

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

---

**MCLEOD COUNTY**  
**GLENCOE, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2005**

## **Description of the Office of the State Auditor**

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

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

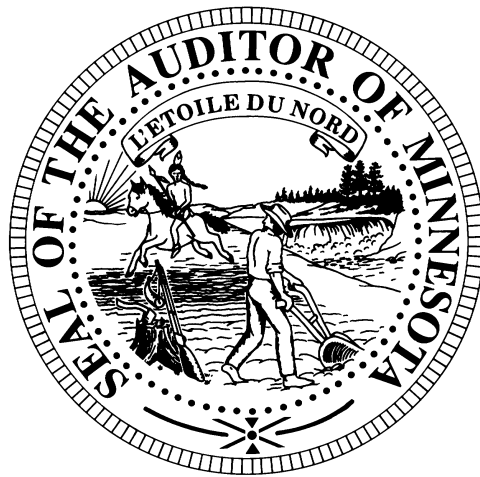
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

**Year Ended December 31, 2005**



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

This page was left blank intentionally.

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
<b>Introductory Section</b>		
Organization		1
<b>Financial Section</b>		
Independent Auditor’s Report		2
Management’s Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	14
Statement of Activities	Exhibit 2	15
Fund Financial Statements		
Balance Sheet - Governmental Funds	Exhibit 3	17
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	Exhibit 4	21
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	Exhibit 5	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	Exhibit 6	26
Statement of Fiduciary Net Assets - Fiduciary Funds	Exhibit 7	28
Notes to the Financial Statements		29
<b>Required Supplementary Information</b>		
Budgetary Comparison Schedules		
General Fund	Schedule 1	69
Road and Bridge Fund	Schedule 2	72
Welfare Fund	Schedule 3	73
Solid Waste Fund	Schedule 4	74
Notes to the Required Supplementary Information		75

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
<b>Financial Section (Continued)</b>		
Supplementary Information		
Nonmajor Governmental Funds		
Combining Balance Sheet	Statement 1	76
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	Statement 2	77
Budgetary Comparison Schedule - Debt Service Fund	Schedule 5	78
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	Statement 3	79
Schedule of Intergovernmental Revenue	Schedule 6	82
<b>Management and Compliance Section</b>		
Schedule of Findings and Questioned Costs	Schedule 7	84
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		93
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		95
Schedule of Expenditures of Federal Awards	Schedule 8	98



This page was left blank intentionally.



**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

**ORGANIZATION  
2005**

Office	Name	Term of Office	
		From	To
<b>Commissioners</b>			
1st District	Ray Bayerl	June 1990	January 2009
2nd District	Melvin Dose	January 1995	January 2007
3rd District	Grant Knutson	January 1997	January 2009
4th District	Sheldon Nies*	January 1995	January 2007
5th District	Beverly Wangerin	January 1989	January 2009
<b>Officers</b>			
<b>Elected</b>			
Attorney	Michael K. Junge	May 1987	January 2007
Auditor	Cindy Schultz	January 1995	January 2007
District Judge	Michael Savre	May 2004	January 2007
District Judge	Terrence E. Conkel	August 1998	January 2007
Recorder	Lynnette Schrupp	January 2003	January 2007
Sheriff	Wayne Vinkemeier	January 1999	January 2007
Treasurer	Linda Radtke	January 1987	January 2007
<b>Appointed</b>			
Assessor	Harold Kirchoff	March 2005	January 2009
Court Administrator	Robert Schmidt	February 2000	Indefinite
Coroner	Dr. Amatuzio	January 2006	Indefinite
Highway Engineer	John Brunkhorst	November 2001	May 2006
Surveyor	Jeff Rausch	February 1996	January 2009
Veterans Service Officer	James Lauer	November 2004	January 2009
County Administrator	Nan Crary	January 1996	Indefinite
Human Resources	Mary Jo Wieseler	March 2005	Indefinite
Human Services Director	Gary Sprynczynatyk	August 1995	Indefinite
Regional Extension Director	Dave Resch	January 2004	Indefinite
Public Health Nursing Service			
Director	Becky Felling	August 1994	Indefinite
Zoning Administrator	Larry Gasow	February 2000	January 2008
Park Superintendent	Allan Koglin	August 1979	Indefinite
Agriculture and Weed			
Inspector	Allan Koglin	January 1997	January 2006
Building Services Supervisor	Wayne Rosenfeld	December 1989	Indefinite

\*Chair

This page was left blank intentionally.



This page was left blank intentionally.



# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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

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

PATRICIA ANDERSON  
STATE AUDITOR

### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
McLeod County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of McLeod County, Minnesota, as of and for the year ended December 31, 2005, including the McLeod County Housing and Redevelopment Authority (HRA) as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of McLeod County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the McLeod County HRA, which is the discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the McLeod County HRA, is based solely upon the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the

aggregate remaining fund information of McLeod County as of December 31, 2005, and the McLeod County HRA as of June 30, 2005, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated August 25, 2006, on our consideration of McLeod County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: August 25, 2006

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

This page was left blank intentionally.



**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2005  
(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, 2005. 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 \$116,175,469 (net assets). Of this amount, \$15,930,677 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$4,752,745 (four percent). The increase is a combination of additional capital assets and budget savings from operations.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$7,154,527, or 59 percent, of total 2005 General Fund expenditures.
- Governmental funds' fund balances increased by \$395,010.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Government-Wide Financial Statements**

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

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

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

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

The government-wide financial statements include McLeod County (primary government) and its discretely presented component unit. The McLeod County Housing and Redevelopment Authority (HRA) is a discretely presented component unit of McLeod County. More information on the component unit can be found in Note 7 to the financial statements.

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

### **Fund Financial Statements**

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

#### Governmental Funds

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

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

McLeod County adopts an annual budget for the following governmental funds: General, Road and Bridge Special Revenue, Welfare Special Revenue, Solid Waste Special Revenue, and Debt Service Funds. 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, Welfare, Solid Waste, Ditch, and Forfeited Tax.

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

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

#### Fiduciary Funds

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

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

#### **Notes to the Financial Statements**

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

## Other Information

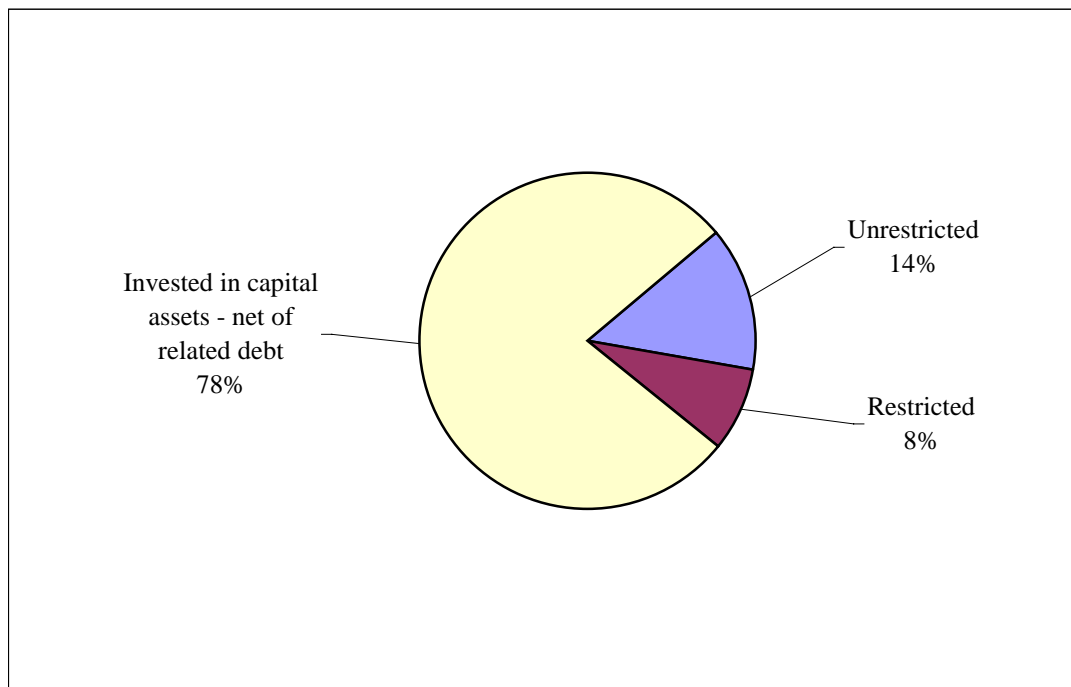
In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

## Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of McLeod County, assets exceeded liabilities by \$116,175,469 as of December 31, 2005. The investment in capital assets, net of related debt, is the largest portion of McLeod County's net assets at 78 percent. These capital assets are used to provide services to citizens and are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Approximately eight percent of McLeod County's net assets are subject to external restrictions on how they may be used and, therefore, are considered restricted. The remaining 14 percent, or \$15,930,677, is unrestricted and available to be used to meet the government's ongoing obligations to citizens and creditors.

Net Assets



**Net Assets**

	<u>Governmental Activities</u>		<u>Discretely Presented Component Unit</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 32,015,254	\$ 29,034,701	\$ 184,195	\$ 141,384
Capital assets	<u>92,628,171</u>	<u>90,963,530</u>	<u>4,018,608</u>	<u>4,163,512</u>
<b>Total Assets</b>	<b><u>\$ 124,643,425</u></b>	<b><u>\$ 119,998,231</u></b>	<b><u>\$ 4,202,803</u></b>	<b><u>\$ 4,304,896</u></b>
Current and other liabilities	\$ 2,394,889	\$ 2,012,316	\$ 159,670	\$ 104,910
Long-term liabilities - due within one year	2,077,133	2,687,817	101,806	93,138
Long-term liabilities - due in more than one year	<u>3,995,934</u>	<u>3,875,374</u>	<u>4,276,134</u>	<u>4,378,142</u>
<b>Total Liabilities</b>	<b><u>\$ 8,467,956</u></b>	<b><u>\$ 8,575,507</u></b>	<b><u>\$ 4,537,610</u></b>	<b><u>\$ 4,576,190</u></b>
<b>Net Assets</b>				
Invested in capital assets - net of related debt	\$ 90,563,020	\$ 88,120,709	\$ -	\$ -
Restricted	9,681,772	7,453,879	-	-
Unrestricted	<u>15,930,677</u>	<u>15,848,136</u>	<u>(334,807)</u>	<u>(271,294)</u>
<b>Total Net Assets</b>	<b><u>\$ 116,175,469</u></b>	<b><u>\$ 111,422,724</u></b>	<b><u>\$ (334,807)</u></b>	<b><u>\$ (271,294)</u></b>

**GOVERNMENTAL ACTIVITIES**

McLeod County's governmental activities increased net assets by \$4,752,745 during the current fiscal year. This increase is primarily due to the increase in capital assets, which included the following major items: highway and bridge construction, construction of the North Complex addition, and other improvement projects.

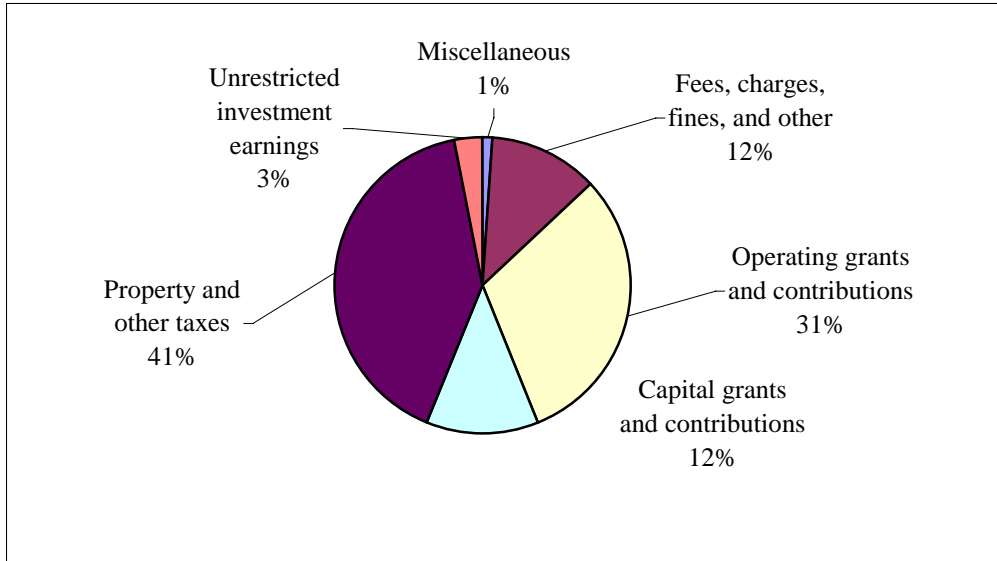
The McLeod County HRA is a discretely presented component unit of McLeod County. As of June 30, 2005, liabilities exceeded assets by \$334,807, and there was a decrease in net assets of \$63,513 from the prior year. The decrease is primarily due to decreased revenues and increased utilities expense, insurance expense, administrative expense, and repairs and maintenance expense.

## Changes in Net Assets

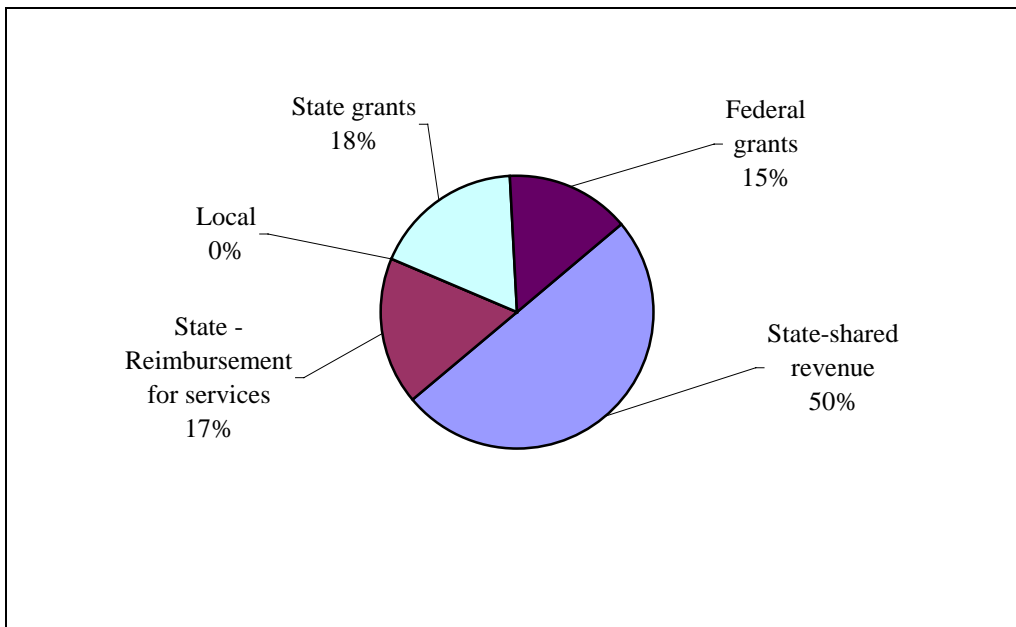
	Governmental Activities		Discretely Presented Component Unit	
	2005	2004	2005	2004
<b>Revenues</b>				
Program revenues				
Charges for services, fees, fines, and other	\$ 3,964,948	\$ 3,643,269	\$ 779,070	\$ 787,541
Operating grants and contributions	6,520,544	7,861,966	-	-
Capital grants and contributions	3,852,918	2,421,255	-	-
General revenues				
Property taxes	13,092,459	11,959,696	-	-
Other taxes	71,718	93,931	-	-
Grants and contributions not restricted to specific programs	3,450,579	2,891,484	-	-
Unrestricted investment earnings	819,181	381,438	430	7,636
Other	299,801	300,064	-	-
<b>Total Revenues</b>	<b>\$ 32,072,148</b>	<b>\$ 29,553,103</b>	<b>\$ 779,500</b>	<b>\$ 795,177</b>
<b>Expenses</b>				
General government	\$ 4,818,992	\$ 4,392,938	\$ -	\$ -
Public safety	4,968,108	4,711,071	-	-
Highways and streets	5,578,962	8,021,118	-	-
Sanitation	1,498,786	1,526,668	-	-
Human services	7,389,733	7,366,678	-	-
Health	1,771,679	1,530,611	-	-
Culture and recreation	451,782	400,634	-	-
Conservation of natural resources	645,278	432,996	-	-
Economic development	2,445	2,183	-	-
Interest	193,638	199,408	-	-
HRA	-	-	843,013	796,445
<b>Total Expenses</b>	<b>\$ 27,319,403</b>	<b>\$ 28,584,305</b>	<b>\$ 843,013</b>	<b>\$ 796,445</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 4,752,745</b>	<b>\$ 968,798</b>	<b>\$ (63,513)</b>	<b>\$ (1,268)</b>
Net Assets - January 1	111,422,724	110,453,926	(271,294)	(270,026)
Net Assets - December 31	<u>\$ 116,175,469</u>	<u>\$ 111,422,724</u>	<u>\$ (334,807)</u>	<u>\$ (271,294)</u>

The following charts show additional information on the revenues of McLeod County for the year ended December 31, 2005.

### Revenues by Source - Governmental Activities



### Intergovernmental Revenue



## FINANCIAL ANALYSIS

### Governmental Funds

At the end of 2005, McLeod County's governmental funds reported a combined fund balance of \$24,724,653. This is an increase of \$395,010 from the prior year. The General Fund fund balance increased by \$2,052,993 due to increases in revenues. The fund balance in the Road and Bridge Special Revenue Fund decreased by \$1,871,252 due to construction expenses. An increase of \$542,213 in the other governmental fund's fund balance is due to proceeds from the sale of refunding bonds.

### General Fund Budgetary Highlights

In total, General Fund revenues ended 2005 by \$860,152 higher than budgeted. Licenses and permits, intergovernmental, charges for services, gifts and contributions, investment earnings, and miscellaneous charges came in higher than anticipated. Total General Fund expenditures were \$511,668 less than the final budget. The primary reasons for the variance are as follows: contract expenses and maintenance agreement expenses were reduced in the information systems and central services departments and various capital assets that were budgeted for in 2005 were not purchased in 2005.

## CAPITAL ASSETS AND LONG-TERM DEBT

### Capital Assets

At the end of 2005, McLeod County had \$92,628,171 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)	
	2005	2004
Land, including right-of-way	\$ 5,388,314	\$ 5,123,471
Infrastructure	71,838,077	71,186,407
Buildings	10,546,260	11,017,019
Improvements other than buildings	356,715	328,417
Machinery and equipment	2,697,128	2,276,798
Construction in progress	1,801,677	1,031,418
Total	<u>\$ 92,628,171</u>	<u>\$ 90,963,530</u>



Major capital asset events during the year included the following:

- Construction of the North Complex addition was started.
- Infrastructure construction continued in 2005.

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

### **Long-Term Debt**

At the end of the current fiscal year, McLeod County had bonded debt and capital notes outstanding of \$4,825,193. This is a decrease of \$559,807 from the beginning of the year. The decrease is due to the reduction in debt principal.

Current and future County tax levies are used to finance the County's debt obligations. State statutes limit the amount of general obligation debt a county can incur to no more than two percent of the market value of taxable property in the county. The current debt limitation for McLeod County is \$51,972,112, which is significantly in excess of McLeod County's outstanding general obligation debt.

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

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- The unemployment rate for McLeod County is currently 3.6 percent. McLeod County's unemployment rate is the same percentage as the state unemployment rate but significantly lower than the United States unemployment rate of 4.8 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 2005 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, 2385 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 McLeod County HRA, 237 S.W. 2nd Avenue, Suite 224, P. O. Box 368, Cambridge, Minnesota 55008.

## **BASIC FINANCIAL STATEMENTS**

This page was left blank intentionally.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

This page was left blank intentionally.

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2005  
AND JUNE 30, 2005, FOR THE COMPONENT UNIT**

	<b>Primary Government Governmental Activities</b>	<b>Discretely Presented Component Unit</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 25,402,992	\$ 56,122
Receivables - net	6,158,173	5,561
Inventories	416,349	28,763
Restricted assets		
Cash and pooled investments	-	19,794
Investments	-	27,217
Deferred charges	37,740	46,738
Capital assets		
Non-depreciable capital assets	7,189,991	197,000
Depreciable capital assets - net of accumulated depreciation	85,438,180	3,821,608
<b>Total Assets</b>	<b>\$ 124,643,425</b>	<b>\$ 4,202,803</b>
<b><u>Liabilities</u></b>		
Accounts payable and other current liabilities	\$ 2,264,591	\$ 118,430
Accrued interest payable	65,054	-
Unearned revenue	65,244	-
Payable from restricted assets		
Rent deposits	-	41,240
Long-term liabilities		
Due within one year	2,077,133	101,806
Due in more than one year	3,995,934	4,276,134
<b>Total Liabilities</b>	<b>\$ 8,467,956</b>	<b>\$ 4,537,610</b>
<b><u>Net Assets</u></b>		
Invested in capital assets - net of related debt	\$ 90,563,020	\$ -
Restricted for		
General government	693,328	-
Public safety	155,750	-
Sanitation	4,471,993	-
Health	5,199	-
Culture and recreation	322	-
Conservation of natural resources	21,852	-
Capital projects	1,474,849	-
Debt service	2,858,479	-
Unrestricted	15,930,677	(334,807)
<b>Total Net Assets</b>	<b>\$ 116,175,469</b>	<b>\$ (334,807)</b>

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005  
AND JUNE 30, 2005, FOR THE COMPONENT UNIT**

	Expenses	Fees, Charges, Fines, and Other
<b><u>Functions/Programs</u></b>		
<b>Primary government</b>		
<b>Governmental activities</b>		
General government	\$ 4,818,992	\$ 1,017,063
Public safety	4,968,108	402,995
Highways and streets	5,578,962	184,356
Sanitation	1,498,786	1,105,559
Human services	7,389,733	617,077
Health	1,771,679	508,919
Culture and recreation	451,782	77,922
Conservation of natural resources	645,278	51,057
Economic development	2,445	-
Interest	193,638	-
	\$ 27,319,403	\$ 3,964,948
<b>Total primary government</b>	<b>\$ 27,319,403</b>	<b>\$ 3,964,948</b>
<b>Component unit</b>		
Housing and Redevelopment Authority	\$ 843,013	\$ 779,070

**General Revenues**

Property taxes  
Mortgage registry and deed tax  
Tax increment financing  
Payments in lieu of tax  
Grants and contributions not restricted to specific programs  
Unrestricted investment earnings  
Miscellaneous  
Gain on sale of capital assets

**Total general revenues**

**Change in net assets**

**Net Assets - Beginning**

**Net Assets - Ending**



**EXHIBIT 2**

<b>Program Revenues</b>		<b>Net (Expenses) Revenues and Changes in Net Assets</b>	
<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Primary Government Governmental Activities</b>	<b>Discretely Presented Component Unit</b>
\$ 108,314	\$ -	\$ (3,693,615)	
384,213	37,664	(4,143,236)	
1,440,531	3,611,000	(343,075)	
101,658	-	(291,569)	
3,774,562	-	(2,998,094)	
597,760	-	(665,000)	
-	-	(373,860)	
113,506	204,254	(276,461)	
-	-	(2,445)	
-	-	(193,638)	
<b>\$ 6,520,544</b>	<b>\$ 3,852,918</b>	<b>\$ (12,980,993)</b>	
<b>\$ -</b>	<b>\$ -</b>		<b>\$ (63,943)</b>
		\$ 13,092,459	\$ -
		49,965	-
		2,455	-
		19,298	-
		3,450,579	-
		819,181	430
		291,846	-
		7,955	-
		<b>\$ 17,733,738</b>	<b>\$ 430</b>
		<b>\$ 4,752,745</b>	<b>\$ (63,513)</b>
		<b>111,422,724</b>	<b>(271,294)</b>
		<b>\$ 116,175,469</b>	<b>\$ (334,807)</b>

This page was left blank intentionally.

**FUND FINANCIAL STATEMENTS**

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2005**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 8,104,968	\$ 3,924,068
Petty cash and change funds	2,405	100
Cash with fiscal agent	497,213	-
Cash with escrow agent	-	-
Departmental cash	3,864	-
Taxes receivable		
Prior	142,808	33,278
Special assessments receivable		
Prior	-	-
Noncurrent	13,738	-
Accounts receivable	46,363	11,303
Accrued interest receivable	104,830	-
Loans receivable	-	-
Due from other funds	11,203	-
Due from other governments	295,320	4,404,856
Inventories	27,045	389,304
Advances to other funds	277,400	-
	<b>\$ 9,527,157</b>	<b>\$ 8,762,909</b>
<b><u>Liabilities and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 239,144	\$ 150,124
Salaries payable	332,406	69,812
Accrued payroll taxes	43,361	8,789
Claims payable	126,449	-
Contracts payable	-	154,281
Retainage payable	-	122,698
Due to other funds	194	-
Due to other governments	133,777	38,130
Interest payable	-	-
Deferred revenue - unavailable	289,325	4,037,793
Deferred revenue - unearned	24,673	-
Advance from other funds	-	-
	<b>\$ 1,189,329</b>	<b>\$ 4,581,627</b>

**EXHIBIT 3**

<b>Welfare</b>	<b>Solid Waste</b>	<b>Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 3,776,044	\$ 4,531,675	\$ 1,573,137	\$ 1,739,063	\$ 23,648,955
300	10,050	-	-	12,855
-	-	-	-	497,213
-	-	-	1,240,105	1,240,105
-	-	-	-	3,864
68,184	-	-	30,574	274,844
-	-	-	1,664	1,664
-	-	-	186,587	200,325
179,685	121,948	-	-	359,299
-	29,085	-	14,886	148,801
75,000	-	-	-	75,000
194	-	-	-	11,397
381,710	196	-	16,158	5,098,240
-	-	-	-	416,349
-	-	-	-	277,400
<b>\$ 4,481,117</b>	<b>\$ 4,692,954</b>	<b>\$ 1,573,137</b>	<b>\$ 3,229,037</b>	<b>\$ 32,266,311</b>
\$ 318,774	\$ 70,967	\$ -	\$ 18	\$ 779,027
155,215	15,900	-	-	573,333
20,206	2,026	-	-	74,382
-	-	-	-	126,449
-	-	62,501	-	216,782
-	-	35,787	-	158,485
11,203	-	-	-	11,397
193,485	91,163	-	6,027	462,582
-	-	-	1,854	1,854
232,862	334	-	234,409	4,794,723
-	40,571	-	-	65,244
-	-	-	277,400	277,400
<b>\$ 931,745</b>	<b>\$ 220,961</b>	<b>\$ 98,288</b>	<b>\$ 519,708</b>	<b>\$ 7,541,658</b>

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2005**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Liabilities and Fund Balances</u></b>		
(Continued)		
<b>Fund Balances</b>		
Reserved for		
Encumbrances	\$ -	\$ 1,683,886
Inventories	27,045	389,304
Advances to other funds	277,400	-
Refunding bonds	-	-
Law library	108,047	-
Court services	67,424	-
Recorder's equipment purchases	412,243	-
Recorder's compliance fund	58,760	-
Recorder's technology fund	43,834	-
Enhanced 911	26,832	-
Landfill	-	-
Sheriff's contingency	61,494	-
Veterans' van	12,690	-
Drug enforcement	5,199	-
Conservation of natural resources	21,852	-
Petty cash	2,405	100
Records preservation	57,754	-
4-H after school adventures	322	-
Solid waste abatement	-	-
Unreserved		
Designated for future expenditures	4,095,388	1,985,026
Designated for capital improvements	-	-
Undesignated	3,059,139	122,966
Unreserved, reported in nonmajor		
Special revenue funds	-	-
Debt service fund	-	-
	<b>\$ 8,337,828</b>	<b>\$ 4,181,282</b>
<b>Total Fund Balances</b>		
	<b>\$ 8,337,828</b>	<b>\$ 4,181,282</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 9,527,157</b>	<b>\$ 8,762,909</b>

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

<b>Welfare</b>	<b>Solid Waste</b>	<b>Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 212,757	\$ 164,175	\$ -	\$ 2,060,818
-	-	-	-	416,349
-	-	-	-	277,400
-	-	-	1,254,826	1,254,826
-	-	-	-	108,047
-	-	-	-	67,424
-	-	-	-	412,243
-	-	-	-	58,760
-	-	-	-	43,834
-	-	-	-	26,832
-	308,701	-	-	308,701
-	-	-	-	61,494
-	-	-	-	12,690
-	-	-	-	5,199
-	-	-	-	21,852
300	-	-	-	2,805
-	-	-	-	57,754
-	-	-	-	322
-	3,950,535	-	-	3,950,535
2,514,439	-	-	-	8,594,853
-	-	1,310,674	-	1,310,674
1,034,633	-	-	-	4,216,738
-	-	-	(144,036)	(144,036)
-	-	-	1,598,539	1,598,539
<b>\$ 3,549,372</b>	<b>\$ 4,471,993</b>	<b>\$ 1,474,849</b>	<b>\$ 2,709,329</b>	<b>\$ 24,724,653</b>
<b>\$ 4,481,117</b>	<b>\$ 4,692,954</b>	<b>\$ 1,573,137</b>	<b>\$ 3,229,037</b>	<b>\$ 32,266,311</b>

This page was left blank intentionally.



**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2005**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>24,724,653</b>
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		92,628,171
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		4,794,723
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (4,725,000)	
Certificates of participation	(90,000)	
Loans payable	(15,931)	
Compensated absences	(1,089,258)	
Additional claims payable	(32,167)	
Additional accrued interest payable	(63,200)	
Unamortized discount on bonds	5,738	
Deferred debt issuance charges	37,740	
	(5,972,078)	(5,972,078)
<b>Net assets of governmental activities (Exhibit 1)</b>	<b>\$</b>	<b><u>116,175,469</u></b>

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>General</b>	<b>Road and Bridge</b>
<b>Revenues</b>		
Taxes	\$ 6,780,817	\$ 1,607,740
Special assessments	901	-
Licenses and permits	161,786	7,960
Intergovernmental	3,784,042	3,259,348
Charges for services	1,769,706	152,359
Fines and forfeits	23,275	-
Gifts and contributions	22,934	-
Investment earnings	562,193	-
Miscellaneous	485,098	58,141
	<b>\$ 13,590,752</b>	<b>\$ 5,085,548</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 4,463,983	\$ -
Public safety	4,955,840	-
Highways and streets	-	6,946,298
Sanitation	-	-
Human services	-	-
Health	1,739,203	-
Culture and recreation	447,115	-
Conservation of natural resources	431,504	-
Economic development	2,445	-
<b>Capital outlay</b>		
General government	-	-
<b>Intergovernmental</b>		
Sanitation	-	-
<b>Debt service</b>		
Principal	-	8,501
Interest	-	413
Bond issuance costs	-	-
Administrative (fiscal) charges	-	-
	<b>\$ 12,040,090</b>	<b>\$ 6,955,212</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 1,550,662</b>	<b>\$ (1,869,664)</b>

**EXHIBIT 5**

<b>Welfare</b>	<b>Solid Waste</b>	<b>Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 3,303,984	\$ -	\$ -	\$ 1,389,148	\$ 13,081,689
-	-	-	86,052	86,953
-	5,750	-	-	175,496
4,247,227	101,658	-	182,935	11,575,210
347,185	1,075,161	-	-	3,344,411
-	-	-	-	23,275
75	-	-	-	23,009
-	159,314	63,374	34,300	819,181
269,128	24,315	-	5,315	841,997
<b>\$ 8,167,599</b>	<b>\$ 1,366,198</b>	<b>\$ 63,374</b>	<b>\$ 1,697,750</b>	<b>\$ 29,971,221</b>
\$ -	\$ -	\$ 30	\$ 643	\$ 4,464,656
-	-	-	-	4,955,840
-	-	-	-	6,946,298
-	1,026,599	-	-	1,026,599
7,401,982	-	-	-	7,401,982
-	-	-	-	1,739,203
-	-	-	-	447,115
-	-	-	209,199	640,703
-	-	-	-	2,445
-	-	800,467	-	800,467
-	376,839	-	-	376,839
-	-	-	1,845,000	1,853,501
-	-	-	174,413	174,826
-	-	-	28,850	28,850
-	-	-	6,174	6,174
<b>\$ 7,401,982</b>	<b>\$ 1,403,438</b>	<b>\$ 800,497</b>	<b>\$ 2,264,279</b>	<b>\$ 30,865,498</b>
<b>\$ 765,617</b>	<b>\$ (37,240)</b>	<b>\$ (737,123)</b>	<b>\$ (566,529)</b>	<b>\$ (894,277)</b>

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>General</b>	<b>Road and Bridge</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ 481,106	\$ -
Transfers out	(388)	-
Proceeds from loan	15,931	-
Proceeds from sale of refunding bonds	-	-
Proceeds from sale of capital assets	15,509	-
Discount on bond issuance	-	-
	<b>\$ 512,158</b>	<b>\$ -</b>
<b>Net Change in Fund Balance</b>	<b>\$ 2,062,820</b>	<b>\$ (1,869,664)</b>
<b>Fund Balance - January 1</b>	<b>6,284,835</b>	<b>6,052,534</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>(9,827)</b>	<b>(1,588)</b>
<b>Fund Balance - December 31</b>	<b>\$ 8,337,828</b>	<b>\$ 4,181,282</b>

**EXHIBIT 5**  
**(Continued)**

<b>Welfare</b>	<b>Solid Waste</b>	<b>Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ -	\$ -	\$ 320,586	\$ 801,692
-	-	(320,198)	(481,106)	(801,692)
-	-	-	-	15,931
-	-	-	1,275,000	1,275,000
-	-	-	-	15,509
-	-	-	(5,738)	(5,738)
<b>\$ -</b>	<b>\$ -</b>	<b>\$ (320,198)</b>	<b>\$ 1,108,742</b>	<b>\$ 1,300,702</b>
<b>\$ 765,617</b>	<b>\$ (37,240)</b>	<b>\$ (1,057,321)</b>	<b>\$ 542,213</b>	<b>\$ 406,425</b>
2,783,755	4,509,233	2,532,170	2,167,116	24,329,643
-	-	-	-	(11,415)
<b>\$ 3,549,372</b>	<b>\$ 4,471,993</b>	<b>\$ 1,474,849</b>	<b>\$ 2,709,329</b>	<b>\$ 24,724,653</b>

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ 406,425**

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 (decrease) in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 4,794,723	
Deferred revenue - January 1	<u>(2,606,259)</u>	2,188,464

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

Expenditures for general capital assets and infrastructure	\$ 4,572,202	
Net book value of disposed assets	(34,057)	
Current year depreciation	<u>(2,873,504)</u>	1,664,641

Proceeds from bonds and loans issued provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.

Debt issued		
Bonds	\$ (1,275,000)	
Discount on bonds	5,738	
Bond issuance costs	28,850	
Loans	<u>(15,931)</u>	(1,256,343)

Repayment of debt principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal repayments		
General obligation bonds	\$ 1,075,000	
Certificates of participation	85,000	
Capital notes payable	685,000	
Capital lease	<u>8,501</u>	1,853,501

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

**EXHIBIT 6  
(Continued)**

**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, 2005**

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

Change in accrued interest payable	\$ (4,432)	
Amortization of deferred issuance charges	(8,206)	
Change in compensated absences	(47,723)	
Change in claims payable	(32,167)	
Change in inventories	(11,415)	(103,943)
	<hr/>	<hr/>
<b>Change in net assets of governmental activities (Exhibit 2)</b>		<b><u><u>\$ 4,752,745</u></u></b>

MCLEOD COUNTY  
GLENCOE, MINNESOTA

*EXHIBIT 7*

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2005

	<u>Agency</u>
<b><u>Assets</u></b>	
Cash and pooled investments	\$ 1,243,318
Accounts receivable	1,167
Due from other governments	<u>152,352</u>
<b>Total Assets</b>	<b><u>\$ 1,396,837</u></b>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 39,067
Due to other governments	<u>1,357,770</u>
<b>Total Liabilities</b>	<b><u>\$ 1,396,837</u></b>



**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005

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, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Discretely Presented Component Unit

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

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
McLeod County Housing and Redevelopment Authority (HRA) provides services pursuant to Minn. Stat. §§ 469.001-469.047.	County appoints members, and the HRA is a financial burden.	McLeod County HRA 237 - S.W. 2nd Avenue, Suite 224 P. O. Box 368 Cambridge, Minnesota 55008

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in several joint ventures described in Note 6.D. The County also participates in the jointly-governed organizations described in Note 6.E.

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

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

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

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

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

Additionally, the County reports the following fund type:

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

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2005, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2005 were \$562,193.

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets 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, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

2. Receivables and Payables

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

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

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

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

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 on 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, and Net Assets or Equity (Continued)

3. Inventories

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

4. Restricted Assets

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

5. Capital Assets

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

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

8. Long-Term Obligations

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

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

8. Long-Term Obligations (Continued)

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

9. Fund Equity

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

10. Use of Estimates

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

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.



**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

1. Summary of Significant Accounting Policies

E. Revenues (Continued)

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 they apply to. State-aid highway allotments for highway maintenance and construction are recognized as revenue in the year of allotment.

Exchange Transactions

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

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The Ditch Special Revenue Fund had a fund balance deficit of \$144,036 as of December 31, 2005. 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:

31 ditches with positive balances	\$	135,413
24 ditches with deficit balances		(279,449)
		(144,036)
Net Fund Balance	\$	(144,036)

B. Component Unit Deficit

The McLeod County HRA at June 30, 2005, had a net assets deficit of \$334,807. The decrease in net assets is due in part to decreased revenues and increased depreciation, insurance, utilities, maintenance, and administrative expenses.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Governmental funds		
Cash and pooled investments	\$	23,648,955
Petty cash and change funds		12,855
Cash with fiscal agent		497,213
Cash with escrow agent		1,240,105
Departmental cash		3,864
Agency fund		
Cash and pooled investments		1,243,318
Total Cash and Investments	\$	26,646,310
Deposits	\$	17,932,918
Petty cash and change funds		12,855
Departmental cash		3,864
Investments		8,696,673
Total Deposits, Cash on Hand, and Investments	\$	26,646,310

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all County deposits 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 plus accrued interest 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 or revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a financial institution failure, the County deposits may not be returned to it. As of December 31, 2005, McLeod County's deposits were not exposed to custodial credit risk.

b. Investments

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

- (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;

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (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.

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy regarding custodial credit risk. At December 31, 2005, all of the investments held in the fiscal and escrow agent accounts listed on the next page totaled \$1,719,508 and were subject to custodial credit risk.

Concentration of Credit Risk

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

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

The following table presents the County's investment balances at December 31, 2005, and information relating to potential investment risks:

Investment - Issuer	Concentration Risk Percent (%)	Interest Rate Risk Maturity Date	Fair Value
McLeod County			
Mutual Fund - Public Financial Management Cash Management Fund	N/A	N/A	\$ 6,977,165
Fiscal Agent			
Negotiable Certificates of Deposit			
Wells Fargo			
WesternBank - Puerto Rico	.67	1/26/2006	\$ 58,390
San Diego Community Bank - CA	.67	2/21/2006	58,390
Spirit Bank - Tulsa, OK	.67	3/28/2006	58,390
Universal SVGS - Milwaukee, WI	.67	4/12/2006	58,390
Discover Bank - Greenwood, DE	.67	5/16/2006	58,390
Total Negotiable Certificates of Deposit			\$ 291,950
Mutual Fund			
Wells Fargo Adv Government MMF Service*	N/A	N/A	187,453
Total Fiscal Agent			\$ 479,403
Escrow Agent			
Securities			
Bank of New York			
U.S. Treasury Note Slug	14.26	2/01/2007	\$ 1,240,105
Total Investments			\$ 8,696,673

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

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2005, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 274,844	\$ -
Special assessments	201,989	200,325
Due from other governments	5,098,240	-
Accounts	359,299	-
Interest	148,801	-
Loans	75,000	-
Total Governmental Activities	\$ 6,158,173	\$ 200,325

A loan was made to the McLeod County HRA (component unit) in 2003 in the amount of \$62,590. The terms of the agreement stated that the loan was to be paid back within one year. However, only \$47,500 was repaid in 2004, and the remaining \$15,090 was repaid in 2005.

A loan was also made to Prime West Health System for \$75,000. The terms of the agreement state that the loan will be paid back by the end of the third year of operations. Operations began July 1, 2003.

3. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 3,157,925	\$ -	\$ -	\$ 3,157,925
Construction in progress	1,031,418	1,801,677	1,031,418	1,801,677
Infrastructure - right-of-way	1,965,546	264,843	-	2,230,389
Total capital assets not depreciated	\$ 6,154,889	\$ 2,066,520	\$ 1,031,418	\$ 7,189,991

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Buildings	\$ 15,688,140	\$ 24,807	\$ -	\$ 15,712,947
Machinery, furniture, and equipment	6,500,413	1,033,368	207,494	7,326,287
Improvements other than buildings	533,378	53,281	-	586,659
Infrastructure	<u>90,394,005</u>	<u>2,425,644</u>	<u>-</u>	<u>92,819,649</u>
Total capital assets depreciated	<u>\$ 113,115,936</u>	<u>\$ 3,537,100</u>	<u>\$ 207,494</u>	<u>\$ 116,445,542</u>
Less: accumulated depreciation for				
Buildings	\$ 4,671,121	\$ 495,566	\$ -	\$ 5,166,687
Machinery, furniture, and equipment	4,223,615	578,981	173,437	4,629,159
Improvements other than buildings	204,961	24,983	-	229,944
Infrastructure	<u>19,207,598</u>	<u>1,773,974</u>	<u>-</u>	<u>20,981,572</u>
Total accumulated depreciation	<u>\$ 28,307,295</u>	<u>\$ 2,873,504</u>	<u>\$ 173,437</u>	<u>\$ 31,007,362</u>
Total capital assets depreciated, net	<u>\$ 84,808,641</u>	<u>\$ 663,596</u>	<u>\$ 34,057</u>	<u>\$ 85,438,180</u>
Governmental Activities Capital Assets, Net	<u>\$ 90,963,530</u>	<u>\$ 2,730,116</u>	<u>\$ 1,065,475</u>	<u>\$ 92,628,171</u>

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

Governmental Activities	
General government	\$ 364,353
Public safety	223,451
Highways and streets, including depreciation of infrastructure assets	2,026,243
Human services	55,878
Health	5,832
Culture and recreation	10,035
Conservation of natural resources	2,586
Sanitation	<u>185,126</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,873,504</u>



**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2005, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Welfare	\$ 11,203
Welfare	General	194
Total Due To/From Other Funds		\$ 11,397

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch	\$ 277,400

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2005, consisted of the following:

Transfer to General Fund from Debt Service Fund	\$ 481,106	Reserved for Sheriff's Department radio
Transfer to Debt Service Fund from Capital Projects Fund	320,198	Capital equipment notes
Transfer to Forfeited Tax Fund from General Fund	388	Cover negative balance
Total Interfund Transfers	\$ 801,692	

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

---

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2005, were as follows:

Accounts	\$	779,027
Salaries		573,333
Accrued payroll taxes		74,382
Retainage		158,485
Contracts		216,782
Due to other governments		<u>462,582</u>
Total Payables	\$	<u>2,264,591</u>

2. Construction Commitments

The County has active construction projects as of December 31, 2005. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
North Complex addition	\$ 715,745	\$ 164,175
Roads and bridges	2,078,493	1,683,886

3. Capital Leases

The County entered into a lease agreement as lessee for financing the acquisition of a bottom dump trailer. The lease agreement qualified as a capital lease for accounting purposes and, therefore, was recorded at the present value of the future minimum lease payments as of the inception date. The final payment was made in 2005 from the Road and Bridge Special Revenue Fund.

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
General obligation bonds					
2000A Capital Improvement Bonds	2012	\$175,000 - \$275,000	4.30 - 5.20	\$ 2,550,000	\$ 1,650,000
1996 Certificates of Participation	2006	\$60,000 - \$90,000	4.30 - 5.20	745,000	90,000
2003 Capital Improvement Bonds	2007	\$910,000 - \$1,000,000	1.00 - 1.94	3,680,000	1,800,000
2005 Capital Improvement Refunding Bonds	2012	\$245,000 - \$270,000	2.45- 3.10	<u>1,275,000</u>	<u>1,275,000</u>
Total general obligation bonds				<u>\$ 8,250,000</u>	\$ 4,815,000
Less: unamortized discount					<u>(5,738)</u>
Net General Obligation Bonds					<u>\$ 4,809,262</u>
MnPCA loans	2016	N/A	2.00	<u>\$ 15,931</u>	<u>\$ 15,931</u>

Payments on the general obligation bonds, capital notes, and certificates of participation are made from the Debt Service Fund. Compensated absences are liquidated by each fund based on actual direct labor hours incurred.

In 2004, the County entered into a loan agreement with the Minnesota Pollution Control Agency. According to the agreement, the County can borrow as much as \$190,000. Repayment of the principal will not begin until 2007. Since the County is uncertain as to how much it will have borrowed by that time, a repayment schedule is not being presented here.

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Debt Service Requirements

Debt service requirements at December 31, 2005, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2006	\$ 1,180,000	\$ 143,500
2007	2,360,000	81,218
2008	245,000	32,541
2009	250,000	26,290
2010	250,000	19,540
2011 - 2012	530,000	16,390
Total	<u>\$ 4,815,000</u>	<u>\$ 319,479</u>

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 4,525,000	\$ 1,275,000	\$ 1,075,000	\$ 4,725,000	\$ 1,090,000
G.O. capital notes	685,000	-	685,000	-	-
Certificates of participation	175,000	-	85,000	90,000	90,000
MnPCA loans	-	15,931	-	15,931	-
Less: discounts	-	(5,738)	-	(5,738)	-
Total bonds and loans payable	<u>\$ 5,385,000</u>	<u>\$ 1,285,193</u>	<u>\$ 1,845,000</u>	<u>\$ 4,825,193</u>	<u>\$ 1,180,000</u>
Capital leases	8,501	-	8,501	-	-
Compensated absences	1,041,535	47,723	-	1,089,258	738,517
Long-Term Liabilities	<u>\$ 6,435,036</u>	<u>\$ 1,332,916</u>	<u>\$ 1,853,501</u>	<u>\$ 5,914,451</u>	<u>\$ 1,918,517</u>

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Bond Refunding

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

4. Risk Management

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

The Workers’ Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers’ Compensation Reinsurance Association with coverage at \$760,000 and \$390,000 per claim in 2005 and 2006, respectively. 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.

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

4. Risk Management (Continued)

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 2005, the County has retained risk up to an \$80,000 stop-loss per covered person per year (\$1,000,000 aggregate) for the health plan. For 2006, the County has retained risk up to a \$125,000 stop-loss per covered person per year (\$1,000,000 aggregate).

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	
	2005	2004
Unpaid claims, beginning of fiscal year	\$ 128,155	\$ 93,674
Incurred claims (including IBNRs)	1,160,031	1,104,481
Claims payments	(1,129,570)	(1,070,000)
Unpaid Claims, End of Fiscal Year	\$ 158,616	\$ 128,155

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). The PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

5. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

Employees Correctional Fund, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution and have direct contact with inmates are covered by the Public Employees Correctional Fund.

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

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

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

5. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

For all Public Employees Retirement Fund members 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. 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.

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. 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. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.50 percent. Public Employees Police and Fire Fund members were required to contribute 6.20 percent of their annual covered salary in 2005. That rate increased to 7.00 percent in 2006. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.



**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

5. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2005 and 2006:

	2005	2006
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	5.53	6.00
Public Employees Police and Fire Fund	9.30	10.50
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2005, 2004, and 2003, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2005	\$ 399,704	\$ 103,470	\$ 53,925
2004	382,748	96,869	54,425
2005	384,765	93,686	49,868

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

B. Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer deferred compensation plan for local government officials, except elected county sheriffs. The plan is established and administered in accordance with Minn. Stat. ch. 353D. 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.

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

5. Pension Plans

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer.

No vesting period is required to receive benefits in the Defined Contribution Plan. At the time of retirement or termination, the market value of the member's account is distributed to the member or another qualified plan.

The County's contributions for the years ending December 31, 2005, 2004, and 2003, were \$5,106, \$4,945, and \$4,779, respectively, equal to the contractually required contributions for each year as set by state statute.

6. 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**

---

6. 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 Minnesota Foundation Project) for the purpose of financing all or a portion of the costs of acquisition of land and the construction of an administration building. The bonds are secured by the financed property and are payable solely from the revenue of the project. The bonds do not constitute a charge, lien, or encumbrance, legal or equitable, upon any property or funds of the County, nor is the County subject to any liability thereon. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The amount of outstanding principal was \$3,500,000 as of December 31, 2005.

D. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the County entered into a joint powers agreement with Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, Meeker, Nobles, Pipestone, Redwood, Renville, Rock, Swift, and Yellow Medicine Counties; and Lincoln, Lyon, and Murray Counties, represented by the Lincoln, Lyon, and Murray Human Services Board, creating and operating the Southwestern Minnesota Adult Mental Health Consortium Board under the authority of Minn. Stat. § 471.59. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host. The Board shall take actions and enter into such agreements as may be

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

necessary to plan and develop within the Board's geographic jurisdiction, a system of care that will serve the needs of adults with serious and persistent mental illness. The governing board is composed of one board member from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

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

Meeker-McLeod-Sibley Community Health Services Board

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

Current financial statements are available at its offices at P. O. Box 398, Hutchinson, Minnesota 55350.

Minnesota River Basin

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

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Minnesota River Basin (Continued)

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

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

Regional Library

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

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

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

Southwest Metro Drug Task Force

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

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Southwest Metro Drug Task Force (Continued)

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

Financing is provided by grants, forfeiture money, and appropriations from members. Complete financial information can be obtained from Jason Bullard, Assistant Finance Director, 129 Holmes Street South, Shakopee, Minnesota 55379.

Prime West Health System

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

Funding from the state is the revenue source for this program. McLeod County has provided \$75,000 as a start-up loan to be repaid by the end of the third year of operation. Operations began July 1, 2003.

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

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

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Crow River Joint Powers Agreement

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

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

Trailblazer Transit Board

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

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

Financing is primarily provided from state and federal grants. Member counties are committed to providing the local match necessary to meet the requirements for state and federal funding. Sibley County is the fiscal agent.

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Trailblazer Transit Board (Continued)

Current financial statements can be obtained with a one-day notice from the administrative office at Trailblazer Transit, Gary Ludwig, Director, 112 - 5th Street, Gaylord, Minnesota 55334.

E. Jointly-Governed Organizations

McLeod Family Connection Collaborative

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

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

Minnesota Rural Counties Caucus

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



**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

---

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

A. Summary of Significant Accounting Policies and Description of Entity

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

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

Reporting Entity

In evaluating how to define the HRA for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles. The basic--but not the only--criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the HRA is able to exercise oversight responsibilities. Based on these criteria, there are no additional agencies or entities which should be included in the financial statements of the HRA. However, the McLeod County Housing and Redevelopment Authority has been determined to be a component unit of McLeod County, Minnesota, which appoints the members of the HRA Board.

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

---

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

A. Summary of Significant Accounting Policies and Description of Entity (Continued)

Fund Accounting

The accounts of the HRA are organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. Government resources are allocated based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various activities of the HRA comprise one proprietary fund, which is considered to be an enterprise fund. Enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises.

Basis of Accounting

The proprietary funds are generally accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 8 to 40 years.

Bond Issuance Costs

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

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

---

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

A. Summary of Significant Accounting Policies and Description of Entity (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, 2005, are summarized as follows:

Cash on deposit		
Restricted	\$	19,794
Unrestricted		<u>56,122</u>
Total cash on deposit	\$	75,916
Certificates of deposit, due within one year		
Restricted		<u>27,217</u>
Total Cash and Investments	\$	<u>103,133</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 \$103,133 as of June 30, 2005. Bank balances were \$104,487 as of June 30, 2005, and were fully insured by the FDIC.

Minnesota statutes require that all HRA deposits be protected by insurance, surety bond, or collateral and that securities pledged as collateral be legal instruments and be held in safekeeping by the HRA treasurer or in a financial institution other than that

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

---

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

B. Cash and Investments

Deposits (Continued)

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, 2005.

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:

- (a) direct obligations or obligations guaranteed by the United States or its agencies;
- (b) shares of investment companies registered under the Federal Investment Company Act of 1940 whose only investments are in securities described in Minnesota statutes;
- (c) general obligations of the State of Minnesota or any of its municipalities and other state and local government obligations as listed in Minnesota statutes;
- (d) bankers' acceptances of United States banks, eligible for purchase by the Federal Reserve System;
- (e) commercial paper issued by United States corporations or their Canadian subsidiaries that is of the highest quality and matures in 270 days or less;
- (f) repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in United States government securities reporting to the Federal Reserve Bank of New York, certain Minnesota securities broker-dealers, or a bank qualified as a depository; and

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

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

B. Cash and Investments

Investments (Continued)

(g) guaranteed investment contracts issued or guaranteed by a United States commercial bank or domestic branch of a foreign bank or a United States insurance company or its Canadian or United States subsidiary, provided it ranks on a parity with the senior unsecured debt obligations of the issuer or guarantor and meets other requirements as stated in Minnesota statutes.

C. Property and Equipment

The following is a summary of property and equipment transactions:

	<u>July 1, 2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2005</u>
Land	\$ 197,000	\$ -	\$ -	\$ 197,000
Site improvements	159,549	-	-	159,549
Building	4,343,003	-	-	4,343,003
Appliances	117,433	-	-	117,433
Total	<u>\$ 4,816,985</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,816,985</u>
Accumulated depreciation	<u>(653,473)</u>	<u>(144,904)</u>	<u>-</u>	<u>(798,377)</u>
Totals	<u>\$ 4,163,512</u>	<u>\$ (144,904)</u>	<u>\$ -</u>	<u>\$ 4,018,608</u>

D. Due to Other Governments

Included in accounts payable and other current liabilities are amounts due to other governments at June 30, 2005:

United States Department of Housing and Urban Development, under the Section 8 Housing Program	\$ 37,518
McLeod County for the remainder of a 2003 loan of \$62,590 to pay construction costs. The loan bears no interest and is payable next year.	<u>15,090</u>
Total	<u>\$ 52,608</u>

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

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

E. Long-Term Debt Payable

The following is a summary of long-term debt transactions for the year ended June 30, 2005:

	<u>July 1, 2004</u>	<u>Issued</u>	<u>Payments</u>	<u>June 30, 2005</u>
Essential Function Housing Development Bond of 1996	\$ 1,080,117	\$ -	\$ 25,231	\$ 1,054,886
Essential Function Housing Development Bond of 1997	1,097,602	-	24,582	1,073,020
Essential Function Housing Development Bond of 1999	1,055,669	-	20,426	1,035,243
Essential Function Housing Development Bond of 2001	1,196,195	-	19,382	1,176,813
Assessments payable	41,697	-	3,719	37,978
	<u>\$ 4,471,280</u>	<u>\$ -</u>	<u>\$ 93,340</u>	<u>\$ 4,377,940</u>
Totals				
Less: current portion				<u>(101,806)</u>
Noncurrent Portion				<u>\$ 4,276,134</u>

The Essential Function Housing Development Revenue Bond of 1996 matures on September 1, 2027. The bond currently bears an interest rate of 5.000 percent per annum until July 1, 2008, at which time the rate becomes 6.125 percent per annum; the interest rate is thereafter adjustable periodically over the life of the bond. Principal and interest are payable monthly. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are insufficient to meet the bond obligations, the HRA may request funds from the McLeod County General Fund by ordering a County-wide tax levy not to exceed \$120,000. The HRA agrees to repay the funds to McLeod County from any subsequent excess cash flows.

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

---

---

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

E. Long-Term Debt Payable (Continued)

The Essential Function Housing Development Revenue Bond of 1997 matures on April 1, 2028. The bond currently bears an interest rate of 5.000 percent per annum until July 1, 2008, at which time the rate becomes 6.125 percent per annum; the interest rate 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 5.000 percent per annum until July 1, 2008, at which time the rate becomes 6.125 percent per annum; the interest rate is thereafter adjustable periodically over the life of the bond. Principal and interest are payable monthly. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are insufficient to meet the operation and maintenance costs, the HRA may request funds from the McLeod County General Fund not to exceed \$75,000 each calendar year. The HRA agrees to repay the funds to McLeod County after bond obligations have been fulfilled.

The Essential Function Housing Development Revenue Bond of 2001 matures on June 1, 2022. The bond bears an interest rate of 5.400 percent per annum payable monthly; the interest rate shall be adjusted periodically over the life of the bond. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are insufficient to meet the operation and maintenance costs, the HRA may request funds from the McLeod County General Fund 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**

---

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

E. Long-Term Debt Payable (Continued)

The assessments are payable to the City of Glencoe for the installation of sewer and water facilities. The debt matures October 1, 2009, and bears interest at the rate of 5.00 percent. Payments of \$2,369, including principal and interest, are payable quarterly beginning January 1, 2005. The debt is secured by the property in Glencoe.

The estimated debt service requirements as of June 30, 2005, are as follows:

<u>Years Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 101,806	\$ 221,288	\$ 323,094
2007	107,099	215,995	323,094
2008	112,665	210,429	323,094
2009	118,522	204,572	323,094
2010	119,915	198,441	318,356
2011 - 2015	672,870	895,216	1,568,086
2016 - 2020	867,355	700,731	1,568,086
2021 - 2025	1,118,132	449,954	1,568,086
2026 - 2030	1,023,895	150,837	1,174,732
2031 - 2035	135,681	6,648	142,329
Totals	<u>\$ 4,377,940</u>	<u>\$ 3,254,111</u>	<u>\$ 7,632,051</u>

F. 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**

This page was left blank intentionally.

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

**Schedule 1**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Taxes	\$ 7,728,568	\$ 7,728,568	\$ 6,780,817	\$ (947,751)
Special assessments	-	-	901	901
Licenses and permits	76,100	76,100	161,786	85,686
Intergovernmental	2,716,490	2,716,490	3,784,042	1,067,552
Charges for services	1,430,672	1,430,672	1,769,706	339,034
Fines and forfeits	232,375	232,375	23,275	(209,100)
Gifts and contributions	3,100	3,100	22,934	19,834
Investment earnings	205,100	205,100	562,193	357,093
Miscellaneous	338,195	338,195	485,098	146,903
<b>Total Revenues</b>	<b>\$ 12,730,600</b>	<b>\$ 12,730,600</b>	<b>\$ 13,590,752</b>	<b>\$ 860,152</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 212,658	\$ 212,658	\$ 239,933	\$ (27,275)
County-wide	215,308	215,308	29,979	185,329
Courts	33,000	33,000	91,904	(58,904)
Law library	50,000	50,000	38,753	11,247
County administration	191,214	191,214	190,760	454
County auditor	304,265	304,265	324,375	(20,110)
License bureau	126,167	126,167	122,281	3,886
County treasurer	185,610	218,085	207,925	10,160
County assessor	298,385	323,823	303,690	20,133
Elections	63,070	63,070	11,278	51,792
Data processing	892,565	892,565	621,059	271,506
Central services	243,057	243,057	191,593	51,464
County insurance	216,557	216,557	201,083	15,474
Safety	2,277	2,277	1,821	456
Attorney	404,206	404,206	390,159	14,047
Recorder	338,083	338,083	312,267	25,816
Planning and zoning	204,426	204,426	221,750	(17,324)
Buildings and plant	393,864	393,864	635,116	(241,252)
Fairgrounds	213,818	213,818	195,558	18,260
Veterans service officer	107,520	107,520	110,169	(2,649)
Other general government	-	-	22,530	(22,530)
<b>Total general government</b>	<b>\$ 4,696,050</b>	<b>\$ 4,753,963</b>	<b>\$ 4,463,983</b>	<b>\$ 289,980</b>

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

**Schedule 1**  
**(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 2,734,453	\$ 2,734,453	\$ 2,714,541	\$ 19,912
Boat and water safety	8,737	8,737	3,435	5,302
Emergency services	134,333	134,333	135,476	(1,143)
Coroner	47,000	47,000	51,652	(4,652)
Enhanced 911	49,100	49,100	45,767	3,333
Law enforcement center	1,799,239	1,799,239	1,615,034	184,205
Probation and parole	309,366	309,366	333,829	(24,463)
Juvenile restitution	17,370	17,370	10,705	6,665
DARE program	500	500	576	(76)
Other - sheriff's posse	36,000	36,000	44,825	(8,825)
<b>Total public safety</b>	<b>\$ 5,136,098</b>	<b>\$ 5,136,098</b>	<b>\$ 4,955,840</b>	<b>\$ 180,258</b>
<b>Health</b>				
Nursing service	\$ 1,759,313	\$ 1,759,313	\$ 1,739,203	\$ 20,110
<b>Culture and recreation</b>				
Historical society	\$ 30,000	\$ 30,000	\$ 30,000	\$ -
Parks	269,951	269,951	263,356	6,595
Regional library	130,000	130,000	130,000	-
Other	24,070	24,070	23,759	311
<b>Total culture and recreation</b>	<b>\$ 454,021</b>	<b>\$ 454,021</b>	<b>\$ 447,115</b>	<b>\$ 6,906</b>
<b>Conservation of natural resources</b>				
County extension	\$ 173,692	\$ 173,692	\$ 174,637	\$ (945)
Soil and water conservation	53,000	53,000	56,263	(3,263)
Agricultural inspections	17,233	17,233	12,699	4,534
Water planning	31,612	31,612	29,899	1,713
Wetland	21,576	21,576	19,464	2,112
Shoreland	6,320	6,320	2,745	3,575
Board of adjustment	2,840	2,840	2,995	(155)
Feedlot	44,869	44,869	44,768	101
Environmental services	92,395	92,395	87,103	5,292
Other	2,457	2,457	931	1,526
<b>Total conservation of natural resources</b>	<b>\$ 445,994</b>	<b>\$ 445,994</b>	<b>\$ 431,504</b>	<b>\$ 14,490</b>
<b>Economic development</b>				
Community development	\$ 2,369	\$ 2,369	\$ 2,445	\$ (76)
<b>Total Expenditures</b>	<b>\$ 12,493,845</b>	<b>\$ 12,551,758</b>	<b>\$ 12,040,090</b>	<b>\$ 511,668</b>

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

*Schedule 1*  
*(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 236,755</b>	<b>\$ 178,842</b>	<b>\$ 1,550,662</b>	<b>\$ 1,371,820</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 38,714	\$ 38,714	\$ 481,106	\$ 442,392
Transfers out	(50,000)	(50,000)	(388)	49,612
Loans issued	-	-	15,931	15,931
Proceeds from sale of assets	7,000	7,000	15,509	8,509
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (4,286)</b>	<b>\$ (4,286)</b>	<b>\$ 512,158</b>	<b>\$ 516,444</b>
<b>Net Change in Fund Balance</b>	<b>\$ 232,469</b>	<b>\$ 174,556</b>	<b>\$ 2,062,820</b>	<b>\$ 1,888,264</b>
<b>Fund Balance - January 1</b>	<b>6,284,835</b>	<b>6,284,835</b>	<b>6,284,835</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>(9,827)</b>	<b>(9,827)</b>
<b>Fund Balance - December 31</b>	<b>\$ 6,517,304</b>	<b>\$ 6,459,391</b>	<b>\$ 8,337,828</b>	<b>\$ 1,878,437</b>

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,849,754	\$ 1,849,754	\$ 1,607,740	\$ (242,014)
Licenses and permits	3,000	3,000	7,960	4,960
Intergovernmental	3,732,000	3,732,000	3,259,348	(472,652)
Charges for services	178,000	178,000	152,359	(25,641)
Miscellaneous	34,000	34,000	58,141	24,141
<b>Total Revenues</b>	<b>\$ 5,796,754</b>	<b>\$ 5,796,754</b>	<b>\$ 5,085,548</b>	<b>\$ (711,206)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 661,373	\$ 661,373	\$ 594,508	\$ 66,865
GIS/surveying	159,351	159,351	145,560	13,791
Maintenance	1,434,952	1,434,952	1,389,018	45,934
Construction	3,231,000	3,231,000	3,945,754	(714,754)
Equipment maintenance and shop	825,078	825,078	871,458	(46,380)
<b>Total highways and streets</b>	<b>\$ 6,311,754</b>	<b>\$ 6,311,754</b>	<b>\$ 6,946,298</b>	<b>\$ (634,544)</b>
<b>Debt service</b>				
Principal	-	-	8,501	(8,501)
Interest	-	-	413	(413)
<b>Total Expenditures</b>	<b>\$ 6,311,754</b>	<b>\$ 6,311,754</b>	<b>\$ 6,955,212</b>	<b>\$ (643,458)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (515,000)</b>	<b>\$ (515,000)</b>	<b>\$ (1,869,664)</b>	<b>\$ (1,354,664)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 550,000	\$ 550,000	\$ -	\$ (550,000)
Proceeds from sale of capital assets	50,000	50,000	-	(50,000)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 600,000</b>	<b>\$ 600,000</b>	<b>\$ -</b>	<b>\$ (600,000)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 85,000</b>	<b>\$ 85,000</b>	<b>\$ (1,869,664)</b>	<b>\$ (1,954,664)</b>
<b>Fund Balance - January 1</b>	<b>6,052,534</b>	<b>6,052,534</b>	<b>6,052,534</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>(1,588)</b>	<b>(1,588)</b>
<b>Fund Balance - December 31</b>	<b>\$ 6,137,534</b>	<b>\$ 6,137,534</b>	<b>\$ 4,181,282</b>	<b>\$ (1,956,252)</b>

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
WELFARE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 3,785,739	\$ 3,785,739	\$ 3,303,984	\$ (481,755)
Intergovernmental	3,584,491	3,584,491	4,247,227	662,736
Charges for services	272,799	272,799	347,185	74,386
Gifts and contributions	-	-	75	75
Miscellaneous	346,930	346,930	269,128	(77,802)
<b>Total Revenues</b>	<b>\$ 7,989,959</b>	<b>\$ 7,989,959</b>	<b>\$ 8,167,599</b>	<b>\$ 177,640</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 1,596,303	\$ 1,596,303	\$ 1,696,918	\$ (100,615)
Social services	6,028,478	6,028,478	5,665,020	363,458
Transit authority	256,333	256,333	40,044	216,289
<b>Total Expenditures</b>	<b>\$ 7,881,114</b>	<b>\$ 7,881,114</b>	<b>\$ 7,401,982</b>	<b>\$ 479,132</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 108,845</b>	<b>\$ 108,845</b>	<b>\$ 765,617</b>	<b>\$ 656,772</b>
<b>Fund Balance - January 1</b>	<b>2,783,755</b>	<b>2,783,755</b>	<b>2,783,755</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,892,600</b>	<b>\$ 2,892,600</b>	<b>\$ 3,549,372</b>	<b>\$ 656,772</b>

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

*Schedule 4*

**BUDGETARY COMPARISON SCHEDULE  
SOLID WASTE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Licenses and permits	\$ 4,000	\$ 4,000	\$ 5,750	\$ 1,750
Intergovernmental	76,000	76,000	101,658	25,658
Charges for services	750,361	750,361	1,075,161	324,800
Investment earnings	150,300	150,300	159,314	9,014
Miscellaneous	20,001	20,001	24,315	4,314
<b>Total Revenues</b>	<b>\$ 1,000,662</b>	<b>\$ 1,000,662</b>	<b>\$ 1,366,198</b>	<b>\$ 365,536</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Sanitation</b>				
Solid waste	\$ 1,040,648	\$ 1,040,648	\$ 1,026,599	\$ 14,049
<b>Intergovernmental</b>				
Sanitation	330,510	330,510	376,839	(46,329)
<b>Total Expenditures</b>	<b>\$ 1,371,158</b>	<b>\$ 1,371,158</b>	<b>\$ 1,403,438</b>	<b>\$ (32,280)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (370,496)</b>	<b>\$ (370,496)</b>	<b>\$ (37,240)</b>	<b>\$ 333,256</b>
<b>Fund Balance - January 1</b>	<b>4,509,233</b>	<b>4,509,233</b>	<b>4,509,233</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,138,737</b>	<b>\$ 4,138,737</b>	<b>\$ 4,471,993</b>	<b>\$ 333,256</b>



**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2005**

---

---

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

On December 28, 2004, the Board approved the budgets for the General Fund, Road and Bridge Special Revenue Fund, Solid Waste Special Revenue Fund, Welfare Special Revenue Fund, and the Debt Service Fund.

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

2. Excess of Expenditures over Appropriations

In the General Fund, the following departments' expenditures exceeded appropriations for the year ended December 31, 2005:

Commissioners	\$	27,275
Courts		58,904
County Auditor		20,110
Planning and Zoning		17,324
Buildings and Plant		241,252
Veterans Service Officer		2,649
Other general government		22,530
Emergency Services		1,143
Coroner		4,652
Probation and Parole		24,463
DARE Program		76
Sheriff's Posse		8,825
County Extension		945
Soil and Water Conservation		3,263
Board of Adjustment		155
Community Development		76

In the Road and Bridge Special Revenue Fund, the expenditures exceeded appropriations for the year ended December 31, 2005, by \$643,458.

In the Solid Waste Special Revenue Fund, the expenditures exceeded appropriations for the year ended December 31, 2005, by \$32,280.

This page was left blank intentionally.

**SUPPLEMENTARY INFORMATION**

This page was left blank intentionally.

**NONMAJOR GOVERNMENTAL FUNDS**

This page was left blank intentionally.

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

*Statement 1*

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2005**

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Total</u>
	<u>Ditch</u>	<u>Forfeited Tax</u>		
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 140,524	\$ -	\$ 1,598,539	\$ 1,739,063
Cash with escrow agent	-	-	1,240,105	1,240,105
Taxes receivable				
Prior	-	-	30,574	30,574
Special assessments receivable				
Prior	1,664	-	-	1,664
Noncurrent	186,587	-	-	186,587
Accrued interest receivable	165	-	14,721	14,886
Due from other governments	16,158	-	-	16,158
<b>Total Assets</b>	<b><u>\$ 345,098</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,883,939</u></b>	<b><u>\$ 3,229,037</u></b>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 18	\$ -	\$ -	\$ 18
Due to other governments	6,027	-	-	6,027
Interest payable	1,854	-	-	1,854
Deferred revenue - unavailable	203,835	-	30,574	234,409
Advance from other funds	277,400	-	-	277,400
<b>Total Liabilities</b>	<b><u>\$ 489,134</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 30,574</u></b>	<b><u>\$ 519,708</u></b>
<b>Fund Balances</b>				
Reserved				
Reserved for refunding bonds	\$ -	\$ -	\$ 1,254,826	\$ 1,254,826
Unreserved				
Designated for debt service	-	-	1,598,539	1,598,539
Undesignated	(144,036)	-	-	(144,036)
<b>Total Fund Balances</b>	<b><u>\$ (144,036)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,853,365</u></b>	<b><u>\$ 2,709,329</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 345,098</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,883,939</u></b>	<b><u>\$ 3,229,037</u></b>

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

*Statement 2*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Special Revenue		Debt Service	Total
	Ditch	Forfeited Tax		
<b>Revenues</b>				
Taxes	\$ -	\$ -	\$ 1,389,148	\$ 1,389,148
Special assessments	86,052	-	-	86,052
Intergovernmental	3,042	-	179,893	182,935
Investment earnings	3,497	-	30,803	34,300
Miscellaneous	-	-	5,315	5,315
<b>Total Revenues</b>	<b>\$ 92,591</b>	<b>\$ -</b>	<b>\$ 1,605,159</b>	<b>\$ 1,697,750</b>
<b>Expenditures</b>				
<b>Current</b>				
General government	\$ 255	\$ 388	\$ -	\$ 643
Conservation of natural resources	209,199	-	-	209,199
<b>Debt service</b>				
Principal	-	-	1,845,000	1,845,000
Interest	6,374	-	168,039	174,413
Bond issuance costs	-	-	28,850	28,850
Administrative (fiscal) charges	-	-	6,174	6,174
<b>Total Expenditures</b>	<b>\$ 215,828</b>	<b>\$ 388</b>	<b>\$ 2,048,063</b>	<b>\$ 2,264,279</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (123,237)</b>	<b>\$ (388)</b>	<b>\$ (442,904)</b>	<b>\$ (566,529)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ -	\$ 388	\$ 320,198	\$ 320,586
Transfers out	-	-	(481,106)	(481,106)
Proceeds from sale of refunding bonds	-	-	1,275,000	1,275,000
Discount on bonds issued	-	-	(5,738)	(5,738)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ 388</b>	<b>\$ 1,108,354</b>	<b>\$ 1,108,742</b>
<b>Net Change in Fund Balance</b>	<b>\$ (123,237)</b>	<b>\$ -</b>	<b>\$ 665,450</b>	<b>\$ 542,213</b>
<b>Fund Balance - January 1</b>	<b>(20,799)</b>	<b>-</b>	<b>2,187,915</b>	<b>2,167,116</b>
<b>Fund Balance - December 31</b>	<b>\$ (144,036)</b>	<b>\$ -</b>	<b>\$ 2,853,365</b>	<b>\$ 2,709,329</b>



**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

*Schedule 5*

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,591,304	\$ 1,591,304	\$ 1,389,148	\$ (202,156)
Intergovernmental	-	-	179,893	179,893
Investment earnings	-	-	30,803	30,803
Miscellaneous	-	-	5,315	5,315
<b>Total Revenues</b>	<b>\$ 1,591,304</b>	<b>\$ 1,591,304</b>	<b>\$ 1,605,159</b>	<b>\$ 13,855</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 1,845,000	\$ 1,845,000	\$ 1,845,000	\$ -
Interest	151,650	151,650	168,039	(16,389)
Bond issuance costs	-	-	28,850	(28,850)
Administrative (fiscal) charges	500	500	6,174	(5,674)
<b>Total Expenditures</b>	<b>\$ 1,997,150</b>	<b>\$ 1,997,150</b>	<b>\$ 2,048,063</b>	<b>\$ (50,913)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (405,846)</b>	<b>\$ (405,846)</b>	<b>\$ (442,904)</b>	<b>\$ (37,058)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ -	\$ -	\$ 320,198	\$ (320,198)
Transfers out	-	-	(481,106)	(481,106)
Proceeds from sale of refunding bonds	-	-	1,275,000	1,275,000
Discount on bonds issued	-	-	(5,738)	(5,738)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,108,354</b>	<b>\$ 467,958</b>
<b>Net Change in Fund Balance</b>	<b>\$ (405,846)</b>	<b>\$ (405,846)</b>	<b>\$ 665,450</b>	<b>\$ 430,900</b>
<b>Fund Balance - January 1</b>	<b>2,187,915</b>	<b>2,187,915</b>	<b>2,187,915</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,782,069</b>	<b>\$ 1,782,069</b>	<b>\$ 2,853,365</b>	<b>\$ 430,900</b>

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

*Statement 3*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES FUND</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 223,639	\$ 1,614,143	\$ 1,626,505	\$ 211,277
Accounts receivable	1,361	80	1,361	80
Due from other governments	159,161	130,363	159,161	130,363
<b>Total Assets</b>	<b>\$ 384,161</b>	<b>\$ 1,744,586</b>	<b>\$ 1,787,027</b>	<b>\$ 341,720</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 14,431	\$ 4,040	\$ 14,431	\$ 4,040
Due to other governments	369,730	337,680	369,730	337,680
<b>Total Liabilities</b>	<b>\$ 384,161</b>	<b>\$ 341,720</b>	<b>\$ 384,161</b>	<b>\$ 341,720</b>
<b><u>MCLEOD FAMILY CONNECTION COLLABORATIVE FUND</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 612,265	\$ 413,702	\$ 322,647	\$ 703,320
Accounts receivable	1,148	-	1,148	-
Due from other governments	574	3,978	574	3,978
<b>Total Assets</b>	<b>\$ 613,987</b>	<b>\$ 417,680</b>	<b>\$ 324,369</b>	<b>\$ 707,298</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 3,433	\$ 34,398	\$ 3,433	\$ 34,398
Due to other governments	610,554	672,900	610,554	672,900
<b>Total Liabilities</b>	<b>\$ 613,987</b>	<b>\$ 707,298</b>	<b>\$ 613,987</b>	<b>\$ 707,298</b>

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

*Statement 3  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>STATE AGENCY FUND</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 138,818	\$ 4,200,468	\$ 4,215,463	\$ 123,823
Accounts receivable	31	1,087	31	1,087
Due from other governments	167	18,011	167	18,011
	<b>\$ 139,016</b>	<b>\$ 4,219,566</b>	<b>\$ 4,215,661</b>	<b>\$ 142,921</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 629	\$ -	\$ 629
Due to other governments	139,016	142,292	139,016	142,292
	<b>\$ 139,016</b>	<b>\$ 142,921</b>	<b>\$ 139,016</b>	<b>\$ 142,921</b>
 <b><u>TAX AND PENALTY FUND</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<b>\$ 236,226</b>	<b>\$ 32,589,011</b>	<b>\$ 32,620,339</b>	<b>\$ 204,898</b>
<b><u>Liabilities</u></b>				
Due to other governments	<b>\$ 236,226</b>	<b>\$ 204,898</b>	<b>\$ 236,226</b>	<b>\$ 204,898</b>

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

*Statement 3  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 1,210,948	\$ 38,817,324	\$ 38,784,954	\$ 1,243,318
Accounts receivable	2,540	1,167	2,540	1,167
Due from other governments	159,902	152,352	159,902	152,352
<b>Total Assets</b>	<b>\$ 1,373,390</b>	<b>\$ 38,970,843</b>	<b>\$ 38,947,396</b>	<b>\$ 1,396,837</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 17,864	\$ 39,067	\$ 17,864	\$ 39,067
Due to other governments	1,355,526	1,357,770	1,355,526	1,357,770
<b>Total Liabilities</b>	<b>\$ 1,373,390</b>	<b>\$ 1,396,837</b>	<b>\$ 1,373,390</b>	<b>\$ 1,396,837</b>

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

**Schedule 6**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**Shared Revenue**

**State**

Highway users tax	\$	2,169,222
Market value credit		1,689,067
PERA rate reimbursement		36,151
Disparity reduction aid		60,910
Police aid		96,869
Enhanced 911		61,650
County program aid		1,658,580
		1,658,580

**Total Shared Revenue** **\$ 5,772,449**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$	2,030,045
		2,030,045

**Payments**

**Local**

Payments in lieu of taxes	\$	19,298
		19,298

**Grants**

**State**

Minnesota Department of		
Corrections	\$	85,228
Crime Victim Services		1,000
Public Safety		10,030
Health		232,686
Human Services		1,292,698
Natural Resources		29,961
Transportation		159,718
Trial Courts		41,690
Water and Soil Resources Board		85,714
Office of Environmental Assistance		101,658
		101,658

**Total State** **\$ 2,040,383**

**Federal**

Department of		
Agriculture	\$	118,794
Justice		62,905
Transportation		743,254
Health and Human Services		728,148
Homeland Security		55,778
Environmental Protection Agency		4,156
		4,156

**Total Federal** **\$ 1,713,035**

**Total State and Federal Grants** **\$ 3,753,418**

**Total Intergovernmental Revenue** **\$ 11,575,210**

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

**Schedule 6  
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2005**

Below is a reconciliation between the federal awards granted on the Schedule of Intergovernmental Revenue, which is based on the modified accrual accounting to the Schedule of Expenditures of Federal Awards, which is based on full accrual accounting.

<b>Federal revenue, as reported in the financial statements</b>		<b>\$ <u>1,713,035</u></b>
<b>Adjustments</b>		
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	CFDA #10.557	\$ 27,575
Matching Grants for Food Stamp Program	CFDA #10.561	(2,796)
Juvenile Accountability Incentive Block Grant	CFDA #16.523	(1,055)
Highway Planning and Construction	CFDA #20.205	814,690
Special Program for the Aging Title III Part B Grants	CFDA #93.044	(594)
Promoting Safe and Stable Families	CFDA #93.556	(1,260)
Foster Care Title IV-E	CFDA #93.658	<u>422</u>
<b>Total adjustments</b>		<b>\$ <u>836,982</u></b>
<b>Expenditures of Federal Awards</b>		<b>\$ <u><u>2,550,017</u></u></b>



This page was left blank intentionally.



**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

*Schedule 7*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

- A. Our report expresses an unqualified opinion on the basic financial statements of McLeod County.
- B. Reportable conditions in internal control were disclosed by the audit of financial statements of McLeod County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." They are not material weaknesses.
- C. No instances of noncompliance material to the financial statements of McLeod County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for McLeod County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:
  - Highway Planning and Construction CFDA #20.205
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. McLeod County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

99-1 Accounting Policies and Procedures

The County Board approved a purchasing policy in 2006, but policies and procedures have not been approved for various other accounting functions, such as journal entries. The absence of a comprehensive manual causes difficulty in assessing what controls are in place and functioning. A formal written policy that establishes required procedures enables management to determine if adequate controls exist and ensures that consistent policies and procedures will be passed on to new employees.

We recommend that the County develop and implement a comprehensive formal policies and procedures manual for all accounting functions.

Client's Response:

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

ITEMS ARISING THIS YEAR

05-1 Sheriff's Office Checking Account

During our review of the Sheriff's Office, we noted the following:

- The proceeds from the sale of forfeited property in June 2005 were still in the checking account at the time of our audit in July 2006.
- The Sheriff's Office checking account has also been used to pay expenses of the Sheriff's Office.
- A theft of \$550 occurred because the money was not secured in the lockbox.

Proceeds from the sale of forfeited property should be turned over to the Treasurer pending distribution. All Sheriff's Department expenditures should be paid with County checks issued by the Treasurer.

We recommend that the County Sheriff close the checking account, all Sheriff's Office receipts be turned into the Treasurer, and all disbursements be processed by the County Auditor and Treasurer and recorded in the County's general ledger.

Client's Response:

*McLeod County understands the importance of accurate reporting of funds and will deposit all proceeds from the sales of forfeited property to the McLeod County Treasurer upon receipt.*

*The Sheriff's Office will ensure that all expenses to the department are reported by paying all invoices through the Auditor's Office.*

*The McLeod County Sheriff's Office has established a practice to make daily deposits with the Treasurer's Office.*

05-2 Social Welfare Fund Disbursements

During our review of Social Welfare Fund disbursements, we noted the following:

- In some cases, the authorization form did not include an approval signature by the caseworker to support the disbursement.
- Certain checks were made out in the name of the caseworker.
- Blank authorization forms were signed in advance by the caseworker, and copies of the signed forms were used to authorize disbursements.
- Account activity reports are sent to caseworkers and clients only upon request. Caseworker errors or omissions cannot be detected by clients unless they get the reports directly from the Social Welfare Fund accountant.
- The County has no formal policy on the procedures for disbursing Social Welfare Fund money or obtaining the supporting documentation required.

We recommend that a supervisor review disbursements requested by caseworkers and sign the authorization forms as evidence of the review. Social Welfare checks should be made payable to the client or his or her representative rather than to the caseworker. The accountant should send account activity reports directly to the clients on a regular basis. A policy should be developed that will define the requirements for supporting documentation and the disbursement procedures.

Client's Response:

*McLeod Social Service Center Management appreciates the need for and agrees with efforts to promote more efficiency and accountability in our facilitation of the Social Welfare Fund and disbursements.*

- *The authorization form (McLeod Social Service Center Form #188) has been modified to now also include a signature line for the Supervisor, as well as the requesting staff member to serve as evidence of their supervisory review. Forms that do not include the signature of the supervisor and the requesting staff member will not be acted upon and will be returned to the requesting staff member by the Accounting Department.*
- *In the situation where a worker was photo-copying their signature on forms, the staff member and their supervisor as well as the Accounting Unit are aware that this is not appropriate, and this is no longer occurring.*
- *Regarding Account Activity Reports, the Accounting Unit has changed its practice to include sending out the Client Account Activity reports directly to each of the clients on a quarterly basis.*
- *Once approved, Social Welfare checks are only made payable to the client, their authorized representative, or the client's vendor and not the case worker.*
- *The Collections and Accounting Supervisor is in the process of developing a policy that defines the requirements for supporting documentation and the disbursement procedures.*

05-3 Approval of Journal Entries

Duties of processing and recording journal entries in the general ledger are not segregated. In some cases, the County Auditor initiates, authorizes, and enters journal entries. These duties should be segregated so one person cannot adjust the general ledger without review.

We recommend that the County Auditor only approve journal entries. The journal entries should be prepared by staff in the departments that request journal entries or the accountant in the County Auditor's Office. After approval by the County Auditor, staff within the office should enter the journal entries into the general ledger system. Access to enter or change data should be limited to personnel whose job responsibilities warrant it. Ideally, management personnel should have only inquiry access to data files.

Client's Response:

*The journal entries will be prepared by staff in the departments that request journal entries or the accountant in the County Auditor's Office. After approval by the County Auditor, the journal entries will be entered into the general ledger system by the accountant in the County Auditor's Office or the accountant in the County Social Services Office.*

05-4 Approval of Payroll

The County has no formal process for approving the calculation of payroll each pay period. The payroll clerk makes adjustments to an employee's pay when special circumstances arise that would change the gross pay amount. The payroll clerk enters these adjustments on the payroll system without anyone else reviewing the changes before the payroll checks are issued.

We recommend a review process be implemented by County Auditor's Office staff so that adjustments to the calculation of gross pay are approved. This would ensure changes made by the payroll clerk were authorized and correctly entered.

Client's Response:

*The accountant in the County Auditor's Office will be reviewing and signing the timecard edit report before payroll checks are issued.*

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

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

05-5 Social Welfare - Money Manager Accounts

The County is responsible for approximately 30 “money manager” checking accounts. These accounts are in the names of Social Welfare clients, but a County employee is the authorized signer for the accounts. No statutes could be found that authorize the County to operate these accounts.

In addition to not being authorized by statutes, these accounts also leave the County susceptible to fraud. Supervisor approval is not required for employees to open such accounts, and the County has no policies and procedures to guide employees on handling these accounts. In addition, separation of duties has not been implemented for these accounts as the employee is solely responsible for maintaining and monitoring the accounts. Given the vulnerable nature of the clients, these accounts are very susceptible for fraud and other irregularities going undetected.

We recommend that the “money manager” accounts be closed and that the activity in these accounts be accounted for in the Social Welfare checking account maintained by the Social Services Accounting Department.

Client’s Response:

*McLeod County recognizes the risks involved with having individual money manager accounts for clients. The McLeod County Social Services Office will be closing these individual money management accounts and rolling them into the Social Welfare Fund where they can be accounted for appropriately. The McLeod County Social Services Director will ensure that all money management accounts are closed by December 31, 2006, and that procedures are put in place to eliminate the possibility of opening these accounts in the future.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Contracts - Compliance with Bidding Requirements (04-1)**

The County did not disseminate solicitations for bids in accordance with Minn. Stat. § 331A.03.

**Resolution**

The County complied with the requirements of Minn. Stat. § 331A.03 when disseminating bids.

**Contracts - Courthouse Tuckpointing Contract (04-2)**

A contract was awarded to ACME Tuckpointing Company for work on the Courthouse and Law Enforcement Center. However, a signed contract was not obtained as required by Minn. Stat. § 375.21, and a performance and payment bond was not obtained as required by Minn. Stat. § 574.26.

**Resolution**

The County complied with the requirements of Minn. Stat. § 375.21 and Minn. Stat. § 574.26 for all contracts.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

00-7 Absence of Business Continuity Plan

The County has not developed a business continuity plan to ensure continued County operations if a disaster or major computer breakdown were to occur.

We recommend that the County develop, implement, and test the business continuity plan. All employees should be familiar with the plan, and the plan should detail the steps to be taken to continue operations in the event of a disaster.

Client's Response:

*Progress has been made towards the development of a business continuity plan. Software has been purchased that assists the Information Systems Department with the management of system backups and tape designations. Information Systems Department has met with a Technical Integration company to facilitate the development of a business continuation plan.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Credit Card Policy (00-6)**

The County did not have approved policies and procedures for the use of County credit cards.

**Resolution**

A credit card policy was approved by the County Board on December 27, 2005.

OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, like what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.



Some of the issues that the County Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

If applicable for McLeod County, GASB Statements 43 and 45 would be implemented for the years ending December 31, 2007 and 2008, respectively.

This page was left blank intentionally.



STATE OF MINNESOTA  
OFFICE OF THE STATE AUDITOR

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

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

PATRICIA ANDERSON  
STATE AUDITOR

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

Board of County Commissioners  
McLeod County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of McLeod County as of and for the year ended December 31, 2005, and have issued our report thereon dated August 25, 2006. We did not audit the financial statements of the McLeod County Housing and Redevelopment Authority, a component unit of McLeod County. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered McLeod County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 99-1 and 05-1 through 05-4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the

financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions indicated above are not material weaknesses.

### Compliance and Other Matters

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

### Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories

The results of our tests indicate that, for the items tested, McLeod County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 05-5.

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

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: August 25, 2006



PATRICIA ANDERSON  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

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

Board of County Commissioners  
McLeod County

### Compliance

We have audited the compliance of McLeod County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program as of and for the year ended December 31, 2005. McLeod County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

McLeod County's financial statements include the operations of the Housing and Redevelopment Authority (HRA) discretely presented component unit, which expended \$291,646 in federal awards during the year ended June 30, 2005, which are not included in the accompanying Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the McLeod County HRA, because the McLeod County HRA was audited by other auditors.

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

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

In our opinion, McLeod County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

#### Internal Control Over Compliance

The management of McLeod County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of McLeod County as of and for the year ended December 31, 2005, and have issued our report thereon dated August 25, 2006. We did not audit the financial statements of the McLeod County HRA, a component unit of McLeod County. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise McLeod County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: August 25, 2006

This page was left blank intentionally.



**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

*Schedule 8*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Agriculture</b>			
Passed Through Meeker-McLeod-Sibley Community Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 135,679	\$ -
Passed Through Minnesota Department of Human Services Matching Grants for Food Stamp Program	10.561	7,894	-
<b>Total U.S. Department of Agriculture</b>		<b>\$ 143,573</b>	<b>\$ -</b>
<b>U.S. Department of Justice</b>			
Passed Through Minnesota Department of Public Safety Juvenile Accountability Incentive Block Grant	16.523	\$ 3,700	\$ -
Direct			
Alien Assistance Program	16.606	13,201	-
Public Safety Partnership	16.710	2,055	-
Passed Through Meeker-McLeod-Sibley Community Health Services Drug Free Communities Support Program	16.729	42,894	-
<b>Total U.S. Department of Justice</b>		<b>\$ 61,850</b>	<b>\$ -</b>
<b>U.S. Department of Transportation</b>			
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,535,527	\$ -
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	17,558	-
Buckle Up Teen Program	20.601	4,018	-
Interagency Hazardous Materials Public Sector Training and Planning Grant	20.703	841	-
<b>Total U.S. Department of Transportation</b>		<b>\$ 1,557,944</b>	<b>\$ -</b>
<b>U.S. Environmental Protection Agency</b>			
Passed Through Minnesota Department of Health State Indoor Radon Grant	66.032	\$ 4,156	\$ -
<b>U.S. Department of Health and Human Services</b>			
Passed Through Mid-Minnesota Area Agency on Aging, Inc. Special Program for the Aging Title III Part B Grants	93.044	\$ 2,823	\$ -
Special Program for the Aging Title III Part D Grants	93.046	1,551	-

**MCLEOD COUNTY  
GLENCOE, MINNESOTA**

**Schedule 8**  
**(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Health and Human Services (Continued)</b>			
Passed Through Minnesota Department of Health			
Center for Disease Control and Prevention - Investigations and Technical Assistance	93.283	40,133	-
Passed Through Minnesota Department of Human Services			
Temporary Assistance for Needy Families (TANF)	93.558	157,234	157,234
Promoting Safe and Stable Families	93.556	11,447	-
Child Care Mandatory and Matching Funds	93.596	15,857	-
Foster Care Title IV-E	93.658	167,574	-
Social Services Block Grant Title XX	93.667	194,077	-
Chafee Foster Care Independent Living	93.674	5,423	-
Children's Health Insurance Program (MCHP)	93.767	11	-
Community Mental Health Block Grant	93.958	3,120	-
Passed Through Meeker-McLeod-Sibley Community Health Services			
Immunization Grants	93.268	400	-
Medical Assistance	93.778	32,470	-
Block Grant - Prevention/Treatment of Substance Abuse	93.959	59,405	-
Maternal and Child Health Services Block Grant	93.994	35,191	-
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 726,716</b>	<b>\$ 157,234</b>
<b>U.S. Department of Homeland Security</b>			
Passed Through Minnesota Department of Public Safety			
State Domestic Preparedness Equipment Support Program	97.004	\$ 20,099	\$ -
Public Assistance	97.036	3,042	-
Emergency Management Performance	97.042	17,565	-
Emergency Management - State and Local	97.067	15,072	-
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 55,778</b>	<b>\$ -</b>
<b>Total Federal Awards</b>		<b>\$ 2,550,017</b>	<b>\$ 157,234</b>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by McLeod County. The County's reporting entity is defined in Note 1 to the basic financial statements. The schedule does not include the McLeod County Housing and Redevelopment Authority's federal awards.
2. The expenditures on this schedule are on the full accrual basis of accounting.
3. Pass-through grant numbers were not assigned by the pass-through agencies.