

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

McLEOD COUNTY
GLENCOE, MINNESOTA

YEAR ENDED DECEMBER 31, 2013

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

Year Ended December 31, 2013



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

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

**ORGANIZATION
2013**

Office	Name	Term of Office	
		From	To
Commissioners			
1st District	Ron Shimanski	January 2013	January 2017
2nd District	Kermit Terlinden	January 2007	January 2015
3rd District	Paul Wright *	January 2009	January 2017
4th District	Sheldon Nies	January 1995	January 2017
5th District	Jon Christensen	January 2013	January 2015
Officers			
Elected			
Attorney	Michael K. Junge	May 1987	January 2015
Auditor-Treasurer	Cindy Schultz	January 1995	January 2015
Recorder	Lynnette Schrupp	January 2003	January 2015
Sheriff	Scott Rehmann	January 2007	January 2015
District Judge	Michael Savre	May 2004	January 2019
District Judge	Terrence E. Conkel	August 1998	January 2019
Appointed			
Agriculture & Weed Inspector	Allan Koglin	January 1997	January 2014
Assessor	Sue Schulz	March 2005	January 2014
Coroner	Dr. Quinn Strobl	January 2011	December 2014
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 2014
Human Services Director	Gary Sprynczynatyk	August 1995	Indefinite
Information Systems Director	Vince Traver	November 2012	Indefinite
Park Superintendent	Allan Koglin	August 1979	Indefinite
Public Health Nurse Director	Kathy Nowak	May 2008	Indefinite
Regional Extension Director	Sarah Chur	January 2006	Indefinite
Surveyor	Jeff Rausch	February 1996	January 2014
Solid Waste Director	Ed Homan	December 1973	Indefinite
Veterans Service Officer	James Lauer	November 2004	January 2014
Zoning Administrator	Larry Gasow	February 2000	January 2014

*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

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, 2013, 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 Housing and Redevelopment Authority (HRA), the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the McLeod County HRA, is based solely upon the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the

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

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

Opinions

In our opinion, based on our report and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of McLeod County as of December 31, 2013, including the McLeod County HRA as of June 30, 2013, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2013 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represent changes in accounting principles. Our opinion is not modified with respect to this matter.

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 GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2014, 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.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 29, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(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, 2013. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The assets of McLeod County exceeded liabilities at the end of the current fiscal year by \$167,034,301 (net position). Of this amount, \$28,492,556 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$7,887,025 (five percent). The increase is a combination of additional capital assets and budget savings from operations.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$12,511,970, or 80 percent of total 2013 General Fund expenditures.
- Governmental funds' fund balances decreased by \$2,533,492.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

McLeod County maintains three fund types within the governmental funds: General, Special Revenue, and Capital Projects. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Solid Waste Special Revenue Fund, 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, and Solid Waste Special Revenue. A budgetary comparison statement has been provided for these funds to demonstrate compliance with their budgets.

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

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

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

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

Fiduciary Funds

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

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

Notes to the Financial Statements

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

Other Information

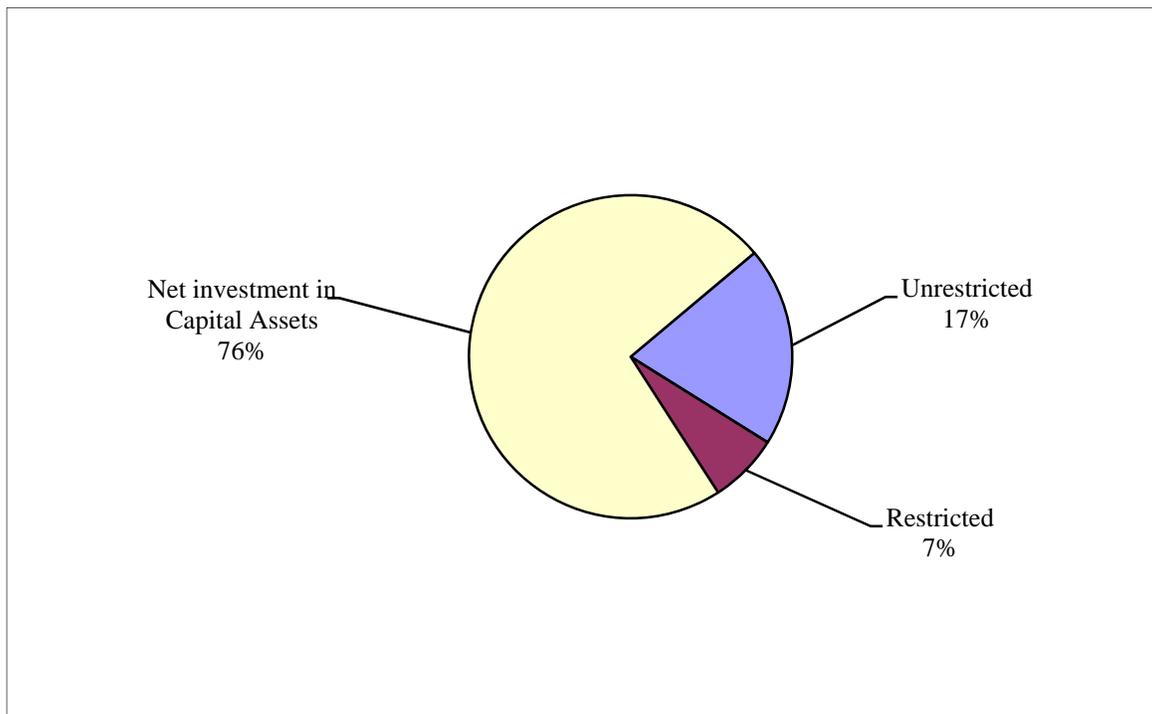
In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

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 exceeded liabilities by \$167,034,301 as of December 31, 2013. The net investment in capital assets is the largest portion of McLeod County's net position at 76 percent. These capital assets are used to provide services to citizens and are not available for future spending.

Approximately 7 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 17 percent, or \$28,492,556, 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	
	2013	2012	2013	2012
Assets				
Current and other assets	\$ 46,554,132	\$ 49,148,923	\$ 161,088	\$ 220,921
Capital assets	<u>126,929,056</u>	<u>115,588,301</u>	<u>3,059,778</u>	<u>3,181,026</u>
Total Assets	<u>\$ 173,483,188</u>	<u>\$ 164,737,224</u>	<u>\$ 3,220,866</u>	<u>\$ 3,401,947</u>
Liabilities				
Current and other liabilities	\$ 3,324,187	\$ 2,775,332	\$ 102,517	\$ 84,972
Long-term liabilities - due within one year	972,743	885,255	142,433	135,679
Long-term liabilities - due in more than one year	<u>2,151,957</u>	<u>1,929,361</u>	<u>3,289,470</u>	<u>3,433,756</u>
Total Liabilities	<u>\$ 6,448,887</u>	<u>\$ 5,589,948</u>	<u>\$ 3,534,420</u>	<u>\$ 3,654,407</u>
Net Position				
Net investment in capital assets	\$ 126,929,056	\$ 115,588,301	\$ (372,125)	\$ (388,409)
Restricted	11,612,689	11,624,768	54,987	123,041
Unrestricted	<u>28,492,556</u>	<u>31,934,207</u>	<u>3,584</u>	<u>12,908</u>
Total Net Position	<u>\$ 167,034,301</u>	<u>\$ 159,147,276</u>	<u>\$ (313,554)</u>	<u>\$ (252,460)</u>

GOVERNMENTAL ACTIVITIES

McLeod County's governmental activities increased net position by \$7,887,025 during the current fiscal year. This increase is primarily due to an increase in capital assets, which included the following major items: highway and bridge construction, a new sign truck, and other improvement projects.

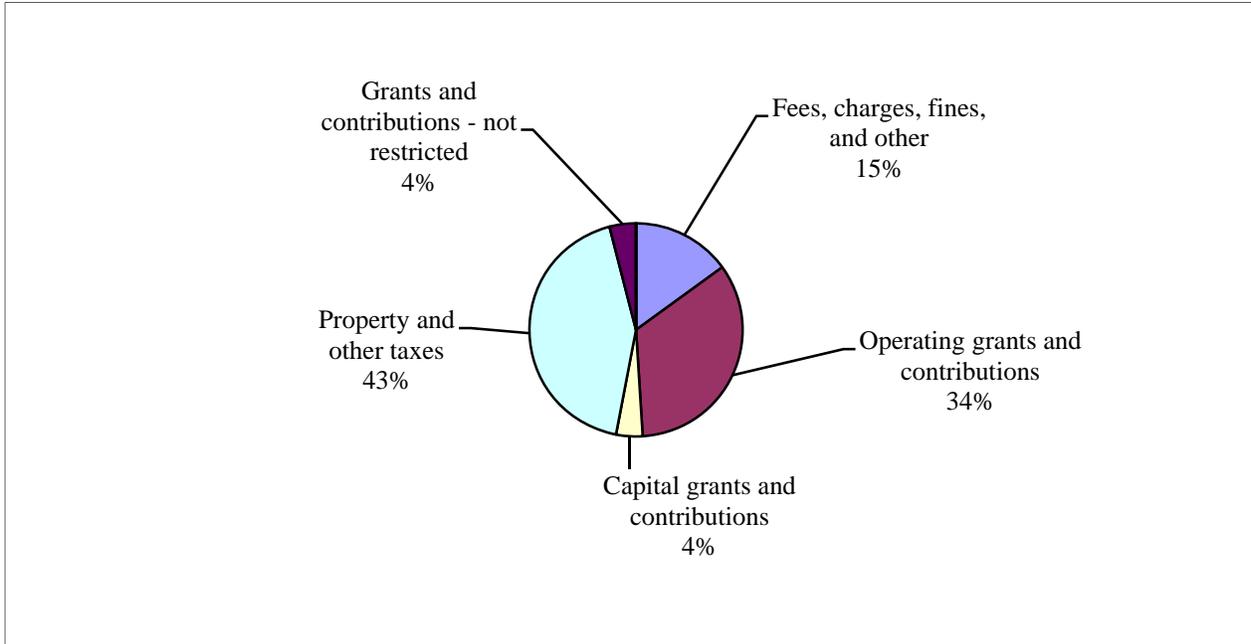
The McLeod County HRA is a discretely presented component unit of McLeod County. As of June 30, 2013, liabilities exceeded assets by \$313,554, and there was a decrease in net position of \$61,094 from the prior year. The decrease is primarily due to expenses in excess of revenues.

Changes in Net Position

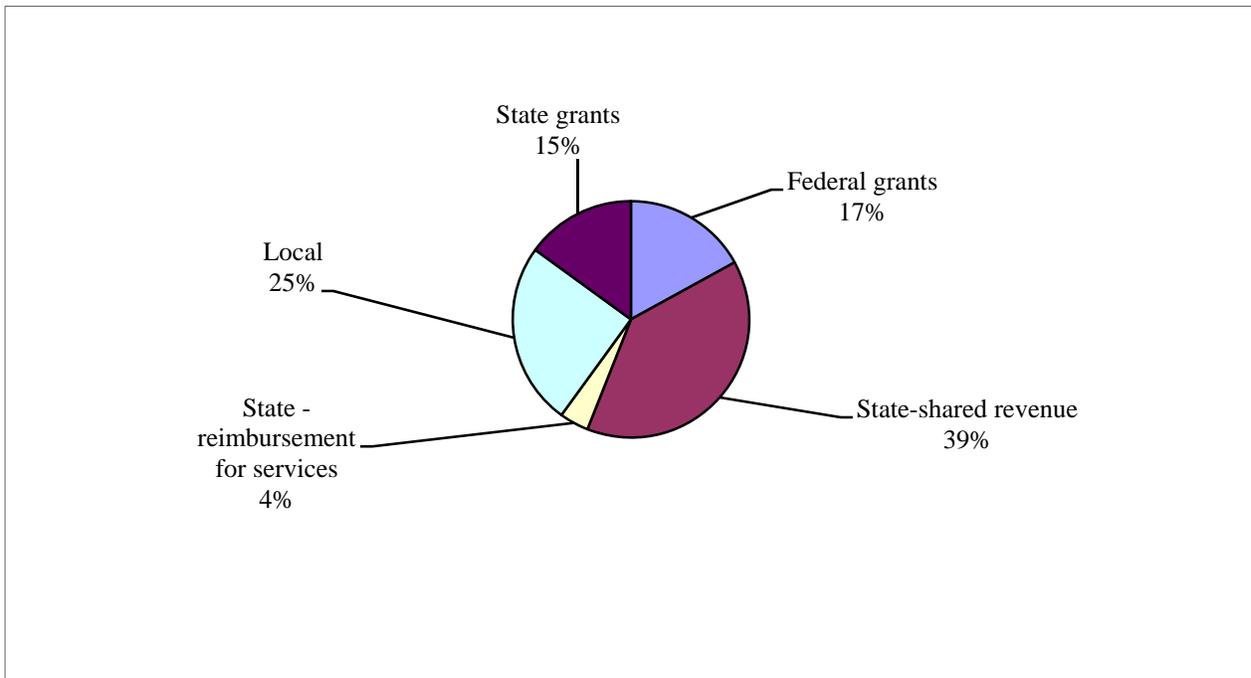
	Governmental Activities		Discretely Presented Component Unit	
	2013	2012	2013	2012
Revenues				
Program revenues				
Fees, charges, fines, and other	\$ 6,370,083	\$ 6,906,690	\$ 467,238	\$ 463,417
Operating grants and contributions	14,237,339	10,427,486	432,621	421,331
Capital grants and contributions	1,732,054	704,865	-	-
General revenues				
Property taxes	18,149,995	18,175,087	-	-
Other taxes	89,945	67,121	-	-
Grants and contributions not restricted to specific programs	1,737,632	1,862,718	-	-
Investment income	(366,095)	62,650	313	394
Gain on disposal of assets	95,830	148,233	-	-
Other	114,157	112,424	-	-
Total Revenues	\$ 42,160,940	\$ 38,467,274	\$ 900,172	\$ 885,142
Expenses				
General government	\$ 5,723,839	\$ 5,574,989	\$ -	\$ -
Public safety	5,826,669	5,827,057	-	-
Highways and streets	6,943,763	6,714,091	-	-
Sanitation	2,409,301	2,058,635	-	-
Human services	9,557,114	9,023,101	-	-
Health	2,114,170	2,096,297	-	-
Culture and recreation	703,563	651,848	-	-
Conservation of natural resources	976,970	911,215	-	-
Economic development	1,464	1,593	-	-
Interest	17,062	36,175	-	-
HRA	-	-	961,266	855,490
Total Expenses	\$ 34,273,915	\$ 32,895,001	\$ 961,266	\$ 855,490
Increase (Decrease) in Net Position	\$ 7,887,025	\$ 5,572,273	\$ (61,094)	\$ 29,652
Net Position - January 1	159,147,276	153,575,003	(252,460)	(282,112)
Net Position - December 31	<u>\$ 167,034,031</u>	<u>\$ 159,147,276</u>	<u>\$ (313,554)</u>	<u>\$ (252,460)</u>

The following charts show additional information on the revenues of McLeod County for the year ended December 31, 2013.

Revenues by Source - Governmental Activities



Intergovernmental Revenue



FINANCIAL ANALYSIS

Governmental Funds

At the end of 2013, McLeod County's governmental funds reported a combined fund balance of \$40,534,018. This is a decrease of \$2,533,492 from the prior year. The fund balance in the General Fund increased by \$246,501 due to a decrease in expenditures. The fund balance in the Road and Bridge Special Revenue Fund decreased by \$2,966,466 due to the increase in construction expenses. The fund balance in the Human Services Special Revenue Fund increased by \$37,744, and the fund balance in the Solid Waste Special Revenue Fund increased by \$107,193. For both funds, revenues decreased and expenditures increased; however, the revenues still exceeded expenditures for the year. The fund balance in the Ditch Special Revenue Fund increased by \$58,905 due to a decrease in expenditures. There was also a decrease in the nonmajor governmental funds of \$17,369, primarily due to a transfer from the Capital Projects Fund to the General Fund.

General Fund Budgetary Highlights

In total, General Fund revenues for 2013 exceeded the amounts budgeted by \$103,390. Special assessments, licenses and permits, intergovernmental, charges for services, and miscellaneous came in higher than anticipated. Total General Fund expenditures were \$1,262,054 less than the final budget. This variance is attributed to the areas of general government and public safety. No amendments were made to the original budget during 2013.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

At the end of 2013, McLeod County had \$126,929,056 invested in capital assets, including land, infrastructure, buildings, improvements other than buildings, and equipment. The table below shows a summary of McLeod County's capital assets as of December 31.

	Capital Assets (Net of Depreciation)	
	2013	2012
Land	\$ 3,956,141	\$ 3,956,141
Right-of-way	3,173,372	3,173,372
Infrastructure	100,047,228	90,747,730
Buildings	11,088,072	11,863,949
Improvements other than buildings	671,871	733,698
Machinery, furniture and equipment	2,440,570	2,798,916
Construction in progress	5,551,802	2,314,495
Total	<u>\$ 126,929,056</u>	<u>\$ 115,588,301</u>

Major capital asset events during the year included the following:

- new sign truck was purchased in 2013 and
- infrastructure construction continued in 2013.

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

Long-Term Debt

At the end of the current fiscal year, McLeod County had loans outstanding of \$1,203,046. This is an increase in loans payable of \$123,530 from the beginning of the year. The increase was from additional septic loans.

Currently, the County does not have any general obligation debt. However, if in the future the County does, future County tax levies would be 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 \$102,865,995.

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 5.7 percent. McLeod County's unemployment rate is more than the state unemployment rate of 4.7 percent, but less than the United States unemployment rate of 6.7 percent.
- Property tax levy increases have occurred over the past several years and are likely to continue. However, the tax base in McLeod County is also expanding, which diminishes the effect to the individual taxpayer.

All of these factors were considered in preparing McLeod County's budget for the 2014 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, 2013**

	<u>Primary Government Governmental Activities</u>	<u>Housing and Redevelopment Authority Component Unit</u>
<u>Assets</u>		
Cash and pooled investments	\$ 39,546,520	\$ 111,965
Petty cash and change funds	12,355	-
Departmental cash	5,134	-
Cash with fiscal agent	1,399,122	-
Taxes receivable		
Prior - net	415,922	-
Special assessments receivable		
Noncurrent - net	1,058,759	-
Prior	2,520	-
Accounts receivable - net	381,061	6,060
Accrued interest receivable	135,560	-
Due from other governments	3,207,293	-
Inventories	389,886	-
Prepaid items	-	1,479
Restricted assets		
Cash and pooled investments	-	41,584
Capital assets		
Non-depreciable	12,681,315	197,000
Depreciable - net of accumulated depreciation	114,247,741	2,862,778
Total Assets	<u>\$ 173,483,188</u>	<u>\$ 3,220,866</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	Primary Government Governmental Activities	Housing and Redevelopment Authority Component Unit
<u>Liabilities</u>		
Accounts payable	\$ 974,327	\$ 12,378
Salaries payable	674,962	-
Accrued payroll taxes	50,202	-
Other accrued liabilities	256,813	45,672
Retainage payable	645,580	-
Due to other governments	546,308	-
Accrued interest payable	954	-
Claims payable	71,381	-
Unearned revenue	103,660	857
Long-term liabilities		
Due within one year	972,743	142,433
Due in more than one year	2,151,957	3,289,470
Liabilities payable from restricted assets (security deposits)	-	43,610
Total Liabilities	\$ 6,448,887	\$ 3,534,420
<u>Net Position</u>		
Net investment in capital assets	\$ 126,929,056	\$ (372,125)
Restricted for		
General government	866,069	-
Public safety	4,259,066	-
Highways and streets	586,238	-
Conservation of natural resources	689,955	-
Sanitation	5,211,361	-
Economic development	-	54,987
Unrestricted	28,492,556	3,584
Total Net Position	\$ 167,034,301	\$ (313,554)

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 5,723,839	\$ 1,084,841
Public safety	5,826,669	336,475
Highways and streets	6,943,763	218,925
Sanitation	2,409,301	2,243,814
Human services	9,557,114	1,580,721
Health	2,114,170	558,416
Culture and recreation	703,563	86,780
Conservation of natural resources	976,970	260,111
Economic development	1,464	-
Interest	17,062	-
	\$ 34,273,915	\$ 6,370,083
Total Primary Government	\$ 34,273,915	\$ 6,370,083
Component unit		
Housing and Redevelopment Authority	\$ 961,266	\$ 467,238

General Revenues

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

Total general revenues

Change in net position

Net Position - Beginning

Net Position - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Discretely Presented Component Unit
\$ 23,637	\$ -	\$ (4,615,361)	
359,626	-	(5,130,568)	
8,642,326	1,732,054	3,649,542	
-	-	(165,487)	
4,063,661	-	(3,912,732)	
877,897	-	(677,857)	
-	-	(616,783)	
270,192	-	(446,667)	
-	-	(1,464)	
-	-	(17,062)	
\$ 14,237,339	\$ 1,732,054	\$ (11,934,439)	
\$ 432,621	\$ -		\$ (61,407)
		\$ 18,149,995	\$ -
		25,759	-
		21,874	-
		42,312	-
		1,737,632	-
		(366,095)	313
		95,830	-
		114,157	-
		\$ 19,821,464	\$ 313
		\$ 7,887,025	\$ (61,094)
		159,147,276	(252,460)
		\$ 167,034,301	\$ (313,554)

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 23,167,410	\$ 5,131,440
Petty cash and change funds	2,205	100
Departmental cash	5,134	-
Cash with fiscal agent	1,399,122	-
Taxes receivable		
Prior	256,013	72,274
Special assessments receivable		
Prior	-	-
Noncurrent	665,396	-
Accounts receivable	58,656	68,955
Accrued interest receivable	135,560	-
Due from other funds	900	-
Due from other governments	621,599	1,854,333
Inventories	10,245	379,641
Advances to other funds	497,750	-
	\$ 26,819,990	\$ 7,506,743
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 171,670	\$ 351,508
Salaries payable	374,366	63,613
Accrued payroll taxes	27,304	4,867
Accrued interest payable	-	-
Accrued expenses	131,479	25,697
Advances from other funds	-	-
Retainage payable	30,188	615,392
Due to other funds	-	-
Due to other governments	286,671	82,287
Unearned revenue	103,660	-
Claims payable	71,381	-
	\$ 1,196,719	\$ 1,143,364
Deferred Inflows of Resources		
Unavailable revenue	\$ 1,254,049	\$ 563,603

EXHIBIT 3

Human Services	Solid Waste	Ditch	Other Governmental Funds	Total Governmental Funds
\$ 5,827,200	\$ 5,227,102	\$ 157,339	\$ 36,029	\$ 39,546,520
-	10,050	-	-	12,355
-	-	-	-	5,134
-	-	-	-	1,399,122
87,635	-	-	-	415,922
-	-	2,520	-	2,520
-	-	393,363	-	1,058,759
42,188	211,262	-	-	381,061
-	-	-	-	135,560
-	-	-	-	900
718,076	-	13,285	-	3,207,293
-	-	-	-	389,886
-	-	-	-	497,750
\$ 6,675,099	\$ 5,448,414	\$ 566,507	\$ 36,029	\$ 47,052,782
\$ 266,767	\$ 177,224	\$ 7,158	\$ -	\$ 974,327
213,635	23,348	-	-	674,962
16,247	1,784	-	-	50,202
-	-	954	-	954
87,178	12,459	-	-	256,813
-	-	497,750	-	497,750
-	-	-	-	645,580
900	-	-	-	900
95,592	12,188	33,541	36,029	546,308
-	-	-	-	103,660
-	-	-	-	71,381
\$ 680,319	\$ 227,003	\$ 539,403	\$ 36,029	\$ 3,822,837
\$ 469,107	\$ -	\$ 409,168	\$ -	\$ 2,695,927

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	General	Road and Bridge
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> (Continued)		
Fund Balances		
Nonspendable		
Inventories	\$ 10,245	\$ 379,641
Advances to other funds	497,750	-
Restricted		
Restricted for E-911	187,923	-
Restricted for HAVA equipment	8,012	-
Restricted for records preservation	44,560	-
Restricted for law library	63,457	-
Restricted for recorder's equipment purchases	228,098	-
Restricted for new jail construction	3,869,836	-
Restricted for snowmobile enforcement	251	-
Restricted for law enforcement	123,325	-
Restricted for land records technology	97,247	-
Restricted for drug enforcement	6,572	-
Restricted for conservation	398,091	-
Restricted for court services	71,159	-
Restricted for SSTS Biscay City	172,862	-
Restricted for records compliance	424,695	-
Restricted for road and bridge	-	982,327
Restricted for solid waste abatement	-	-
Restricted for ditch maintenance and construction	-	-
Committed		
Committed for petty cash and change funds	2,205	100
Assigned		
Assigned for capital projects	5,524,137	-
Assigned for McLeod for Tomorrow	7,506	-
Assigned for lidar and orthophotography	27,305	-
Assigned for aerial photos	20,000	-
Assigned for veterans van	64,688	-
Assigned for new canine	5,901	-
Assigned for ag programing	1,427	-
Assigned for highways and streets	-	4,437,708
Assigned for human services	-	-
Unassigned	12,511,970	-
Total Fund Balances	\$ 24,369,222	\$ 5,799,776
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 26,819,990	\$ 7,506,743

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>Solid Waste</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 389,886
-	-	-	-	497,750
-	-	-	-	187,923
-	-	-	-	8,012
-	-	-	-	44,560
-	-	-	-	63,457
-	-	-	-	228,098
-	-	-	-	3,869,836
-	-	-	-	251
-	-	-	-	123,325
-	-	-	-	97,247
-	-	-	-	6,572
-	-	-	-	398,091
-	-	-	-	71,159
-	-	-	-	172,862
-	-	-	-	424,695
-	-	-	-	982,327
-	5,211,361	-	-	5,211,361
-	-	119,002	-	119,002
-	10,050	-	-	12,355
-	-	-	-	5,524,137
-	-	-	-	7,506
-	-	-	-	27,305
-	-	-	-	20,000
-	-	-	-	64,688
-	-	-	-	5,901
-	-	-	-	1,427
-	-	-	-	4,437,708
5,525,673	-	-	-	5,525,673
-	-	(501,066)	-	12,010,904
<u>\$ 5,525,673</u>	<u>\$ 5,221,411</u>	<u>\$ (382,064)</u>	<u>\$ -</u>	<u>\$ 40,534,018</u>
<u>\$ 6,675,099</u>	<u>\$ 5,448,414</u>	<u>\$ 566,507</u>	<u>\$ 36,029</u>	<u>\$ 47,052,782</u>

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013**

Fund balance - total governmental funds (Exhibit 3)		\$ 40,534,018
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 reported in the governmental funds.		126,929,056
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.		2,695,927
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Loans payable	\$ (1,203,046)	
Compensated absences	(1,264,246)	
OPEB liabilities	(657,408)	(3,124,700)
Net Position of Governmental Activities (Exhibit 1)		<u>\$ 167,034,301</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General	Road and Bridge
Revenues		
Taxes	\$ 10,830,690	\$ 3,240,984
Special assessments	132,987	-
Licenses and permits	68,115	10,525
Intergovernmental	2,996,043	11,268,717
Charges for services	1,767,521	217,360
Fines and forfeits	17,510	-
Gifts and contributions	17,234	-
Investment earnings	(420,445)	-
Miscellaneous	504,793	14,562
	\$ 15,914,448	\$ 14,752,148
Total Revenues		
Expenditures		
Current		
General government	\$ 5,732,386	\$ -
Public safety	5,622,164	-
Highways and streets	-	17,824,047
Sanitation	-	-
Human services	-	-
Health	2,131,457	-
Culture and recreation	639,530	-
Conservation of natural resources	794,039	-
Economic development	1,464	-
Capital outlay	579,280	-
Intergovernmental	-	236,518
Debt service		
Principal	73,302	-
Interest	11,334	-
	\$ 15,584,956	\$ 18,060,565
Total Expenditures		
Excess of Revenues Over (Under) Expenditures	\$ 329,492	\$ (3,308,417)
Other Financing Sources (Uses)		
Transfers in	\$ 21,563	\$ 320,002
Transfers out	(321,010)	-
Loan issued	181,356	-
Proceeds from the sale of capital assets	33,430	63,252
	\$ (84,661)	\$ 383,254
Total Other Financing Sources (Uses)		
Net Change in Fund Balance	\$ 244,831	\$ (2,925,163)
Fund Balance - January 1	24,122,721	8,766,242
Increase (decrease) in inventories	1,670	(41,303)
	\$ 24,369,222	\$ 5,799,776
Fund Balance - December 31		

EXHIBIT 5

<u>Human Services</u>	<u>Solid Waste</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 4,161,142	\$ -	\$ -	\$ -	\$ 18,232,816
-	-	225,657	-	358,644
-	5,220	-	-	83,860
3,895,128	88,570	-	-	18,248,458
949,093	2,192,159	-	-	5,126,133
-	-	-	46,081	63,591
-	-	-	-	17,234
-	-	1,432	4	(419,009)
631,628	49,173	-	50	1,200,206
\$ 9,636,991	\$ 2,335,122	\$ 227,089	\$ 46,135	\$ 42,911,933
\$ -	\$ -	\$ -	\$ 42,949	\$ 5,775,335
-	-	-	-	5,622,164
-	-	-	-	17,824,047
-	2,227,929	-	-	2,227,929
9,599,247	-	-	-	9,599,247
-	-	-	-	2,131,457
-	-	-	-	639,530
-	-	162,456	-	956,495
-	-	-	-	1,464
-	-	-	-	579,280
-	-	-	-	236,518
-	-	-	-	73,302
-	-	5,728	-	17,062
\$ 9,599,247	\$ 2,227,929	\$ 168,184	\$ 42,949	\$ 45,683,830
\$ 37,744	\$ 107,193	\$ 58,905	\$ 3,186	\$ (2,771,897)
\$ -	\$ -	\$ -	\$ 1,008	\$ 342,573
-	-	-	(21,563)	(342,573)
-	-	-	-	181,356
-	-	-	-	96,682
\$ -	\$ -	\$ -	\$ (20,555)	\$ 278,038
\$ 37,744	\$ 107,193	\$ 58,905	\$ (17,369)	\$ (2,493,859)
5,487,929	5,114,218	(440,969)	17,369	43,067,510
-	-	-	-	(39,633)
\$ 5,525,673	\$ 5,221,411	\$ (382,064)	\$ -	\$ 40,534,018

**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, 2013**

Net change in fund balance - total governmental funds (Exhibit 5) \$ (2,493,859)

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	\$ 2,695,927	
Unavailable revenue - January 1	(3,306,006)	(610,079)

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	\$ 15,698,872	
Net book value of disposed assets	(852)	
Current year depreciation	(4,357,265)	11,340,755

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

Loans issued		(196,832)
Principal repayments - Minnesota Pollution Control Agency loans		73,302

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

Change in compensated absences	\$ (66,676)	
Change in additional claims payable	(75)	
Change in OPEB liability	(119,878)	
Change in inventories	(39,633)	(226,262)

Change in Net Position of Governmental Activities (Exhibit 2) \$ 7,887,025

FIDUCIARY FUNDS

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McLEOD COUNTY
GLENCOE, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2013

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ 645,293
Departmental cash	4,052
Accounts receivable	115,364
Due from other governments	<u>597,093</u>
Total Assets	<u>\$ 1,361,802</u>
<u>Liabilities</u>	
Accounts payable	\$ 17,973
Salaries payable	33,602
Accrued payroll taxes	2,429
Accrued expenses	11,978
Due to other governments	<u>1,295,820</u>
Total Liabilities	<u>\$ 1,361,802</u>

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2013. 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.

During 2013, the County adopted new accounting guidance by implementing the provisions of GASB Statements 61 and 65. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, modifies and clarifies the requirements for inclusion of component units and their presentation in the primary government's financial statements. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. See Note 1.D.8. for additional information regarding the County's deferred outflows/inflows of resources.

Restatements of December 31, 2012 net position or fund balance were not required as a result of adopting these changes in accounting principles.

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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Unit

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

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

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net 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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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.

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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

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

Additionally, the County reports the following fund types:

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

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

C. Measurement Focus and Basis of Accounting

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor-Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2013, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. In 2013, the County reports negative pooled investment earnings of \$420,445 due to a decrease in the market value of investments.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

1. Deposits and Investments (Continued)

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

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

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

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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Inventories

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

4. Restricted Assets

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

5. Capital Assets

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

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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Capital Assets (Continued)

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

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

6. Compensated Absences

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

7. 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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Deferred Outflows/Inflows of Resources

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

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

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.

10. Classification of Net Position

Net position in 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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Classification of Net Position (Continued)

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

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.

Committed - amounts that can be used only for the specific purposes imposed by formal action (ordinance or 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 (ordinance or resolution) it employed to previously commit those amounts.

**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)

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.

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Revenues

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

Imposed Nonexchange Transactions

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

Intergovernmental

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues (Continued)

Exchange Transactions

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

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The Ditch Special Revenue Fund had a negative fund balance of \$382,064 as of December 31, 2013. Ditch system deficits will be eliminated in future years with special assessment levies against benefited properties. Following is a summary of the individual ditch systems:

33 ditches with positive balances	\$ 119,002
23 ditches with deficit balances	<u>(501,066)</u>
Net Fund Balance	<u>\$ (382,064)</u>

B. Component Unit Deficit

The McLeod County HRA, at June 30, 2013, had deficit net position of \$313,554, a decrease from the previous year's deficit balance of \$252,460. The decrease in net position is due, in part, to expenses in excess of revenues.

C. New Jail Construction

The net position restricted for new jail construction was donated to McLeod County by the estate of Annamarie Tudhope. In 2009, the County received \$1,170,500 in donations and \$41,024 in interest. In 2010, the County received \$2,264,482 in donations and \$24,445 in interest. In 2011, the County received \$150,000 in donations and \$39,997 in interest. In 2012, the County received \$130,432 in donations and \$26,760 in interest. In 2013, the County received \$22,196 in interest. As of December 31, 2013, \$3,869,836 was restricted. This money can be used only for new construction of a jail.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Governmental funds	
Cash and pooled investments	\$ 39,546,520
Petty cash and change funds	12,355
Departmental cash	5,134
Cash with fiscal agent	1,399,122
Agency fund	
Cash and pooled investments	645,293
Departmental cash	4,052
<u>Total Cash and Investments</u>	<u>\$ 41,612,476</u>
Deposits	\$ 24,095,685
Petty cash and change funds	12,355
Departmental cash	9,186
Cash with fiscal agent	1,399,122
Investments	16,096,128
<u>Total Deposits, Cash on Hand, and Investments</u>	<u>\$ 41,612,476</u>

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies, general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial credit risk is the risk that, in the event of a financial institution failure, the County deposits may not be returned to it. The County does not have a policy on custodial credit risk for deposits. As of December 31, 2013, McLeod County's deposits were not exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) Banker's acceptances of United States banks;

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

Credit Risk

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

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

Concentration of Credit Risk

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

The following table presents the County's investment balances at December 31, 2013, and information relating to potential investment risks:

<u>Investment - Issuer</u>	<u>Concentration Risk Percent (%)</u>	<u>Interest Rate Risk Maturity Date</u>	<u>Carrying (Fair) Value</u>
Mutual fund - Public Financial Management Cash Management Fund (MAGIC Fund)	23.38		\$ 3,763,048
Federal Home Loan Bank Securities - Wells Fargo Advisors			
Federal Home Loan Bank		09/13/2018	\$ 499,205
Federal Home Loan Bank		10/30/2018	990,510
Federal Home Loan Bank		09/28/2022	625,976
Federal Home Loan Bank		10/18/2022	1,243,138
Federal Home Loan Bank		10/25/2022	481,870
Federal Home Loan Bank		11/28/2022	480,730
Federal Home Loan Bank		12/28/2022	954,220
Federal Home Loan Bank		02/08/2023	468,605
Federal Home Loan Bank		03/20/2023	334,355
Federal Home Loan Bank		04/18/2023	468,480

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

<u>Investment - Issuer</u>	<u>Concentration Risk Percent (%)</u>	<u>Interest Rate Risk Maturity Date</u>	<u>Carrying (Fair) Value</u>
Federal Home Loan Bank		04/18/2023	304,512
Federal Home Loan Bank		05/08/2023	919,160
Federal Home Loan Bank		05/08/2023	919,160
Federal Home Loan Bank		05/16/2023	938,230
Federal Home Loan Bank		06/13/2023	910,460
Federal Home Loan Bank		11/27/2013	488,745
Total Federal Home Loan Bank	68.51		\$ 11,027,356
Negotiable Certificates of Deposit - Wells Fargo Advisors			
GE Capital Bank		07/27/2018	\$ 247,595
GE Capital Retail Bank		07/27/2018	247,595
Total Negotiable Certificates of Deposit	3.08		\$ 495,190
Money Market Accounts - Wells Fargo Advisors			
Treasury Money Market	0.40	N/A	\$ 65,534
HH Bonds - U.S. Treasury	4.63	Various	\$ 745,000
Total Investments			\$ 16,096,128

2. Receivables

Receivables as of December 31, 2013, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities		
Taxes	\$ 415,922	\$ -
Special assessments	1,061,279	1,058,759
Accounts	381,061	-
Accrued interest	135,560	-
Due from other governments	3,207,293	-
Total Governmental Activities	\$ 5,201,115	\$ 1,058,759

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 3,956,141	\$ -	\$ -	\$ 3,956,141
Construction in progress	2,314,495	3,258,812	21,505	5,551,802
Infrastructure - right-of-way	3,173,372	-	-	3,173,372
Total capital assets not depreciated	<u>\$ 9,444,008</u>	<u>\$ 3,258,812</u>	<u>\$ 21,505</u>	<u>\$ 12,681,315</u>
Capital assets depreciated				
Buildings	\$ 21,672,491	\$ -	\$ 50,000	\$ 21,622,491
Machinery, furniture, and equipment	11,019,699	715,561	369,236	11,366,024
Improvements other than buildings	1,326,953	-	-	1,326,953
Infrastructure	126,034,049	11,746,004	-	137,780,053
Total capital assets depreciated	<u>\$ 160,053,192</u>	<u>\$ 12,461,565</u>	<u>\$ 419,236</u>	<u>\$ 172,095,521</u>
Less: accumulated depreciation for				
Buildings	\$ 9,808,542	\$ 775,877	\$ 50,000	\$ 10,534,419
Machinery, furniture, and equipment	8,220,783	1,073,055	368,384	8,925,454
Improvements other than buildings	593,255	61,827	-	655,082
Infrastructure	35,286,319	2,446,506	-	37,732,825
Total accumulated depreciation	<u>\$ 53,908,899</u>	<u>\$ 4,357,265</u>	<u>\$ 418,384</u>	<u>\$ 57,847,780</u>
Total capital assets depreciated, net	<u>\$ 106,144,293</u>	<u>\$ 8,104,300</u>	<u>\$ 852</u>	<u>\$ 114,247,741</u>
Governmental Activities Capital Assets, Net	<u>\$ 115,588,301</u>	<u>\$ 11,363,112</u>	<u>\$ 22,357</u>	<u>\$ 126,929,056</u>

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

Governmental Activities	
General government	\$ 736,678
Public safety	318,726
Highways and streets, including depreciation of infrastructure assets	2,924,891
Sanitation	242,116
Human services	87,020
Health	13,096
Culture and recreation	32,892
Conservation of natural resources	1,846
Total Depreciation Expense - Governmental Activities	<u>\$ 4,357,265</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. The composition of interfund balances as of December 31, 2013, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Human Services	\$ 900

Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch	\$ 497,750

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2013, consisted of the following:

Transfer to General Fund from Capital Projects Fund	\$ 17,373	Close fund
Transfer to General Fund from Forfeited Tax Fund	4,190	Pay back prior loans
Transfer to Road and Bridge Fund from General Fund	320,002	Capital equipment
Transfer to Forfeited Tax Fund from General Fund	1,008	Cover negative balance
Total Interfund Transfers	\$ 342,573	

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2013, were as follows:

	Governmental Activities
Accounts	\$ 974,327
Salaries	674,962
Accrued payroll taxes	50,202
Accrued expenses	256,813
Retainage	645,580
Due to other governments	546,308
Claims	71,381
Total Payables	\$ 3,219,573

2. Construction Commitments

The County has active construction projects as of December 31, 2013. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Armer Radio	\$ 2,872,270	\$ -
Xerox Tax/Cama Project	56,427	371,073
Silver Lake Shop	1,147,153	68,598
Roads and bridges	1,475,952	503,603
Total CIP	\$ 5,551,802	\$ 943,274

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2013
Minnesota Pollution Control Agency (MnPCA) loans	2024	N/A	2.00	\$ 1,412,219	\$ 1,203,046

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

3. Long-Term Debt (Continued)

In 2004, the County entered into a loan agreement with the Minnesota Pollution Control Agency for High Island Creek Watershed septic system loans. According to the agreement, the County could borrow as much as \$191,000. The total amount disbursed through December 31, 2013, was \$103,643, which was the principal of the loan; accumulated interest is \$1,700. Principal payments of \$10,622 were made in 2013.

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, 2013, was \$115,000; accumulated interest is \$2,352. Principal payments of \$11,147 were made in 2013.

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, 2013, was \$219,502; accumulated interest is \$10,429. Principal payments of \$22,280 were made in 2013.

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, 2013, was \$298,000; accumulated interest is \$13,017. Principal payments of \$29,251 were made in 2013.

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, 2013, was \$327,589; accumulated interest is \$15,476. Repayment will begin in 2014.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

3. Long-Term Debt (Continued)

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, 2013, was \$199,494. Repayment will begin in 2014.

In 2012, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Crow River Watershed septic system loans. According to the agreement, the County can borrow as much as \$300,000. The total amount disbursed through December 31, 2013, was \$147,241. Repayment is estimated to begin in 2015.

In 2013, the County entered into a loan agreement with the Minnesota Pollution Control Agency for the High Island Creek Watershed septic system loans. According to the agreement, the County can borrow as much as \$120,000. The total amount disbursed through December 31, 2013, was \$1,750. Repayment is estimated to begin in 2016.

4. Debt Service Requirements

Debt service requirements at December 31, 2013, 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
2014	\$ 10,836	\$ 839	\$ 11,371	\$ 1,635
2015	11,054	622	11,600	1,406
2016	11,276	399	11,833	1,173
2017	11,502	173	12,071	935
2018	-	-	12,314	693
2019 - 2021	-	-	25,266	638
Total	<u>\$ 44,668</u>	<u>\$ 2,033</u>	<u>\$ 84,455</u>	<u>\$ 6,480</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. 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
2014	\$ 22,728	\$ 2,756	\$ 29,839	\$ 4,631
2015	23,186	2,298	30,439	4,031
2016	23,651	1,832	31,051	3,419
2017	24,126	1,357	31,675	2,795
2018	24,611	872	32,312	2,158
2019 - 2023	25,106	377	83,649	2,526
Total	\$ 143,408	\$ 9,492	\$ 238,965	\$ 19,560

Year Ending December 31	Crow River Watershed Septic System Loans (2009)		Buffalo Creek Watershed Septic System Loans (2011)	
	Principal	Interest	Principal	Interest
2014	\$ 31,317	\$ 6,705	\$ 9,492	\$ 2,090
2015	31,946	6,076	19,270	3,894
2016	32,588	5,434	19,657	3,507
2017	33,243	4,779	20,053	3,112
2018	33,911	4,111	20,455	2,709
2019 - 2023	180,060	10,051	108,613	7,210
2024	-	-	1,954	115
Total	\$ 343,065	\$ 37,156	\$ 199,494	\$ 22,637

Debt service requirements at December 31, 2013, were as follows:

Year Ending December 31	Total	
	Principal	Interest
2014	\$ 115,583	\$ 18,656
2015	127,495	18,327
2016	130,056	15,764
2017	132,670	13,151
2018	123,603	10,543
2019 - 2023	422,694	20,802
2024	1,954	115
Total	\$ 1,054,055	\$ 97,358

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Debt Service Requirements (Continued)

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.

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
MnPCA loans	\$ 1,079,516	\$ 196,832	\$ 73,302	\$ 1,203,046	\$ 115,583
OPEB liability	537,530	119,878	-	657,408	-
Compensated absences	<u>1,197,570</u>	<u>790,678</u>	<u>724,002</u>	<u>1,264,246</u>	<u>857,160</u>
Long-Term Liabilities	<u>\$ 2,814,616</u>	<u>\$ 1,107,388</u>	<u>\$ 797,304</u>	<u>\$ 3,124,700</u>	<u>\$ 972,743</u>

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

6. Unearned Revenues/Deferred Inflows of Resources

Unearned revenues and deferred inflows of resources consist of special assessments, taxes, state grants, interest and other receivables not collected soon enough after year-end to pay liabilities of the current period, and state grants received but not yet earned. Unearned revenues and deferred inflows of resources at December 31, 2013, are summarized below by fund:

	Special Assessments	Taxes	Grants	Interest	Other	Total
Major governmental funds						
General	\$ 665,396	\$ 256,013	\$ 291,500	\$ 117,329	\$ 27,471	\$ 1,357,709
Road and Bridge	-	72,274	416,499	-	74,830	563,603
Human Services	-	87,635	381,472	-	-	469,107
Ditch	395,882	-	-	-	13,286	409,168
Total	<u>\$ 1,061,278</u>	<u>\$ 415,922</u>	<u>\$ 1,089,471</u>	<u>\$ 117,329</u>	<u>\$ 115,587</u>	<u>\$ 2,799,587</u>
Liability						
Unearned revenue	\$ -	\$ -	\$ 103,660	\$ -	\$ -	\$ 103,660
Deferred inflows of resources						
Unavailable revenue	<u>1,061,278</u>	<u>415,922</u>	<u>985,811</u>	<u>117,329</u>	<u>115,587</u>	<u>2,695,927</u>
Total	<u>\$ 1,061,278</u>	<u>\$ 415,922</u>	<u>\$ 1,089,471</u>	<u>\$ 117,329</u>	<u>\$ 115,587</u>	<u>\$ 2,799,587</u>

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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

4. Risk Management (Continued)

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 \$470,000 per claim in 2013 and \$480,000 in 2014. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

In 2000, the County entered into an agreement with Sibley County to provide a mechanism for utilizing a pooled, self-funded health insurance program under the authority granted to counties in Minn. Stat. § 471.59. Premiums are paid to MCIT, which provides bookkeeping services to the counties, including the payment of claims. For 2013, 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	
	2013	2012
Unpaid claims, beginning of fiscal year	\$ 100,019	\$ 131,251
Incurred claims (including IBNRs)	1,975,587	1,910,209
Claims payments	(2,004,225)	(1,941,441)
Unpaid Claims, End of Fiscal Year	\$ 71,381	\$ 100,019

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Plan Description

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2013:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2013, 2012, and 2011, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
General Employees Retirement Fund	\$ 779,659	\$ 753,250	\$ 748,616
Public Employees Police and Fire Fund	205,362	196,168	199,415
Public Employees Correctional Fund	72,932	68,954	71,286

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans (Continued)

B. Defined Contribution Plan

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

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2013, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 7,569	\$ 7,569
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

6. Other Postemployment Benefits (OPEB)

A. Plan Description

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

B. Funding Policy

Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the County, based on contract terms with Medica, Midwest Dental, and Minnesota Life. The required contributions are based on projected pay-as-you-go financing requirements. For fiscal year 2013, the County contributed \$50,943 to the plan. As of January 1, 2013, there were seven retirees receiving health benefits from the County's health plan.

C. Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$	179,890
Interest on net OPEB obligation		24,189
Adjustment to ARC		(33,258)
		170,821
Annual OPEB cost	\$	170,821
Contributions made		(50,943)
		119,878
Increase in net OPEB obligation	\$	119,878
Net OPEB Obligation - Beginning of Year		537,530
		657,408
Net OPEB Obligation - End of Year	\$	657,408

**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 2011, 2012 and 2013 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2011	\$ 162,330	28.57%	\$ 401,883
December 31, 2012	173,292	21.72	537,530
December 31, 2013	170,821	29.82	657,408

D. Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the County had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$1,168,991, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,168,991. The covered payroll (annual payroll of active employees covered by the plan) was \$11,730,484, and the ratio of the UAAL to the covered payroll was 10.0 percent.

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

6. Other Postemployment Benefits (OPEB) (Continued)

E. Actuarial Methods and Assumptions

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

For January 1, 2012, the actuarial valuation date, the projected unit credit cost method was used. The actuarial assumptions included a 4.5 percent discount rate, which is based on the investment yield expected to finance benefits. The County currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 8.0 percent initially, reduced incrementally to an ultimate rate of 5.0 percent.

7. Summary of Significant Contingencies and Other Items

A. Secondary Liability for Bonds

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

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

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

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

**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 \$2,931,231 as of June 30, 2013.

D. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continue)

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

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

Meeker-McLeod-Sibley Community Health Services Board

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

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

Pioneerland Regional Library System

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

McLeod County is a signatory along with 32 cities and 9 other counties to a joint powers agreement (revised in 2001) that forms the Pioneerland Library System. Funding provided by McLeod County to the Pioneerland Library System is used to operate four public libraries in McLeod County (Brownton, Glencoe, Hutchinson, and Winsted) and to provide efficiencies and improvements in those libraries and to library services to the citizens of the County. During the year, the County contributed \$187,513 to the System.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Pioneerland Regional Library System (Continued)

The Pioneerland Library System is governed by the Pioneerland Library System Board, composed of 35 members appointed by member cities and counties.

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

Separate financial information can be obtained from:

Pioneerland Regional Library System
410 5th St. S.W.
Willmar, Minnesota 56201

Southwest Metro Drug Task Force

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Prime West Health System

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

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

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Crow River Joint Powers Agreement

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

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

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

Putting All Communities Together for Families Collaborative

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Putting All Communities Together for Families Collaborative (Continued)

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

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

Trailblazer Transit Board

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

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

Financing is primarily provided from user fees, state and federal grants, and a local tax levy. Member counties are committed to providing the local match necessary to meet the requirements for state and federal funding. For 2013, McLeod County contributed \$322,200.

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Supporting Hands Nurse Family Partnership Board

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

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2013, McLeod County made \$67,461 in contributions to the partnership.

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

E. Jointly-Governed Organizations

Minnesota Rural Counties Caucus

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

South Central Minnesota Regional Radio Board

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 Radio Board. During 2013, the County did not contribute to the Joint Powers Board. The Chair of the Board is Kip Bruender, and the address is P. O. Box 8608, Mankato, Minnesota 56002-8608.

Minnesota River Board

The Minnesota River Board (formerly the Minnesota River Basin Joint Powers Board) was established July 12, 1995, by an agreement between McLeod County and 37 other counties. According to the latest information available, 38 other counties are members under this agreement. The agreement was made to promote orderly water quality improvement and management of the Minnesota River Watershed. Each county is responsible for its proportionate share of the administrative budget and for its share of benefits from any special project.

In the event of termination of the agreement, all property, real and personal, held by the Board shall be distributed by resolution of the policy committee to best accomplish the continuing purpose of the project.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations

Minnesota River Board (Continued)

Control is vested in an executive committee of one executive director and four officers elected from the membership of the Minnesota River Powers Board, consisting of one representative from one of the member County Board of Commissioners included in this agreement. During the year, McLeod County did not make any payments to the Project.

Complete financial statements for the Minnesota River Board can be obtained from its administrative office at Administrative Building No. 14, 600 East 4th Street, Chaska, Minnesota 55318.

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, 2013, are summarized as follows:

Cash on deposit	
Restricted	\$ 8,373
Unrestricted	<u>111,965</u>
Total cash on deposit	\$ 120,338
Certificates of deposit, due within one year	
Restricted	<u>33,211</u>
Total Cash and Investments	<u><u>\$ 153,549</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 \$153,549 as of June 30, 2013. Bank balance was \$157,099 as of June 30, 2013, 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, 2013.

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:

	<u>July 1, 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2013</u>
Land	\$ 197,000	\$ -	\$ -	\$ 197,000
Site improvements	209,772	-	-	209,772
Building	4,343,003	-	-	4,343,003
Appliances	117,433	-	-	117,433
	<u>4,867,208</u>	<u>-</u>	<u>-</u>	<u>4,867,208</u>
Total	\$ 4,867,208	\$ -	\$ -	\$ 4,867,208
Accumulated depreciation	<u>(1,686,182)</u>	<u>(121,248)</u>	<u>-</u>	<u>(1,807,430)</u>
Totals	<u>\$ 3,181,026</u>	<u>\$ (121,248)</u>	<u>\$ -</u>	<u>\$ 3,059,778</u>

D. Long-Term Debt Payable

The following is a summary of long-term debt transactions for the year ended June 30, 2013:

	<u>July 1, 2012</u>	<u>Issued</u>	<u>Payments</u>	<u>June 30, 2013</u>
Essential Function Housing Development Bond of 1996	\$ 838,180	\$ -	\$ 37,610	\$ 800,570
Essential Function Housing Development Bond of 1997	861,890	-	36,642	825,248
Essential Function Housing Development Bond of 1999	859,808	-	31,660	828,148
Essential Function Housing Development Bond of 2001	1,003,637	-	31,620	972,017
Assessments payable	<u>5,920</u>	<u>-</u>	<u>-</u>	<u>5,920</u>
Totals	<u>\$ 3,569,435</u>	<u>\$ -</u>	<u>\$ 137,532</u>	<u>\$ 3,431,903</u>

The Essential Function Housing Development Revenue Bond of 1996 matures on September 1, 2027. The bond currently bears an interest rate of 5.0 percent per annum until July 1, 2013, at which time the rate is renegotiated according to the market interest rate and is thereafter adjustable periodically over the life of the bond. Principal and interest are payable monthly. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

D. Long-Term Debt Payable (Continued)

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

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

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

The Essential Function Housing Development Revenue Bond of 2001 matures on June 1, 2032. The bond bears an interest rate of 5.4 percent per annum payable monthly; the interest rate shall be adjusted periodically over the life of the bond. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are insufficient to meet the 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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

D. Long-Term Debt Payable (Continued)

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

The estimated debt service requirements as of June 30, 2013, are as follows:

<u>Years Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 142,433	\$ 171,197	\$ 313,630
2015	150,114	163,796	313,910
2016	157,898	156,013	313,911
2017	166,085	147,824	313,909
2018	174,698	139,212	313,910
2019 - 2023	1,019,140	548,634	1,567,774
2024 - 2028	1,237,571	258,237	1,495,808
2029 - 2032	383,964	30,146	414,110
Totals	<u>\$ 3,431,903</u>	<u>\$ 1,615,059</u>	<u>\$ 5,046,962</u>

E. Risk Management

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

REQUIRED SUPPLEMENTARY INFORMATION

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 11,057,995	\$ 11,057,995	\$ 10,830,690	\$ (227,305)
Special assessments	108,101	108,101	132,987	24,886
Licenses and permits	66,375	66,375	68,115	1,740
Intergovernmental	2,267,948	2,267,948	2,996,043	728,095
Charges for services	1,668,723	1,668,723	1,767,521	98,798
Fines and forfeits	24,000	24,000	17,510	(6,490)
Gifts and contributions	19,700	19,700	17,234	(2,466)
Investment earnings	197,750	197,750	(420,445)	(618,195)
Miscellaneous	400,466	400,466	504,793	104,327
Total Revenues	\$ 15,811,058	\$ 15,811,058	\$ 15,914,448	\$ 103,390
Expenditures				
Current				
General government				
Commissioners	\$ 281,810	\$ 281,810	\$ 289,691	\$ (7,881)
County-wide	280,650	280,650	-	280,650
Courts	117,500	117,500	141,198	(23,698)
Law library	42,000	42,000	51,315	(9,315)
County administrator	353,547	353,547	369,088	(15,541)
County auditor-treasurer	634,923	634,923	586,941	47,982
County assessor	390,881	390,881	347,432	43,449
Elections	99,434	99,434	31,663	67,771
Data processing	935,520	935,520	680,468	255,052
Central services	297,865	297,865	61,638	236,227
Attorney	599,562	599,562	582,402	17,160
Recorder	396,818	396,818	390,231	6,587
Planning and zoning	234,105	234,105	227,481	6,624
Buildings	680,215	680,215	715,493	(35,278)
County insurance	241,777	241,777	12,486	229,291
Veterans service officer	156,286	156,286	145,935	10,351
Fairgrounds	259,328	259,328	249,197	10,131
Safety	5,150	5,150	4,140	1,010
Other general government	755,245	755,245	845,587	(90,342)
Total general government	\$ 6,762,616	\$ 6,762,616	\$ 5,732,386	\$ 1,030,230

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 3,706,303	\$ 3,706,303	\$ 3,448,253	\$ 258,050
Inmate account	9,150	9,150	7,387	1,763
Probation officer	360,034	360,034	341,528	18,506
County jail	1,849,075	1,849,075	1,659,280	189,795
Juvenile detention	6,000	6,000	754	5,246
Sheriff posse	40,000	40,000	39,120	880
Mounted posse	1,500	1,500	204	1,296
Emergency services	138,626	138,626	125,638	12,988
Total public safety	\$ 6,110,688	\$ 6,110,688	\$ 5,622,164	\$ 488,524
Health				
Nursing service	\$ 2,119,879	\$ 2,119,879	\$ 2,131,457	\$ (11,578)
Culture and recreation				
Historical society	\$ 39,312	\$ 39,312	\$ 39,312	\$ -
Regional library	187,513	187,513	187,513	-
Other	30,624	30,624	28,986	1,638
Parks	320,230	320,230	341,888	(21,658)
Snowmobile trail grant	44,640	44,640	41,831	2,809
Total culture and recreation	\$ 622,319	\$ 622,319	\$ 639,530	\$ (17,211)
Conservation of natural resources				
Soil and water conservation	\$ 61,000	\$ 61,000	\$ 60,000	\$ 1,000
County extension	221,253	221,253	218,521	2,732
Agriculture ditch inspector	19,839	19,839	13,142	6,697
Water planning	20,746	20,746	16,368	4,378
Wetland	27,892	27,892	23,051	4,841
Shoreland	5,976	5,976	5,758	218
Feedlot	54,044	54,044	58,918	(4,874)
Environmental services	132,510	132,510	117,809	14,701
Other	18,747	18,747	43,945	(25,198)
Ag programming	3,000	3,000	4,023	(1,023)
Septic loans	-	-	232,504	(232,504)
Total conservation of natural resources	\$ 565,007	\$ 565,007	\$ 794,039	\$ (229,032)

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Housing and Redevelopment Authority	\$ 2,476	\$ 2,476	\$ 1,464	\$ 1,012
Capital Outlay				
Public safety	\$ 579,280	\$ 579,280	\$ 579,280	\$ -
Debt service				
Principal	\$ 72,531	\$ 72,531	\$ 73,302	\$ (771)
Interest	12,214	12,214	11,334	880
Total debt service	\$ 84,745	\$ 84,745	\$ 84,636	\$ 109
Total Expenditures	\$ 16,847,010	\$ 16,847,010	\$ 15,584,956	\$ 1,262,054
Excess of Revenues Over (Under) Expenditures	\$ (1,035,952)	\$ (1,035,952)	\$ 329,492	\$ 1,365,444
Other Financing Sources (Uses)				
Transfers in	\$ 810,000	\$ 810,000	\$ 21,563	\$ (788,437)
Transfers out	(1,324,000)	(1,324,000)	(321,010)	1,002,990
Loan issued	-	-	181,356	181,356
Proceeds from the sale of capital assets	5,000	5,000	33,430	28,430
Total Other Financing Sources (Uses)	\$ (509,000)	\$ (509,000)	\$ (84,661)	\$ 424,339
Net Change in Fund Balance	\$ (1,544,952)	\$ (1,544,952)	\$ 244,831	\$ 1,789,783
Fund Balance - January 1	24,122,721	24,122,721	24,122,721	-
Increase (decrease) in inventories	-	-	1,670	1,670
Fund Balance - December 31	\$ 22,577,769	\$ 22,577,769	\$ 24,369,222	\$ 1,791,453

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,280,097	\$ 3,280,097	\$ 3,240,984	\$ (39,113)
Licenses and permits	6,000	6,000	10,525	4,525
Intergovernmental	5,660,000	5,660,000	11,268,717	5,608,717
Charges for services	156,700	156,700	217,360	60,660
Miscellaneous	4,800	4,800	14,562	9,762
Total Revenues	\$ 9,107,597	\$ 9,107,597	\$ 14,752,148	\$ 5,644,551
Expenditures				
Current				
Highways and streets				
Administration	\$ 737,544	\$ 737,544	\$ 753,673	\$ (16,129)
GIS	128,906	128,906	113,791	15,115
Maintenance	1,993,703	1,993,703	2,243,883	(250,180)
Engineering/construction	5,748,000	5,748,000	13,100,762	(7,352,762)
Equipment, maintenance, and shop	1,005,861	1,005,861	1,611,938	(606,077)
Total highways and streets	\$ 9,614,014	\$ 9,614,014	\$ 17,824,047	\$ (8,210,033)
Intergovernmental				
Highways and streets	230,000	230,000	236,518	(6,518)
Total Expenditures	\$ 9,844,014	\$ 9,844,014	\$ 18,060,565	\$ (8,216,551)
Excess of Revenues Over (Under) Expenditures	\$ (736,417)	\$ (736,417)	\$ (3,308,417)	\$ (2,572,000)
Other Financing Sources (Uses)				
Transfers in	\$ 514,000	\$ 514,000	\$ 320,002	\$ (193,998)
Proceeds from sale of assets	60,000	60,000	63,252	3,252
Total Other Financing Sources (Uses)	\$ 574,000	\$ 574,000	\$ 383,254	\$ (190,746)
Net Change in Fund Balance	\$ (162,417)	\$ (162,417)	\$ (2,925,163)	\$ (2,762,746)
Fund Balance - January 1	8,766,242	8,766,242	8,766,242	-
Increase (decrease) in inventories	-	-	(41,303)	(41,303)
Fund Balance - December 31	\$ 8,603,825	\$ 8,603,825	\$ 5,799,776	\$ (2,804,049)

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 4,244,178	\$ 4,244,178	\$ 4,161,142	\$ (83,036)
Intergovernmental	3,896,875	3,896,875	3,895,128	(1,747)
Charges for services	785,123	785,123	949,093	163,970
Miscellaneous	493,822	493,822	631,628	137,806
Total Revenues	\$ 9,419,998	\$ 9,419,998	\$ 9,636,991	\$ 216,993
Expenditures				
Current				
Human services				
Income maintenance	\$ 2,329,701	\$ 2,329,701	\$ 2,428,430	\$ (98,729)
Social services	6,854,817	6,854,817	6,508,444	346,373
Transit authority	586,667	586,667	662,373	(75,706)
Total Expenditures	\$ 9,771,185	\$ 9,771,185	\$ 9,599,247	\$ 171,938
Net Change in Fund Balance	\$ (351,187)	\$ (351,187)	\$ 37,744	\$ 388,931
Fund Balance - January 1	5,487,929	5,487,929	5,487,929	-
Fund Balance - December 31	\$ 5,136,742	\$ 5,136,742	\$ 5,525,673	\$ 388,931

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 6,500	\$ 6,500	\$ 5,220	\$ (1,280)
Intergovernmental	90,826	90,826	88,570	(2,256)
Charges for services	1,855,000	1,855,000	2,192,159	337,159
Miscellaneous	46,601	46,601	49,173	2,572
Total Revenues	\$ 1,998,927	\$ 1,998,927	\$ 2,335,122	\$ 336,195
Expenditures				
Current				
Sanitation				
Recycling	1,802,539	1,802,539	2,227,929	(425,390)
Net Change in Fund Balance	\$ 196,388	\$ 196,388	\$ 107,193	\$ (89,195)
Fund Balance - January 1	5,114,218	5,114,218	5,114,218	-
Fund Balance - December 31	\$ 5,310,606	\$ 5,310,606	\$ 5,221,411	\$ (89,195)

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2013**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2008	\$ -	\$ 879,091	\$ 879,091	0.00%	\$ 9,700,378	9.1%
January 1, 2010	-	1,052,835	1,052,835	0.00	11,923,225	8.8
January 1, 2012	-	1,168,991	1,168,991	0.00	11,730,484	10.0

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2013**

1. Budgetary Information

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

On December 18, 2012, the Board approved the budgets for the General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, and Solid Waste Special Revenue Fund.

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

2. Excess of Expenditures Over Appropriations

The following funds and departments had expenditures exceeding appropriations for the year ended December 31, 2013:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Major governmental funds			
General Fund			
Current			
General government			
Commissioners	\$ 289,691	\$ 281,810	\$ 7,881
Courts	141,198	117,500	23,698
Law library	51,315	42,000	9,315
County administrator	369,088	353,547	15,541
Buildings	715,493	680,215	35,278
Other general government	845,587	755,245	90,342
Health			
Nursing service	2,131,457	2,119,879	11,578
Culture and recreation			
Parks	341,888	320,230	21,658
Conservation of natural resources			
Feedlot	58,918	54,044	4,874
Other	43,945	18,747	25,198
Ag programming	4,023	3,000	1,023
Septic loans	232,504	-	232,504

**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 (Continued)			
Debt service			
Principal	73,302	72,531	771
Road and Bridge Special Revenue Fund			
Current			
Administration	753,673	737,544	16,129
Maintenance	2,243,883	1,993,703	250,180
Engineering/construction	13,100,762	5,748,000	7,352,762
Equipment maintenance	1,611,938	1,005,861	606,077
Intergovernmental			
Highways and streets	236,518	230,000	6,518
Human Services Special Revenue Fund			
Current			
Human services			
Income maintenance	2,428,430	2,329,701	98,729
Transit authority	662,373	586,667	75,706
Solid Waste Special Revenue Fund			
Current			
Sanitation			
Recycling	2,227,929	1,802,539	425,390

3. Other Postemployment Benefits

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

SUPPLEMENTARY INFORMATION

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

NONMAJOR GOVERNMENTAL 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.

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McLEOD COUNTY
GLENCOE, MINNESOTA

EXHIBIT B-1

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	<u>Forfeited Tax Special Revenue</u>	<u>Capital Projects</u>	<u>Total</u>
<u>Assets</u>			
Cash and pooled investments	<u>\$ 36,029</u>	<u>\$ -</u>	<u>\$ 36,029</u>
<u>Liabilities</u>			
Due to other governments	<u>\$ 36,029</u>	<u>\$ -</u>	<u>\$ 36,029</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Forfeited Tax Special Revenue	Capital Projects	Total
Revenues			
Fines and forfeits	\$ 46,081	\$ -	\$ 46,081
Investment earnings	-	4	4
Miscellaneous	50	-	50
	\$ 46,131	\$ 4	\$ 46,135
Total Revenues			
Expenditures			
Current			
General government	42,949	-	42,949
	42,949	-	42,949
Excess of Revenues Over (Under)			
Expenditures	\$ 3,182	\$ 4	\$ 3,186
Other Financing Sources (Uses)			
Transfers in	\$ 1,008	\$ -	\$ 1,008
Transfers out	(4,190)	(17,373)	(21,563)
	(3,182)	(17,373)	(20,555)
Total Other Financing Sources (Uses)			
	\$ (3,182)	\$ (17,373)	\$ (20,555)
Net Change in Fund Balance	\$ -	\$ (17,369)	\$ (17,369)
Fund Balance - January 1	-	17,369	17,369
Fund Balance - December 31	\$ -	\$ -	\$ -

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, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 218,088	\$ 2,089,437	\$ 2,047,233	\$ 260,292
Due from other governments	544,180	543,454	544,180	543,454
Total Assets	\$ 762,268	\$ 2,632,891	\$ 2,591,413	\$ 803,746
<u>Liabilities</u>				
Accounts payable	\$ 16,205	\$ 10,344	\$ 16,205	\$ 10,344
Salaries payable	6,329	5,736	6,329	5,736
Accrued payroll taxes	354	317	354	317
Accrued expenses	1,221	1,240	1,221	1,240
Due to other governments	738,159	786,109	738,159	786,109
Total Liabilities	\$ 762,268	\$ 803,746	\$ 762,268	\$ 803,746
<u>SUPPORTING HANDS NURSE FAMILY PARTNERSHIP FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 141,481	\$ 893,284	\$ 975,753	\$ 59,012
Accounts receivable	-	113,475	-	113,475
Due from other governments	12,979	53,443	12,979	53,443
Total Assets	\$ 154,460	\$ 1,060,202	\$ 988,732	\$ 225,930
<u>Liabilities</u>				
Accounts payable	\$ 1,728	\$ 7,629	\$ 1,728	\$ 7,629
Salaries payable	20,602	27,866	20,602	27,866
Accrued payroll taxes	1,273	2,112	1,273	2,112
Accrued expenses	4,673	10,738	4,673	10,738
Due to other governments	126,184	177,585	126,184	177,585
Total Liabilities	\$ 154,460	\$ 225,930	\$ 154,460	\$ 225,930

**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, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 406,362</u>	<u>\$ 46,778,617</u>	<u>\$ 46,946,796</u>	<u>\$ 238,183</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 406,362</u>	<u>\$ 238,183</u>	<u>\$ 406,362</u>	<u>\$ 238,183</u>
 <u>STATE AGENCY FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 141,498	\$ 1,140,547	1,194,239	\$ 87,806
Departmental cash	-	4,052	-	4,052
Accounts receivable	3,152	1,889	3,152	1,889
Due from other governments	<u>20,327</u>	<u>196</u>	<u>20,327</u>	<u>196</u>
Total Assets	<u>\$ 164,977</u>	<u>\$ 1,146,684</u>	<u>\$ 1,217,718</u>	<u>\$ 93,943</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 164,977</u>	<u>\$ 93,943</u>	<u>\$ 164,977</u>	<u>\$ 93,943</u>

**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, 2013**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 907,429	\$ 50,901,885	\$ 51,164,021	\$ 645,293
Departmental cash	-	4,052	-	4,052
Accounts receivable	3,152	115,364	3,152	115,364
Due from other governments	577,486	597,093	577,486	597,093
Total Assets	<u>\$ 1,488,067</u>	<u>\$ 51,618,394</u>	<u>\$ 51,744,659</u>	<u>\$ 1,361,802</u>
<u>Liabilities</u>				
Accounts payable	\$ 17,933	\$ 17,973	\$ 17,933	\$ 17,973
Salaries payable	26,931	33,602	26,931	33,602
Accrued payroll taxes	1,627	2,429	1,627	2,429
Accrued expenses	5,894	11,978	5,894	11,978
Due to other governments	1,435,682	1,295,820	1,435,682	1,295,820
Total Liabilities	<u>\$ 1,488,067</u>	<u>\$ 1,361,802</u>	<u>\$ 1,488,067</u>	<u>\$ 1,361,802</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, 2013**

Shared Revenue

State

Highway users tax	\$ 5,186,856
Market value credit	227,310
PERA rate reimbursement	36,150
Performance aid	5,055
Disparity reduction aid	60,750
County program aid	1,407,081
Police aid	162,262
E-911	70,838
	70,838

Total shared revenue **\$ 7,156,302**

Reimbursement for Services

State - Minnesota Department of Human Services **\$ 721,999**

Payments

Local - Payments in lieu of taxes **\$ 42,312**

Grants

Local

City Contribution	\$ 1,827
Highway	4,459,713
	4,459,713

Total local revenue **\$ 4,461,540**

State

Minnesota Department/Board of	
Corrections	\$ 93,025
Transportation	771,771
Health	180,500
Natural Resources	69,592
Human Services	1,462,614
Water and Soil Resources	145,388
Veterans Affairs	5,098
Pollution Control Agency	88,570
	88,570

Total state **\$ 2,816,558**

Federal

Department of	
Agriculture	\$ 299,634
Justice	4,457
Transportation	754,199
Health and Human Services	1,913,149
Homeland Security	78,308
	78,308

Total federal **\$ 3,049,747**

Total local, state, and federal grants **\$ 10,327,845**

Total Intergovernmental Revenue **\$ 18,248,458**

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Meeker-McLeod-Sibley Community Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 129,963
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	10.561	<u>212,116</u>
Total U.S. Department of Agriculture		\$ <u>342,079</u>
U.S. Department of Justice		
Direct State Criminal Alien Assistance Program	16.606	\$ <u>4,457</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 751,587
Passed Through City of Hutchinson State and Community Highway Safety	20.600	<u>3,745</u>
Total U.S. Department of Transportation		\$ <u>755,332</u>
U.S. Department of Health and Human Services		
Passed Through National Association of County and City Health Officials Medical Reserve Corps Small Grant Program	93.008	\$ 4,000
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	19,505
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$254,971)	93.558	223,635
Child Care Development Block Grant	93.575	11,474
Child Support Enforcement	93.563	492,431
Refugee and Entrant Assistance - State-Administered Programs	93.566	394
Community-Based Child Abuse Prevention Grants	93.590	12,208
Stephanie Tubbs Jones Child Welfare Services Program	93.645	2,396
Foster Care - Title IV-E	93.658	153,921
Social Services Block Grant	93.667	190,075
Chafee Foster Care Independence Program	93.674	347
Children's Health Insurance Program	93.767	75
Medical Assistance Program (Total Medical Assistance Program 93.778 \$778,014)	93.778	743,784
Block Grants for Community Mental Health Services	93.958	16,522

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
(Continued)		
Passed Through Meeker-McLeod-Sibley Community Health Services		
Public Health Emergency Preparedness	93.069	26,272
Universal Newborn Hearing Screening	93.251	525
Drug-Free Communities Support Program Grants	93.276	100,894
Temporary Assistance for Needy Families	93.558	31,336
(Total Temporary Assistance for Needy Families 93.558 \$254,971)		
Medical Assistance Program	93.778	34,230
(Total Medical Assistance Program 93.778 \$778,014)		
Block Grants for Prevention and Treatment of Substance Abuse	93.959	42,487
Maternal and Child Health Services Block Grant to the States	93.994	29,021
		<u>2,135,532</u>
Total U.S. Department of Health and Human Services		\$ 2,135,532
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 54,429
Emergency Management Performance Grants	97.042	24,941
		<u>79,370</u>
Total U.S. Department of Homeland Security		\$ 79,370
Total Federal Awards		\$ 3,316,770

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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 \$432,621 in federal awards during the year ended June 30, 2013, which are not included in the Schedule of Expenditures of Federal Awards.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of McLeod County under programs of the federal government for the year ended December 31, 2013. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of McLeod County, it is not intended to and does not present the financial position or changes in net position of McLeod County.

3. Summary of Significant Accounting Policies

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 3,049,747
Grants received more than 60 days after year-end, unavailable in 2013	
Public Health Emergency Preparedness	5,911
Block Grants for Prevention and Treatment of Substance Abuse	13,233
Special Supplemental Nutrition Program for Women, Infants, and Children	1,304
Medical Assistance Program	173,152
Child Support Enforcement	76,761
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	41,141
Foster Care - Title IV-E	25,315
Temporary Assistance for Needy Families	35,983
Block Grants for Community Health Mental Health Services	16,522
Child Care Development Block Grant	862
State and Community Highway Safety	1,133
Emergency Management Performance Grants	24,941
Unavailable in 2012, recognized as revenue in 2013	
Foster Care - Title IV-E	(25,613)
Block Grants for Prevention and Treatment of Substance Abuse	(16,361)
Immunization Cooperative Agreements	(300)
Medical Assistance Program	(82,698)
Child Care Development Block Grant	(384)
Emergency Management Performance Grants	(23,879)
	<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 3,316,770</u>

5. Subrecipients

During 2013, McLeod County did not pass any federal money to subrecipients.

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for major programs: **Unmodified for Medical Assistance Program (CFDA #93.778) and qualified for Temporary Assistance for Needy Families (CFDA #93.558)**

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

The major programs are:

Temporary Assistance for Needy Families	CFDA #93.558
Medical Assistance Program	CFDA #93.778

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1999-001

Accounting Policies and Procedures

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

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

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

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

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

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

Client's Response:

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

Finding 2007-001

Monitoring Internal Controls

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

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

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

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

Cause: Limited time and resources.

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

Client's Response:

McLeod County recognizes the importance for developing and monitoring the internal controls over the various accounting functions. McLeod County continues to work towards implementing formalized policies, procedures and document assessing risk and monitoring all accounting functions. The McLeod County Auditor-Treasurer continues to assess and monitor the internal controls periodically throughout the year with limited time and resources.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

Finding 2013-001

Supervisory Review over Eligibility - Intake Function

Programs: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778) and Temporary Assistance for Needy Families (CFDA No. 93.558)

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

Criteria: OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. These controls should include a review process for case files to ensure the intake function related to eligibility requirements is met.

Condition: During our testing of controls over case files, we noted no documented review process of case files by a supervisor.

Questioned Costs: None.

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

Effect: The lack of supervisory case file reviews increases the risk that clients will receive benefits when they are not eligible.

Cause: The County does not have policies and procedure in place to ensure that case files are reviewed by a supervisor and that the review is to be documented accordingly.

Recommendation: We recommend that the County establish and implement policies and procedures for periodic supervisor case file reviews to be performed and require documentation of those reviews.

Corrective Action Plan:

Name of Contact Person Responsible for Correction Action:

Donna Krauth, Social Services Financial Supervisor

Corrective Action Planned:

McLeod County recognizes the importance of monitoring and reviewing client case files to ensure the intake function related to eligibility requirements is met. Policy and procedures are being implemented for periodic supervisor case file review and to document those reviews.

The goal of this formal review process is to have formal documentation of cases reviewed in an effort to further minimize the risk of clients receiving benefits they are potentially not eligible to receive. Formal documented reviews will be completed regularly, rather than the informal daily reviews that have been completed in the past.

Anticipated Completion Date:

This documented review process will be an ongoing effort but will likely need to change with the implementation of MNSure. This effort is complicated by the MNSure requirements of accepting client self-attestation and electronic verifications.

Finding 2013-002

Eligibility Testing

Programs: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778) and Temporary Assistance for Needy Families (CFDA No. 93.558)

Pass-Through Agency: Minnesota Department of Human Services

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

Condition: The State maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. During our testing of compliance over the eligibility requirements, we noted the following instances in our sample of 50 case files tested:

- Four instances where the income listed in MAXIS was not supported with paystubs in the case file and
- One instance where the case file did not include a birth certificate but MAXIS indicated that citizenship had been verified with a birth certificate.

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

Context: For the Medical Assistance Program and a portion of the Temporary Assistance for Needy Families (TANF) program eligibility is determined through the MAXIS system. The State of Minnesota contracts with the County Social Services Department to perform the “intake function” (meeting with the social services client to determine income and categorical eligibility), while the state maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to the clients.

Effect: The lack of documented verification of key eligibility determining factors increases the risk that clients will receive benefits when they are not eligible.

Cause: Program personnel entering case information into MAXIS did not ensure that all required information input into MAXIS was maintained in the case file.

Recommendation: We recommend that the County implement additional procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations is properly maintained in case files.

Corrective Action Plan:

Name of Contact Person Responsible for Correction Action:

Donna Krauth, Social Services Financial Supervisor

Corrective Action Planned:

McLeod County recognizes the importance of monitoring and reviewing client case files to ensure all necessary documentation to support eligibility determination is properly maintained in case file. Policy and procedures are being implemented for periodic supervisor case file review and to document those reviews.

The goal of this formal review process is to have formal documentation of cases reviewed in an effort to further minimize the risk of clients receiving benefits they are potentially not eligible to receive. Formal documented reviews will be completed regularly, rather than the informal daily reviews that have been completed in the past.

Anticipated Completion Date:

This documented review process will be an ongoing effort but will likely need to change with the implementation of MNSure. This effort is complicated by the MNSure requirements of accepting client self-attestation and electronic verifications.

Finding 2013-003

Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Payroll Function

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

Pass-Through Agency: Meeker-McLeod-Sibley Community Health Services

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

Condition: The coding of the County's Public Health nurses' time worked to individual grants was not being reviewed and approved by a supervisor. In addition, the manual entry of the coding into the Certified Hardware Asset Management Professional (CHAMP) database is not reviewed to ensure that data entry errors have not occurred. Finally, one employee enters her own time coding into CHAMP, and that information is not reviewed by another individual.

Questioned Costs: None.

Context: Public Health nurses record the time they spend on various programs throughout the day on their daily time sheets (dailies). The dailies are then entered into the CHAMP database, and reports from the CHAMP database are then used to allocate payroll and non-payroll expenditures to the various grants. Those costs are then reported to the granting agency and requested for reimbursement.

Effect: The amounts reimbursed with federal grant funds may not be accurate or allowable activities/costs.

Cause: Proper review and segregation of duties is not a part of the department's payroll process.

Recommendation: We recommend that the Public Health Department establish and implement procedures for supervisory review and approval of the coding of the dailies and review data entered into the CHAMP database, and see that a review for proper segregation of duties related to entering data into the CHAMP database is performed.

Corrective Action Plan:

Name of Contact Person Responsible for Correction Action:

*Kathy Nowak, PHN
Director, McLeod County Public Health*

Corrective Action Planned:

McLeod County recognizes the importance of monitoring and reviewing Public Health nurses time worked to individual grants. Policies and procedures are being implemented by the Public Health Director and Supervisor to randomly on a monthly basis review staff dailies and document that this has occurred. We will be reviewing to ensure that the dailies are correctly coded to the individual grant programs. The Office Managers dailies and CHAMP entries will be reviewed by the Supervisor. This will be documented monthly for accuracy as well.

Anticipated Completion Date:

This procedure will begin October 1, 2014 and will continue into the future.

Finding 2013-004

Cash Management

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

Pass-Through Agency: Minnesota Department of Human Services

Criteria: The 2013 *OMB Circular A-133 Compliance Supplement*, Part 3 C., Cash Management, states that when entities are funded on a reimbursement basis, the costs for which reimbursement was requested should be paid prior to the date of the reimbursement request. In addition, DHS Bulletin #12-32-03, *Instructions for Completing the MFIP-Consolidated Fund Support Services Fiscal Report, Form DHS-2902*, states that all financial activity is to be reported on a cash basis. “Expenditures must have been actually disbursed during the quarter, not accruals owed.”

Condition: During our testing of compliance over cash management, it was found that for the two quarters of reports tested, \$12,276.63 of the 2013 first quarter expenditures and \$41,053.67 of the 2013 fourth quarter expenditures were incurred but were not paid before the reports requesting reimbursement were prepared.

Questioned Costs: None.

Context: The County utilizes information received from Central Minnesota Jobs & Training to complete the portion of the DHS-2902 report relating to the Minnesota Family Investment Program and the Diversity Work Program expenditures. The information provided by Central Minnesota Jobs & Training is for expenditures incurred.

Effect: Noncompliance with federal cash management requirements. Also, reports are being prepared on the incorrect accounting basis.

Cause: The person who prepares the DHS-2902 form was not aware that payment of the costs needed to occur prior to requesting reimbursement and was simply requesting the reimbursement as soon as the invoice was received from Central Minnesota Jobs & Training, which made it easier to track the expenses.

Recommendation: We recommend the County comply with the compliance requirements for cash management as listed in the 2013 *OMB Circular A-133 Compliance Supplement* and pay its vendors prior to requesting federal reimbursement from DHS.

Corrective Action Plan:

Name of Contact Person Responsible for Correction Action:

Gladys Kirsch, Social Services Fiscal Supervisor

Corrective Action Planned:

Immediately upon conversation with staff from the State Auditor team, procedures were changed. Beginning with third quarter 2014 expenditures will be reported on a cash basis for the DHS 2902.

Anticipated Completion Date:

Procedures went into effect on July 1, 2014 and will remain in effect on future reports.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Driver Awareness Class (2012-001)

McLeod County has established a Driver Awareness Class option in lieu of issuance or court filing of a state uniform traffic ticket.

Resolution

The County suspended indefinitely the Driver Awareness Class on August 21, 2013.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2009-002

Ditch Fund Balance Deficits

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

Condition: As of December 31, 2013, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balances.

Context: Twenty-three of the 56 individual ditch systems have deficit unassigned fund balances as of December 31, 2013, totaling \$501,066, the largest being \$137,099. These 23 ditches combined with the remaining ditch systems leave the Ditch Special Revenue Fund with a deficit unassigned fund balance of \$382,064.

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

Client's Response:

McLeod County recognizes the importance of having fund balance available to provide for the repair and maintenance costs of a county drainage system. The principal understanding is that each drainage system belongs to the property owners located within that watershed. McLeod County Commissioners manage the drainage systems in their respected districts though the funds do not belong to the county. Annually in September the Commissioners hold a public ditch meeting according to Minn. Stat. § 103E.705, subd. 6, to determine a repair and maintenance assessment levy to be levied on each county drainage system in the new year. Four criteria are used to determine the assessment levy; 1) fund balance, 2) previous expenditures, 3) future expenditures, and 4) outstanding loan balances. Nevertheless, after the assessment is levied on a drainage system, emergency title, 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.

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

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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 Commissioners
McLeod County

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 as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 29, 2014.

Our report includes a reference to other auditors. Other auditors audited the financial statements of the McLeod County Housing and Redevelopment Authority (HRA), a discretely presented component unit, as described in our report on McLeod County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that McLeod County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

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

McLeod County's Responses to Findings

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 29, 2014

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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

Report on Compliance for Each Major Federal Program

We have audited McLeod County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2013. 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 \$432,621 in federal awards during the year ended June 30, 2013, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the McLeod County HRA because the McLeod County HRA was audited by other auditors.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of McLeod County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain

reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about McLeod County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on Temporary Assistance for Needy Families (CFDA No. 93.558)

As described in the accompanying Schedule of Findings and Questioned Costs, McLeod County did not comply with requirements regarding CFDA No. 93.558 Temporary Assistance for Needy Families as described in finding 2013-004 for Cash Management. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Qualified Opinion on Temporary Assistance for Needy Families (CFDA No. 93.558)

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 CFDA No. 93.558 Temporary Assistance for Needy Families for the year ended December 31, 2013.

Unmodified Opinion on the Other Major Federal Programs

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, 2013.

Other Matters

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

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

Report on Internal Control Over Compliance

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

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 certain deficiencies in internal control over compliance that we consider to be a material weakness and significant deficiencies.

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 deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2013-004 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001, 2013-002, and 2013-003 to be significant deficiencies.

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 29, 2014

/s/Greg Hierlinger

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