595,843)	(610,483)	985,360
Total Other Financing Sources (Uses)	\$ (610,483)	\$ (610,483)	\$ (610,483)	\$ -
Net Change in Fund Balance	\$ (1,379,744)	\$ (1,379,744)	\$ (1,230,805)	\$ 148,939
Fund Balance - January 1	4,207,279	4,207,279	4,207,279	-
Fund Balance - December 31	\$ 2,827,535	\$ 2,827,535	\$ 2,976,474	\$ 148,939

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2016**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b - a)/c)</u>
January 1, 2012	\$ -	\$ 1,168,991	\$ 1,168,991	0.00%	\$ 11,730,484	10.0%
January 1, 2014	-	1,517,852	1,517,852	0.00	12,292,932	12.3
January 1, 2016	-	1,412,728	1,412,728	0.00	13,468,071	10.5

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-6

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016**

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-7

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016**

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-8

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2016**

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-9

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2016**

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-10

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2016**

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-11

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2016**

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

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

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016

1. Budgetary Information

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

On December 15, 2016, the Board approved the budgets for the General Fund, the Road and Bridge Special Revenue Fund, the Human Services Special Revenue Fund, the Solid Waste Special Revenue Fund, and the Debt Service Fund. A budget is not adopted for the Ditch Special Revenue Fund because it is based on special assessments which cannot be determined. Similarly, the Forfeited Tax Special Revenue Fund is not budgeted due to the fact that financing is based on tax-forfeited properties; therefore, expenditures cannot be determined.

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

2. Excess of Expenditures Over Appropriations

The following funds and departments had expenditures exceeding appropriations for the year ended December 31, 2016:

	Expenditures	Budget	Excess
Major governmental funds			
General Fund			
Current			
General government			
County-wide	\$ 716,392	\$ 539,900	\$ 176,492
Courts	185,957	149,500	36,457
County auditor-treasurer	773,081	768,443	4,638
Elections	97,065	89,802	7,263
Other general government	522,829	322,568	200,261

**McLEOD COUNTY
GLENCOE, MINNESOTA**

2. Excess of Expenditures Over Appropriations (Continued)

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Major governmental funds			
General Fund			
Current (Continued)			
Public safety			
Inmate account	20,071	8,500	11,571
Sheriff posse	38,175	35,000	3,175
Health			
Nursing service	2,912,478	2,882,354	30,124
Culture and recreation			
Historical society	70,299	57,225	13,074
Parks	352,671	347,611	5,060
Conservation of natural resources			
Wetland	32,894	27,894	5,000
Shoreland	6,096	5,976	120
Feedlot	58,271	54,547	3,724
Other	23,600	18,600	5,000
Septic loans	194,070	60,000	134,070
Aquatic invasive species	21,319	18,000	3,319
Economic development			
Housing and Redevelopment Authority	15,193	14,296	897
Capital outlay			
Public safety	2,776,149	-	2,776,149
Road and Bridge Special Revenue Fund			
Intergovernmental			
Highways and streets	268,011	264,000	4,011
Human Services Special Revenue Fund			
Current			
Human services			
Income maintenance	2,628,929	2,557,093	71,836
Social services	8,425,136	7,009,795	1,415,341

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

Actuarial Assumptions

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

Actuarial Assumptions (Continued)

- The mortality table was updated from RP 2000 Combined Healthy Table projected to 2014 with Scale BB (with Blue Collar adjustment for Police and Fire Personnel) to the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale (Blue Collar Tables for Police and Fire Personnel).
- The retirement tables for all employees were updated, as well as the withdrawal table for police and fire employees.
- The discount rate was changed from 4.00 percent to 3.50 percent.
- Claim costs were developed by age adjusting the premium information from McLeod County. The resulting claim amount was then blended with the expected claim amount from the previous valuation. As of January 1, 2014, actual claims and enrollment experience was used.

Plan Provisions

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

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

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30, 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

General Employees Retirement Plan (Continued)

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent.
- Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Police and Fire Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Correctional Plan

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

SUPPLEMENTARY INFORMATION

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

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

CAPITAL PROJECTS FUND

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

DEBT SERVICE FUND

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

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	Forfeited Tax Special Revenue	Capital Projects	Debt Service	Total
<u>Assets</u>				
Cash and pooled investments	\$ 15,985	\$ 2,018,266	\$ 779,852	\$ 2,814,103
Special assessments receivable				
Delinquent	4,186	-	-	4,186
Total Assets	\$ 20,171	\$ 2,018,266	\$ 779,852	\$ 2,818,289
 <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>				
Liabilities				
Accounts payable	-	\$ 9,997	-	\$ 9,997
Deferred Inflows of Resources				
Unavailable revenue	\$ 4,186	-	-	\$ 4,186
Fund Balances				
Restricted for				
Forfeited tax	\$ 15,985	-	-	\$ 15,985
Debt service	-	-	779,852	779,852
Capital projects	-	2,008,269	-	2,008,269
Total Fund Balances	\$ 15,985	\$ 2,008,269	\$ 779,852	\$ 2,804,106
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 20,171	\$ 2,018,266	\$ 779,852	\$ 2,818,289

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Forfeited Tax Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
Revenues				
Taxes	\$ -	\$ -	\$ 693,258	\$ 693,258
Intergovernmental	-	-	13,718	13,718
Fines and forfeits	26,601	-	-	26,601
Miscellaneous	2,079	-	-	2,079
Total Revenues	\$ 28,680	\$ -	\$ 706,976	\$ 735,656
Expenditures				
Current				
General government	\$ 29,849	\$ -	\$ -	\$ 29,849
Sanitation	-	-	-	-
Health	-	-	-	-
Culture and recreation	-	-	-	-
Conservation of natural resources	-	-	-	-
Economic development	-	-	-	-
Capital Outlay				
General government	-	133,115	-	133,115
Debt service				
Principal	-	-	1,055,000	1,055,000
Interest	-	-	188,450	188,450
Total Expenditures	\$ 29,849	\$ 133,115	\$ 1,243,450	\$ 1,406,414
Excess of Revenues Over (Under) Expenditures	\$ (1,169)	\$ (133,115)	\$ (536,474)	\$ (670,758)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 610,483	\$ 610,483
Transfers out	-	(1,200,000)	-	(1,200,000)
Total Other Financing Sources (Uses)	\$ -	\$ (1,200,000)	\$ 610,483	\$ (589,517)
Net Change in Fund Balance	\$ (1,169)	\$ (1,333,115)	\$ 74,009	\$ (1,260,275)
Fund Balance - January 1	17,154	3,341,384	705,843	4,064,381
Fund Balance - December 31	\$ 15,985	\$ 2,008,269	\$ 779,852	\$ 2,804,106

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 714,564	\$ 714,564	\$ 693,258	\$ (21,306)
Intergovernmental	-	-	13,718	13,718
Total Revenues	<u>\$ 714,564</u>	<u>\$ 714,564</u>	<u>\$ 706,976</u>	<u>\$ (7,588)</u>
Expenditures				
Debt service				
Principal	\$ 1,055,000	\$ 1,055,000	\$ 1,055,000	\$ -
Interest	188,451	188,451	188,450	1
Total Expenditures	<u>\$ 1,243,451</u>	<u>\$ 1,243,451</u>	<u>\$ 1,243,450</u>	<u>\$ 1</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (528,887)</u>	<u>\$ (528,887)</u>	<u>\$ (536,474)</u>	<u>\$ (7,587)</u>
Other Financing Sources (Uses)				
Transfers in	610,483	610,483	610,483	-
Net Change in Fund Balance	<u>\$ 81,596</u>	<u>\$ 81,596</u>	<u>\$ 74,009</u>	<u>\$ (7,587)</u>
Fund Balance - January 1	<u>705,843</u>	<u>705,843</u>	<u>705,843</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 787,439</u></u>	<u><u>\$ 787,439</u></u>	<u><u>\$ 779,852</u></u>	<u><u>\$ (7,587)</u></u>

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AGENCY FUNDS

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 148,340	\$ 1,703,364	\$ 1,702,146	\$ 149,558
Due from other governments	498,241	479,355	498,241	479,355
Total Assets	\$ 646,581	\$ 2,182,719	\$ 2,200,387	\$ 628,913
<u>Liabilities</u>				
Accounts payable	\$ 2,882	\$ 2,557	\$ 2,882	\$ 2,557
Salaries payable	6,139	15,740	6,139	15,740
Accrued payroll taxes	455	1,092	455	1,092
Accrued expenses	524	2,866	524	2,866
Due to other governments	636,581	606,658	636,581	606,658
Total Liabilities	\$ 646,581	\$ 628,913	\$ 646,581	\$ 628,913
 <u>SUPPORTING HANDS NURSE FAMILY PARTNERSHIP FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 361,690	\$ 162,968	\$ 524,658	\$ -
Accounts receivable	80,551	-	80,551	-
Due from other governments	68,548	-	68,548	-
Total Assets	\$ 510,789	\$ 162,968	\$ 673,757	\$ -
<u>Liabilities</u>				
Accounts payable	\$ 8,644	\$ -	\$ 8,644	\$ -
Salaries payable	39,917	-	39,917	-
Accrued payroll taxes	2,971	-	2,971	-
Accrued expenses	2,709	-	2,709	-
Due to other governments	456,548	-	456,548	-
Total Liabilities	\$ 510,789	\$ -	\$ 510,789	\$ -

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT C-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 316,313	\$ 51,007,024	\$ 50,923,909	\$ 399,428
Due from other governments	-	106,597	-	106,597
Total Assets	\$ 316,313	\$ 51,113,621	\$ 50,923,909	\$ 506,025
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 49,696	\$ -	\$ 49,696
Due to other governments	316,313	456,329	316,313	456,329
Total Liabilities	\$ 316,313	\$ 506,025	\$ 316,313	\$ 506,025
<u>STATE AGENCY FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 122,757	\$ 1,313,564	\$ 1,318,524	\$ 117,797
Departmental cash	12,661	6,663	12,661	6,663
Accounts receivable	1,512	2,978	1,512	2,978
Due from other governments	21	47	21	47
Total Assets	\$ 136,951	\$ 1,323,252	\$ 1,332,718	\$ 127,485
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 68	\$ -	\$ 68
Due to other governments	136,951	127,417	136,951	127,417
Total Liabilities	\$ 136,951	\$ 127,485	\$ 136,951	\$ 127,485

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT C-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 949,100	\$ 54,186,920	\$ 54,469,237	\$ 666,783
Departmental cash	12,661	6,663	12,661	6,663
Accounts receivable	82,063	2,978	82,063	2,978
Due from other governments	566,810	585,999	566,810	585,999
Total Assets	<u>\$ 1,610,634</u>	<u>\$ 54,782,560</u>	<u>\$ 55,130,771</u>	<u>\$ 1,262,423</u>
<u>Liabilities</u>				
Accounts payable	\$ 11,526	\$ 52,321	\$ 11,526	\$ 52,321
Salaries payable	46,056	15,740	46,056	15,740
Accrued payroll taxes	3,426	1,092	3,426	1,092
Accrued expenses	3,233	2,866	3,233	2,866
Due to other governments	1,546,393	1,190,404	1,546,393	1,190,404
Total Liabilities	<u>\$ 1,610,634</u>	<u>\$ 1,262,423</u>	<u>\$ 1,610,634</u>	<u>\$ 1,262,423</u>

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OTHER SCHEDULES

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2016**

Appropriations and Shared Revenue

State

Highway users tax	\$ 2,486,872
Market value credit	367,282
PERA rate reimbursement	36,151
Disparity reduction aid	60,750
County program aid	1,666,439
Police aid	185,359
E-911	70,839
Aquatic invasive species	75,396
	<u>75,396</u>

Total appropriations and shared revenue **\$ 4,949,088**

Reimbursement for Services

State

Minnesota Department of Human Services	\$ 1,656,905
	<u>1,656,905</u>

Payments

Local

Payments in lieu of taxes	\$ 28,657
	<u>28,657</u>

Grants

Local

City contribution	\$ 694
Health	287,645
	<u>287,645</u>

Total local **\$ 288,339**

State

Minnesota Department/Board of	
Corrections	\$ 86,881
Public Safety	5,978
Transportation	730,111
Health	229,180
Natural Resources	42,671
Human Services	1,594,047
Water and Soil Resources	112,458
Veterans Affairs	10,000
Pollution Control Agency	105,002
	<u>105,002</u>

Total state **\$ 2,916,328**

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT D-1
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2016**

Grants (Continued)

Federal

Department of Agriculture	\$ 486,988
Education	1,450
Justice	4,119
Transportation	1,256,576
Health and Human Services	2,445,950
Homeland Security	25,127

Total federal **\$ 4,220,210**

Total local, state, and federal grants **\$ 7,424,877**

Total Intergovernmental Revenue **\$ 14,059,527**

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Agriculture			
Passed Through Meeker-McLeod-Sibley Community Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	Not Provided	\$ 162,688
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16162MN101S2514	180,526
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16162MN127Q7503	122,297
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16162MN101S2520	1,113
(Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program CFDA 10.561 \$303,936)			<u> </u>
Total U.S. Department of Agriculture			\$ 466,624
U.S. Department of Justice			
Direct State Criminal Alien Assistance Program	16.606	N/A	\$ 4,119
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	1002292	\$ 1,243,041
Passed Through City of Glencoe State and Community Highway Safety	20.600	A-ENFRC17-2017- GLENCO PD-083	<u>3,769</u>
Total U.S. Department of Transportation			\$ 1,246,810
U.S. Department of Education			
Passed Through Meeker-McLeod-Sibley Community Health Services Special Education - Grants for Infants and Families	84.181	Not Provided	\$ 1,933

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	G-1601MNFPS	\$ 12,684
Temporary Assistance for Needy Families	93.558	1601MNTANF	44,933
Temporary Assistance for Needy Families	93.558	1601MFTANF	132,007
(Total Temporary Assistance for Needy Families CFDA 93.558 \$207,077)			
Child Support Enforcement	93.563	1604MNCSES	25,676
Child Support Enforcement	93.563	1604MNCEST	466,866
(Total Child Support Enforcement CFDA 93.563 \$492,542)			
Refugee and Entrant Assistance - State-Administered Programs	93.566	1601MNRCA	175
Child Care and Development Block Grant	93.575	G1601MNCDF	8,869
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNFPG	11,888
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNCWSS	7,419
Foster Care - Title IV-E	93.658	1601MNFOST	282,204
Social Services Block Grant	93.667	16-01MNSOSR	192,146
Chafee Foster Care Independence Program	93.674	G-1601MNCILP	1,388
Medical Assistance Program	93.778	05-1605MN5ADM	1,135,798
Medical Assistance Program	93.778	05-1605MN5MAP	12,069
(Total Medical Assistance Program CFDA 93.778 \$1,147,867)			
Block Grants for Community Mental Health Services	93.958	SM010027-16	5,678
Passed Through Meeker-McLeod-Sibley Community Health Services			
Public Health Emergency Preparedness	93.069	Not Provided	24,280
Universal Newborn Hearing Screening	93.251	Not Provided	400
Immunization Cooperative Agreements	93.268	Not Provided	2,100
Temporary Assistance for Needy Families	93.558	Not Provided	30,137
(Total Temporary Assistance for Needy Families CFDA 93.558 \$207,077)			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Not Provided	26,152
Maternal and Child Health Services Block Grant to the States	93.994	Not Provided	31,625
Total U.S. Department of Health and Human Services			\$ 2,454,494
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
Emergency Management Performance Grants	97.042	F-EMPG-2016- MCLEODCO-048	\$ 25,127
Total Federal Awards			\$ 4,199,107

McLeod County did not pass any federal awards through to subrecipients during the year ended December 31, 2016.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016

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 \$555,187 in federal awards during the year ended June 30, 2016, which are not included in the Schedule of Expenditures of Federal Awards because it was audited by other auditors.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of McLeod County under programs of the federal government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of McLeod County, it is not intended to and does not present the financial position, or changes in net position of McLeod County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. McLeod County has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 4,220,210
Grants received more than 60 days after year-end, unavailable in 2016	
Temporary Assistance for Needy Families	25,489
Special Education - Grants for Infants and Families	483
Block Grants for Prevention and Treatment of Substance Abuse	6,405
Maternal and Child Health Services Block Grant to States	7,906
Special Supplemental Nutrition Program for Women, Infants, and Children	3,855
Community-Based Child Abuse Prevention Grants	2,702
Stephanie Tubbs Jones Child Welfare Services Program	1,179
Chafee Foster Care Independence Program	347
Promoting Safe and Stable Families	1,309
Child Care and Development Block Grant	598
Block Grants for Community Mental Health Services	5,678
Unavailable in 2015, recognized as revenue in 2016	
Immunization Cooperative Agreements	(440)
Temporary Assistance for Needy Families	(6,400)
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	(24,219)
Block Grants for Prevention and Treatment of Substance Abuse	(9,829)
Highway Planning and Construction	(9,766)
Child Support Enforcement	(26,400)
	<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 4,199,107</u>

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
McLeod County
Glencoe, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of McLeod County, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 11, 2017. Our report includes a reference to other auditors who audited the financial statements of the McLeod County Housing and Redevelopment Authority, the discretely reported component unit, for the year ended June 30, 2016, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 1999-001, 2007-001, 2015-002, 2016-001, and 2016-002, that we consider to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that McLeod County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*, except as described in the Schedule of Findings and Questioned Costs as item 2015-006. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

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

McLeod County's Response to Findings

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 11, 2017

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REBECCA OTTO
STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
McLeod County
Glencoe, Minnesota

Report on Compliance for Each Major Federal Program

We have audited McLeod County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2016. McLeod County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

McLeod County's basic financial statements include the operations of the McLeod County Housing and Redevelopment Authority (HRA) component unit, which expended \$555,187 in federal awards during the year ended June 30, 2016, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the HRA because it was audited by other auditors.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of McLeod County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative*

Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about McLeod County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Basis for Qualified Opinion on Highway Planning and Construction (CFDA No. 20.205)

As described in the accompanying Schedule of Findings and Questioned Costs, McLeod County did not comply with requirements regarding CFDA No. 20.205 Highway Planning and Construction as described in finding number 2016-003 for Procurement and Suspension and Debarment. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Qualified Opinion on Highway Planning and Construction (CFDA No. 20.205)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, McLeod County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Highway Planning and Construction for the year ended December 31, 2016.

Unmodified Opinion on the Other Major Federal Program

In our opinion, McLeod County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2016.

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

Report on Internal Control Over Compliance

Management of McLeod County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal

program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2016-003 to be a material weakness.

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 11, 2017

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **Unmodified**

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

Type of auditor's report issued on compliance for major federal programs: **Unmodified for all major programs, except for Highway Planning and Construction, which is qualified.**

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

The major federal programs are:

Highway Planning and Construction	CFDA No. 20.205
Child Support Enforcement	CFDA No. 93.563

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 1999-001

Accounting Policies and Procedures

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

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

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

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

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

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

View of Responsible Official: Concur

Finding Number 2007-001

Monitoring Internal Controls

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

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

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

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

Cause: Limited time and resources.

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

View of Responsible Official: Concur

Finding Number 2015-002

General Ledger Reconciliation to the Treasurer's Cash Trial Balance

Criteria: Reconciliations are control activities designed to provide reasonable assurance that material errors will be prevented and detected in a timely manner and involves the comparison of records or balances from different sources. Effective reconciliations properly account for any differences between the records or balances. This includes investigating why the differences exist and resolving them in a timely manner.

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

Context: Reconciling the Treasurer's Cash Trial Balance with the general ledger is a tool to ensure that, among other things, all journal entries have been properly posted and are accounted for.

Effect: When accounting records are not reconciled on a regular basis, there is an increased risk that errors or irregularities will not be detected in a timely manner.

Cause: Timely reconciliations were not performed due to journal entries not always being prepared on a timely basis causing them to be backdated which causes the reconciliation process to be delayed.

Recommendation: We recommend the reconciliation between the general ledger and the Treasurer's Cash Trial Balance be performed timely.

View of Responsible Official: Concur

ITEMS ARISING THIS YEAR

Finding Number 2016-001

Departmental Internal Controls - Planning and Zoning/Environmental Services

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

Condition: At the time of our review of the Planning and Zoning/Environmental Services Department, several internal control deficiencies were noted:

- When a citizen of the County requests a permit, a County employee enters the appropriate information onto a paper receipt log. There are separate logs for each type of permit the County issues as well, which is also filled out by the employee at this time. A reconciliation is not performed between the information entered into the permit log and that entered into the receipt log to ensure that all permits have a valid receipt.
- Information entered into the receipt log does not include the dollar amount collected. Without this information, it is difficult to reconcile that all receipts for a given day were included in the deposit brought to the County Auditor-Treasurer's Office.
- During detail testing, it was noted that there were instances of incorrect/missing information on the receipt log and incorrect/missing information on the permit logs. One receipt was discovered to be miscoded. Instances of not following department procedures were noted.

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

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

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

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

View of Responsible Official: Concur

Finding Number 2016-002

Credit Card Procedures

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

Condition: During our control testing over credit cards in the County, we noted the following deficiencies:

- The Sheriff's Department has four credit cards issued to one individual in the Department, but the cards can be used by several employees. The other employees who use the cards do not have a signed P-Card User Agreement form in their file nor have they received specific training on how to properly use the P-Card.
- When a County employee terminated their employment with the County their credit card was given to the County employee who was their replacement. The employee who was then using the credit card did not have a signed P-Card User Agreement form in their file nor have they received specific training on how to properly use the P-Card.
- When asked, the Department Head from a County Department was initially unaware of where the credit card was located.

Context: Pursuant to the County's Credit Card Policy, the County Auditor-Treasurer's Office tracks credit cards issued to all employees, and all employees with a County credit card are required to sign the P-Card User Agreement form, and receive specific training on how to properly use the P-Card.

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

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

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

View of Responsible Official: Concur

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

Finding Number 2016-003

Procurement and Suspension and Debarment - Written Procurement Policies and Procedures

Program: U.S. Department of Transportation's Highway Planning and Construction (CFDA No. 20.205), Award No. 1002292, 2016

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

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

Questioned Costs: Not applicable.

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

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

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

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

View of Responsible Official: Concur

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2015-006

Contract Compliance

Criteria: Minnesota statutes contain requirements for the contracting processes used by local governments.

Condition: During our testing of compliance with the State of Minnesota contracting and bid laws, we noted noncompliance with the following requirements:

- Withholding Affidavit for Contractors (IC-134): Referring to the withholding of income taxes by the contractor or subcontractor, Minn. Stat. § 270C.66 states that, “No . . . political or governmental subdivision of the state shall make final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor and by subcontractors until satisfactory showing is made that said contractor or subcontractor has complied with the provisions of section 290.92.” For two of the four contracts tested that included the employment of individuals for wages by the contractor and where final payment had been made, the final payment was issued prior to receiving a Minnesota Department of Revenue approved Form IC-134, which requires the reporting of employee withholdings, from the contractor.

- **Contract Language:** Minn. Stat. § 471.425, subd. 4a. requires that the contract between the government entity and a prime contractor contain language that requires the prime contractor to pay subcontractors within ten days of receipt of payment from the government entity or pay interest at the rate of 1.5 percent per month or any part of a month. For one of the four contracts tested, the County did not include this specific language in the contract with the prime contractor.
- **Contractor's Performance and Payment Bond:** Minn. Stat. § 574.26 requires contractors doing public work to give both a performance bond and a payment bond in an amount not less than the contract price if the contract is more than \$100,000. For one of the three contracts over \$100,000 tested, the County did not receive a performance bond or a payment bond. The contract totaled \$172,369.

Context: The Central Services Department generally oversees the contracting process for most County departments; however, some County departments were responsible to oversee the contracting process for its own projects.

Effect: Noncompliance with Minn. Stat. §§ 270C.66; 471.425 and 574.26.

Cause: Staff from the County Departments were not aware of all of the construction contract requirements.

Recommendation: We recommend the County develop a policy and procedures manual that includes contracting requirements, so those County Departments that oversee the contracting process for its own projects will be informed of the statutory requirements to ensure compliance with applicable statutes for all future contracts.

View of Responsible Official: Concur

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2009-002

Ditch Fund Balance Deficits

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

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

Context: Twenty-four of the 57 individual ditch systems have deficit unassigned fund balances as of December 31, 2016, totaling \$977,169, the largest being \$147,062.

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

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

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

View of Responsible Official: Acknowledged

IV. PREVIOUSLY REPORTED ITEMS RESOLVED

- 2014-001 Publication of Board Minutes
- 2015-001 Audit Adjustment
- 2015-003 Journal Entry Approval
- 2015-004 Departmental Internal Controls - Solid Waste Receipting
- 2015-005 Prompt Payment of Invoices

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**REPRESENTATION OF McLEOD COUNTY
GLENCOE, MINNESOTA**

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2016**

Finding Number: 1999-001

Finding Title: Accounting Policies and Procedures

Name of Contact Person Responsible for Corrective Action:

Cindy Schultz Ford, McLeod County Auditor-Treasurer

Corrective Action Planned:

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

Anticipated Completion Date:

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

Finding Number: 2007-001

Finding Title: Monitoring Internal Controls

Name of Contact Person Responsible for Corrective Action:

Cindy Schultz Ford, McLeod County Auditor-Treasurer

Corrective Action Planned:

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

Anticipated Completion Date:

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

Finding Number: 2015-002

Finding Title: General Ledger Reconciliation to the Treasurer's Cash Trial Balance

Name of Contact Person Responsible for Corrective Action:

Cindy Schultz Ford, McLeod County Auditor-Treasurer

Corrective Action Planned:

McLeod County recognizes the importance of balancing between the Integrated Financial System (IFS) General Ledger and the Treasurer's Cash Trial Balance to ensure the checks and balances according to procedures. The Auditor-Treasurer Accountant and the Deputy Auditor-Treasurer will re-implement the balancing on a monthly basis. The McLeod County Auditor-Treasurer will monitor this process to ensure that it is being completed.

Anticipated Completion Date:

Immediately

Finding Number: 2016-001

Finding Title: Departmental Internal Controls - Planning and Zoning/Environmental Services

Name of Contact Person Responsible for Corrective Action:

Cindy Schultz Ford, McLeod County Auditor-Treasurer and Larry Gasow, Planning, Zoning and Environmental Services Director

Corrective Action Planned:

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

Anticipated Completion Date:

December 31, 2017.

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

Name of Contact Person Responsible for Corrective Action:

Cindy Schultz Ford, McLeod County Auditor-Treasurer

Corrective Action Planned:

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

Anticipated Completion Date:

Immediately

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

Name of Contact Person Responsible for Corrective Action:

Cindy Schultz Ford, McLeod County Auditor-Treasurer

Corrective Action Planned:

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

Anticipated Completion Date:

December 31, 2017.

Finding Number: 2015-006
Finding Title: Contract Compliance

Name of Contact Person Responsible for Corrective Action:

Cindy Schultz Ford, McLeod County Auditor-Treasurer

Corrective Action Planned:

McLeod County recognizes the importance of having a policy in place that includes contracting requirements to ensure statutory compliance. The McLeod County Auditor-Treasurer will update the purchasing policy to include the contracting requirements.

Anticipated Completion Date:

December 31, 2017.

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

Name of Contact Person Responsible for Corrective Action:

Cindy Schultz Ford, McLeod County Auditor-Treasurer

Corrective Action Planned:

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

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

Anticipated Completion Date:

Indefinite

**REPRESENTATION OF McLEOD COUNTY
GLENCOE, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Finding Number: 1999-001

Finding Title: Accounting Policies and Procedures

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

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

Status: Partially Corrected. McLeod County will be updating its payroll software in late 2017 from the iSeries operating software to Windows operating software. Once implemented, a Payroll Policy and Procedures will be drafted and approved by the County Board of Commissioners with projected completion by January 2, 2018. The Board of County Commissioners approved an Accounts Payable Policy which was implemented on January 3, 2017. McLeod County will work on the Financial Reporting Policy and Procedures with completion by January 2, 2018.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X

Finding Number: 2007-001

Finding Title: Monitoring Internal Controls

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

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

Status: Not Corrected. The McLeod County Auditor-Treasurer continues to assess and monitor the internal controls periodically throughout the year with limited time and resources. A procedure will be implemented in January 2018.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2015-001

Finding Title: Audit Adjustment

Summary of Condition: A material audit adjustment was proposed, which was reviewed and approved by the appropriate staff and was reflected in the financial statements.

Summary of Corrective Action Previously Reported: All future receivables on the State Aid Accounting System (SAAS) report will be reviewed by the Highway Accountant to ensure they are accrued appropriately. Additionally, a new procedure has been implemented between the Highway Accountant and the Auditor-Treasurer Accountant, a process of comparing the Highway Cost Accounting Financial Statement to the McLeod County financial statement for accuracy.

Status: Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2015-002

Finding Title: General Ledger Reconciliation to the Treasurer's Cash Trial Balance

Summary of Condition: At the time of the auditor's review of the County reconciliation of the general ledger to the Treasurer's Cash Trial Balance, it was determined that of the 11 months through November 30, 2015, reconciliations had not been performed for 5 of the months.

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

Status: Not Corrected. The Auditor-Treasurer Accountant and Deputy Auditor-Treasurer have improved in 2017 on the balancing of the general ledger to the Treasurer's Cash Trial Balance, but it needs to be done more timely in the future. Starting September 1, 2017, the balancing between the two Auditor-Treasurer staff will be completed at least once monthly. Documentation will be signed and dated by the County Auditor-Treasurer on the completion date.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2015-003
Finding Title: Journal Entry Approval

Summary of Condition: Two of nine journal entries tested did not have evidence of review and approval of the County-Auditor Treasurer. In addition, one of these two journal entries was not signed by the Human Services Collections and Accounting Supervisor.

Summary of Corrective Action Previously Reported: A new procedure has been implemented with the Human Services Accountant sending the journal entry documents to the Auditor-Treasurer for approval prior to posting in the Integrated Financial System (IFS). Once the entry is approved by the Auditor-Treasurer, the Human Services Accountant will be notified by email that the entry can be posted to the General Ledger.

Status: Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2015-004
Finding Title: Departmental Internal Controls - Solid Waste Receipting

Summary of Condition: Several internal control deficiencies were noted during the review of the Solid Waste Department: cash and checks collected did not agree with the supporting documentation; deposits with the Auditor-Treasurer were not performed timely; and bank reconciliations could not be re-performed at a later date.

Summary of Corrective Action Previously Reported: A new procedure has been implemented that balances the cash sales in the drawer daily to the Detailed Payment Report out of the Interact Software System. In addition, the manual spreadsheets have been eliminated. All deposits with documentation will be initialed, verified and secured by the supervisors to ensure accuracy. Weekly deposits will be made to the Auditor-Treasurer's Office.

Status: Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2014-001
Finding Title: Publication of Board Minutes

Summary of Condition: During the testing of compliance with Minn. Stat. § 375.12, it was noted that four Board of County Commissioners meetings did not have affidavits of publications showing the summary of the minutes published in the County's official newspaper, and three others were not published within the 30-day requirement.

Summary of Corrective Action Previously Reported: A new procedure has been implemented between Administration and the official newspaper to ensure that they receive the minutes and publish them within the 30-day requirement as stated in Minn. Stat. § 375.12.

Status: Fully Corrected. Corrective action taken.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X

Finding Number: 2015-005

Finding Title: Prompt Payment of Invoices

Summary of Condition: Eight of 25 Human Services Department invoices tested for compliance with Minn. Stat. § 471.425 in conjunction with the testing of internal controls over financial reporting were not paid within 35 days.

Summary of Corrective Action Previously Reported: The Human Services Accountant will ensure that bills are paid promptly as they are received in the accounting office after appropriate approval. If necessary, bills will be sent to the Auditor-Treasurer's Office for payment.

Status: Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X

Finding Number: 2015-006

Finding Title: Contract Compliance - Solid Waste

Summary of Condition: During testing of compliance with the State of Minnesota contracting and bid laws, noncompliance was noted with the following requirements (the contracts related to those entered into by the County's Solid Waste Department): for one of three construction contracts tested, the County was unable to provide the signed responsible bidder certification form (required by Minn. Stat. § 16C.285); for two of the four contracts tested that included the employment of individuals for wages by the contractor and where final payment had been made, the final payment was issued prior to receiving a Minnesota Department of Revenue approved Form IC-134, which requires the reporting of employee withholdings, from the contractor (required by Minn. Stat. § 270C.66); and for one of the three construction contracts tested, the County did not receive a performance bond or a payment bond related to a contract totaling \$166,904 (required by Minn. Stat. § 574.26)

Summary of Corrective Action Previously Reported: A new procedure has been implemented. Solid Waste will work with the Central Services Department to procure the required bids, bonds, and certificates.

Status: Partially Corrected. Corrective action was taken specific to the solid waste department.
Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2009-002

Finding Title: Ditch Fund Balance Deficits

Summary of Condition: As of December 31, 2015, the County had individual ditch systems where liabilities and deferred inflows of resources exceeded assets, resulting in individual deficit fund balances.

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

Status: Partially Corrected. McLeod County issued drainage ditch bonds to help cover some major repair costs in 2016, but money was still loaned from the general fund for other ditch accounts to cover negative balances. Special assessments are implemented to pay the costs for ditch repairs however, this at times is spread out over several years to keep the repayment cost down for the landowners.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X