

STATE OF MINNESOTA

Office of the State Auditor



**Rebecca Otto
State Auditor**

**McLEOD COUNTY
GLENCOE, MINNESOTA**

YEAR ENDED DECEMBER 31, 2012

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

Year Ended December 31, 2012



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

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		5
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	1	15
Statement of Activities	2	17
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	19
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position--Governmental Activities	4	23
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	5	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	6	28
Fiduciary Funds		
Statement of Fiduciary Net Position	7	29
Notes to the Financial Statements		30
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	A-1	77
Road and Bridge Special Revenue Fund	A-2	80
Human Services Special Revenue Fund	A-3	81
Solid Waste Special Revenue Fund	A-4	82
Schedule of Funding Progress - Other Postemployment Benefits	A-5	83
Notes to the Required Supplementary Information		84

**McLEOD COUNTY
GLENCOE, MINNESOTA**

TABLE OF CONTENTS

	Exhibit	Page
Financial Section (Continued)		
Supplementary Information		
Nonmajor Governmental Funds		86
Combining Balance Sheet	B-1	87
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	B-2	88
Budgetary Comparison Schedule - Debt Service Fund	B-3	89
Agency Funds		
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	C-1	90
Other Schedules		
Schedule of Intergovernmental Revenue	D-1	93
Schedule of Expenditures of Federal Awards	D-2	94
Notes to the Schedule of Expenditures of Federal Awards		97
Management and Compliance Section		
Schedule of Findings and Questioned Costs		99
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</i> <i>Auditing Standards</i>		105
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance		108

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

**ORGANIZATION
2012**

Office	Name	Term of Office	
		From	To
Commissioners			
1st District	Ray Bayerl	June 1990	January 2013
2nd District	Kermit Terlinden	January 2007	January 2015
3rd District	Paul Wright	January 2009	January 2013
4th District	Sheldon Nies	January 1995	January 2015
5th District	Beverly Wangerin*	January 1989	January 2013
Officers			
Elected			
Attorney	Michael K. Junge	May 1987	January 2015
Auditor-Treasurer	Cindy Schultz	January 1995	January 2015
Recorder	Lynnette Schrupp	January 2003	January 2015
Sheriff	Scott Rehmann	January 2007	January 2015
District Judge	Michael Savre	May 2004	January 2013
District Judge	Terrence E. Conkel	August 1998	January 2013
Appointed			
Agriculture & Weed Inspector	Allan Koglin	January 1997	January 2013
Assessor	Sue Schulz	March 2005	January 2013
Coroner	Dr. Quinn Strobl	January 2011	December 2014
County Administrator	Pat Melvin	November 2008	Indefinite
Court Administrator	Karen Messner	January 2008	Indefinite
Environmentalist	Roger Berggren	October 1995	Indefinite
Highway Engineer	John Brunkhorst	November 2001	May 2013
Human Services Director	Gary Sprynczynatyk	August 1995	Indefinite
Information Systems Director	Vince Traver	November 2012	Indefinite
Park Superintendent	Allan Koglin	August 1979	Indefinite
Public Health Nurse Director	Kathy Nowak	May 2008	Indefinite
Regional Extension Director	Sarah Chur	January 2006	Indefinite
Surveyor	Jeff Rausch	February 1996	January 2013
Solid Waste Director	Ed Homan	December 1973	Indefinite
Veterans Service Officer	James Lauer	November 2004	January 2013
Zoning Administrator	Larry Gasow	February 2000	January 2013

*Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
McLeod County

Reports on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of McLeod County, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, based on our report and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of McLeod County as of December 31, 2012, including the McLeod County HRA as of June 30, 2012, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated September 26, 2013, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McLeod County's internal control over financial reporting and compliance. It does not include the McLeod County HRA, which was audited by other auditors.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 26, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012
(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, 2012. 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 \$159,147,276 (net position). Of this amount, \$31,934,207 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$5,572,273 (four percent). The increase is a combination of additional capital assets and budget savings from operations.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$11,309,808 or 68 percent, of total 2012 General Fund expenditures.
- Governmental funds' fund balances increased by \$1,011,201.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

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

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

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

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

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

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

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

Fiduciary Funds

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

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

Notes to the Financial Statements

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

Other Information

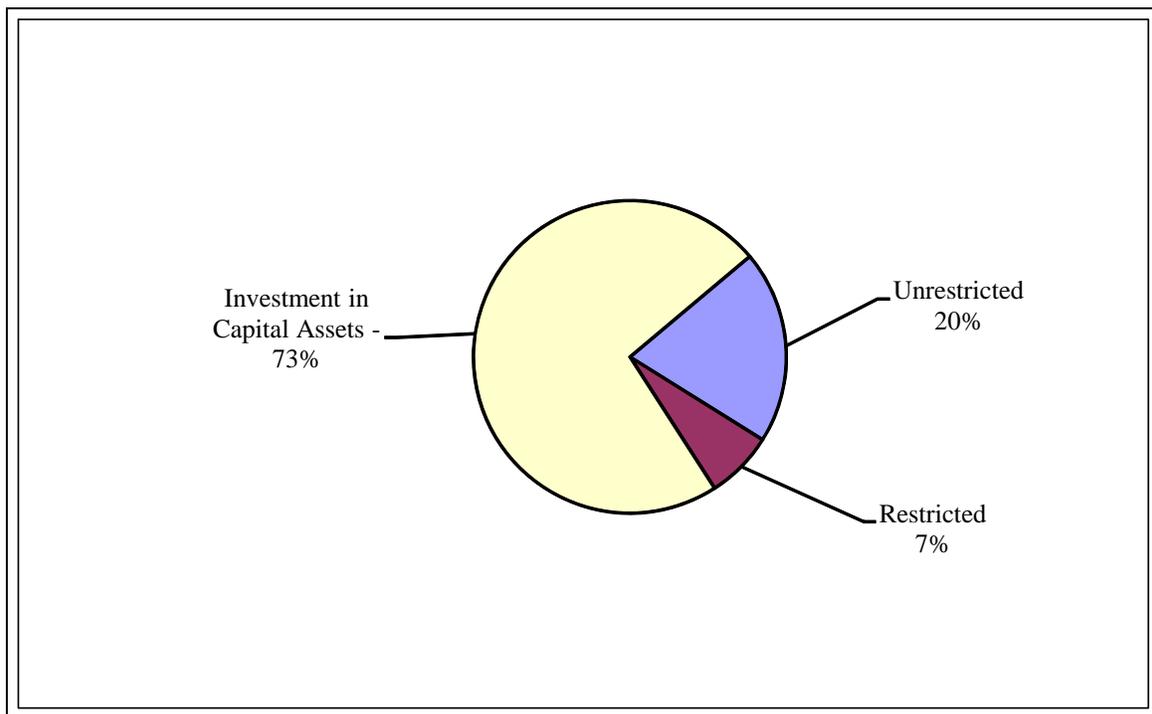
In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of McLeod County, assets exceeded liabilities by \$159,147,276 as of December 31, 2012. The investment in capital assets, is the largest portion of McLeod County's net position at 73 percent. These capital assets are used to provide services to citizens and are not available for future spending.

Approximately 7 percent of McLeod County's net position is subject to external restrictions on how they may be used and, therefore, are considered restricted. The remaining 20 percent, or \$31,934,207, is unrestricted and available to be used to meet the government's ongoing obligations to citizens and creditors.

Net Position



Net Position

	Governmental Activities		Discretely Presented Component Unit	
	2012	2011	2012	2011
Current and other assets	\$ 49,148,923	\$ 48,308,737	\$ 220,921	\$ 198,693
Capital assets	<u>115,588,301</u>	<u>112,143,785</u>	<u>3,181,026</u>	<u>3,302,274</u>
Total Assets	<u>\$ 164,737,224</u>	<u>\$ 160,452,522</u>	<u>\$ 3,401,947</u>	<u>\$ 3,500,967</u>
Current and other liabilities	\$ 2,775,332	\$ 2,820,995	\$ 84,972	\$ 84,649
Long-term liabilities - due within one year	885,255	2,228,143	135,679	128,990
Long-term liabilities - due in more than one year	<u>1,929,361</u>	<u>1,828,381</u>	<u>3,433,756</u>	<u>3,569,440</u>
Total Liabilities	<u>\$ 5,589,948</u>	<u>\$ 6,877,519</u>	<u>\$ 3,654,407</u>	<u>\$ 3,783,079</u>
Net Position				
Investment in capital assets	\$ 115,588,301	\$ 110,822,743	\$ (388,409)	\$ (396,156)
Restricted	11,624,768	10,713,658	123,041	84,793
Unrestricted	<u>31,934,207</u>	<u>32,038,602</u>	<u>12,908</u>	<u>29,251</u>
Total Net Position	<u>\$ 159,147,276</u>	<u>\$ 153,575,003</u>	<u>\$ (252,460)</u>	<u>\$ (282,112)</u>

GOVERNMENTAL ACTIVITIES

McLeod County's governmental activities increased net position by \$5,572,273 during the current fiscal year. This increase is primarily due to decrease in debt and an increase in capital assets, which included the following major items: highway and bridge construction, a new tractor and tandem truck, and other improvement projects.

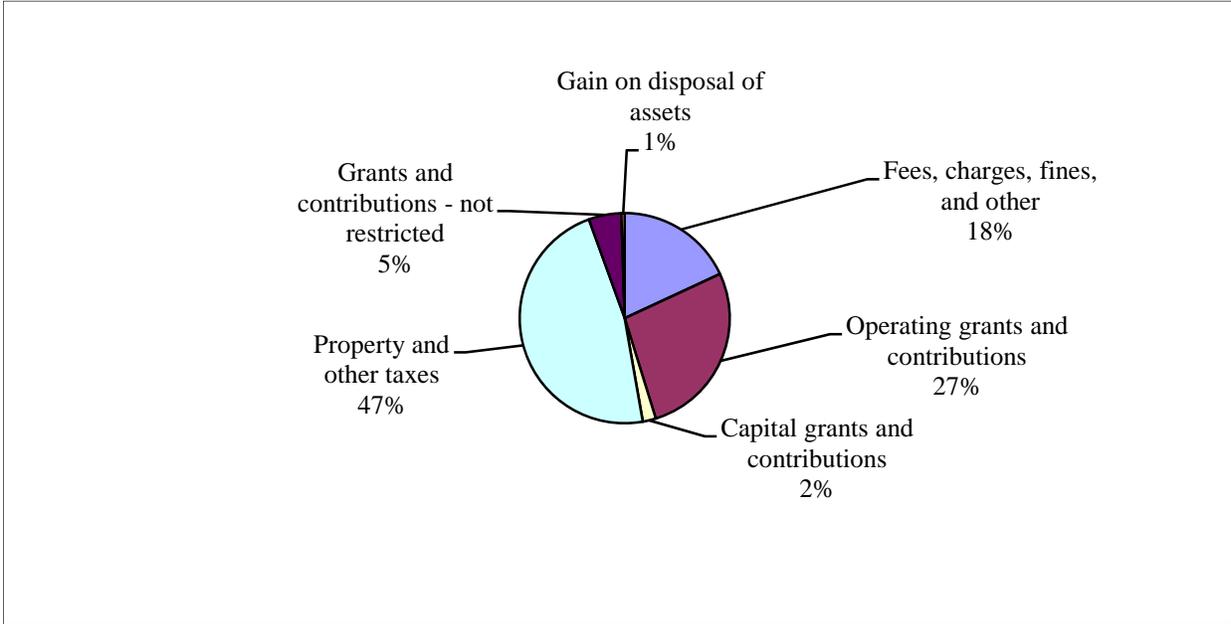
The McLeod County HRA is a discretely presented component unit of McLeod County. As of June 30, 2012, liabilities exceeded assets by \$252,460, and there was an increase in net position of \$29,652 from the prior year. The increase is primarily due to revenues in excess of expenses.

Changes in Net Position

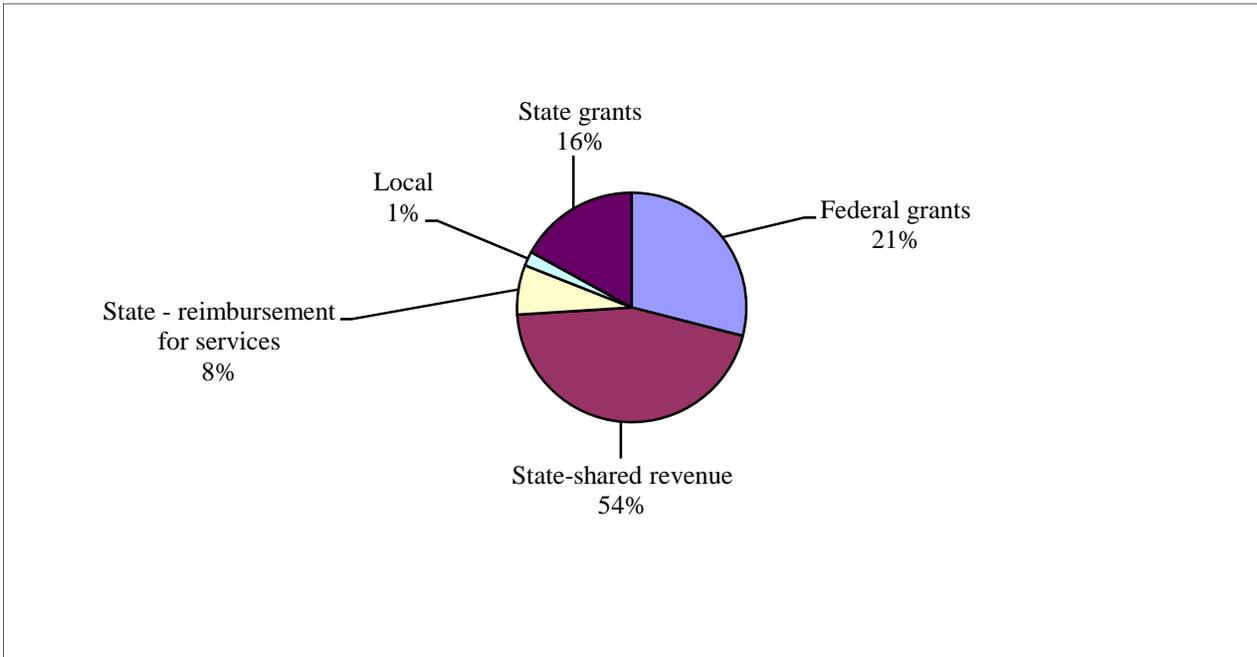
	Governmental Activities		Discretely Presented Component Unit	
	2012	2011	2012	2011
Revenues				
Program revenues				
Fees, charges, fines, and other	\$ 6,906,690	\$ 6,467,953	\$ 463,417	\$ 460,152
Operating grants and contributions	10,427,486	9,751,907	421,331	433,769
Capital grants and contributions	704,865	965,342	-	-
General revenues				
Property taxes	18,175,087	16,900,338	-	-
Other taxes	67,121	60,505	-	-
Grants and contributions not restricted to specific programs	1,862,718	2,663,446	-	-
Investment income	62,650	355,788	394	549
Gain on disposal of assets	148,233	18,978	-	-
Other	112,424	112,658	-	-
Total Revenues	\$ 38,467,274	\$ 37,296,915	\$ 885,142	\$ 894,470
Expenses				
General government	\$ 5,574,989	\$ 5,381,204	\$ -	\$ -
Public safety	5,827,057	5,801,038	-	-
Highways and streets	6,714,091	7,279,491	-	-
Sanitation	2,058,635	2,065,478	-	-
Human services	9,023,101	9,618,166	-	-
Health	2,096,297	2,194,400	-	-
Culture and recreation	651,848	658,001	-	-
Conservation of natural resources	911,215	1,367,348	-	-
Economic development	1,593	1,895	-	-
Interest	36,175	53,633	-	-
HRA	-	-	855,490	843,082
Total Expenses	\$ 32,895,001	\$ 34,420,654	\$ 855,490	\$ 843,082
Increase (Decrease) in Net Position	\$ 5,572,273	\$ 2,876,261	\$ 29,652	\$ 51,388
Net Position - January 1	153,575,003	150,698,742	(282,112)	(333,500)
Net Position - December 31	<u>\$ 159,147,276</u>	<u>\$ 153,575,003</u>	<u>\$ (252,460)</u>	<u>\$ (282,112)</u>

The following charts show additional information on the revenues of McLeod County for the year ended December 31, 2012.

Revenues by Source - Governmental Activities



Intergovernmental Revenue



FINANCIAL ANALYSIS

Governmental Funds

At the end of 2012, McLeod County's governmental funds reported a combined fund balance of \$43,067,510. This is an increase of \$1,011,201 from the prior year. The fund balance in the General Fund increased by \$1,450,921 due to increased intergovernmental revenue and transfer in for capital equipment. The fund balance in the Road and Bridge Special Revenue Fund increased by \$1,221,363 due to the timing of construction. The fund balance in the Human Services Special Revenue Fund increased by \$487,187 due to increased revenues. The fund balance in the Solid Waste Special Revenue Fund increased by \$887,842 due to increased revenues. The fund balance in the Ditch Special Revenue Fund increased by \$44,026 due to a decrease in expenditures. There was also a decrease in the nonmajor governmental funds of \$3,080,138 due to debt payments and capital transfers.

General Fund Budgetary Highlights

In total, General Fund revenues for 2012 exceeded the amounts budgeted by \$1,207,178. Special assessments, intergovernmental, charges for services, and gifts and contributions came in higher than anticipated. Total General Fund expenditures were \$1,052,194 less than the final budget. This variance is attributed to the areas of general government and public safety. No significant amendments were made to the original budget during 2012.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

At the end of 2012, McLeod County had \$115,588,301 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)	
	2012	2011
Land	\$ 3,956,141	\$ 3,956,141
Right-of-way	3,173,372	3,166,233
Infrastructure	90,747,730	89,044,840
Buildings	11,863,949	12,599,135
Improvements other than buildings	733,698	796,441
Machinery and equipment	2,798,916	2,580,995
Construction in progress	2,314,495	-
Total	<u>\$ 115,588,301</u>	<u>\$ 112,143,785</u>

Major capital asset events during the year included the following:

- new tractor and tandem truck were purchased.
- infrastructure construction continued in 2012.

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

Long-Term Debt

At the end of the current fiscal year, McLeod County had loans outstanding of \$1,079,516. This is a decrease in bonds and loans payable of \$1,343,202 from the beginning of the year. The decrease is due to principal payments on general obligation bonds and notes.

Current and future County tax levies are used to finance the County's debt obligations. State statutes limit the amount of general obligation debt a county can incur to no more than three percent of the market value of taxable property in the county. The current debt limitation for McLeod County is \$94,322,697, 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 6.9 percent. McLeod County's unemployment rate is more than the state unemployment rate of 5.5 percent, but less than the United States unemployment rate of 7.8 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 2013 fiscal year.

REQUESTS FOR INFORMATION

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

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	Primary Government Governmental Activities	Housing and Redevelopment Authority Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 42,473,189	\$ 8,461
Petty cash and change funds	22,355	-
Departmental cash	4,917	-
Cash with fiscal agent	1,251,714	-
Taxes receivable		
Prior - net	449,333	-
Special assessments receivable		
Noncurrent - net	1,267,793	-
Prior	1,101	-
Accounts receivable - net	281,342	13,003
Accrued interest receivable	69,369	-
Due from other governments	2,898,291	-
Inventories	429,519	-
Prepaid items	-	1,480
Restricted assets		
Cash and pooled investments	-	164,476
Deferred charges	-	33,501
Capital assets		
Non-depreciable	9,444,008	197,000
Depreciable - net of accumulated depreciation	106,144,293	2,984,026
Total Assets	\$ 164,737,224	\$ 3,401,947

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	Primary Government Governmental Activities	Housing and Redevelopment Authority Component Unit
<u>Liabilities</u>		
Accounts payable	\$ 809,018	\$ -
Salaries payable	665,472	-
Accrued payroll taxes	41,081	-
Other accrued liabilities	262,594	42,517
Retainage payable	301,484	-
Due to other governments	473,128	-
Accrued interest payable	2,634	-
Claims payable	100,019	-
Unearned revenue	119,902	2,255
Long-term liabilities		
Due within one year	885,255	135,679
Due in more than one year	1,929,361	3,433,756
Liabilities payable from restricted assets (security deposits)	-	40,200
Total Liabilities	\$ 5,589,948	\$ 3,654,407
<u>Net Position</u>		
Investment in capital assets	\$ 115,588,301	\$ (388,409)
Restricted for		
General government	832,708	-
Public safety	4,137,985	-
Highways and streets	982,327	-
Conservation of natural resources	577,580	-
Sanitation	5,094,168	-
Economic development	-	123,041
Unrestricted	31,934,207	12,908
Total Net Position	\$ 159,147,276	\$ (252,460)

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 5,574,989	\$ 1,031,356
Public safety	5,827,057	320,868
Highways and streets	6,714,091	198,800
Sanitation	2,058,635	2,667,062
Human services	9,023,101	1,187,577
Health	2,096,297	576,085
Culture and recreation	651,848	90,876
Conservation of natural resources	911,215	834,066
Economic development	1,593	-
Interest	36,175	-
	\$ 32,895,001	\$ 6,906,690
Total Primary Government	\$ 32,895,001	\$ 6,906,690
Component Unit		
Housing and Redevelopment Authority	\$ 855,490	\$ 463,417

General Revenues

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

Total general revenues

Change in net position

Net Position - Beginning

Net Position - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Discretely Presented Component Unit
\$ 19,050	\$ -	\$ (4,524,583)	
725,331	-	(4,780,858)	
4,558,228	704,865	(1,252,198)	
-	-	608,427	
3,914,874	-	(3,920,650)	
900,719	-	(619,493)	
-	-	(560,972)	
309,284	-	232,135	
-	-	(1,593)	
-	-	(36,175)	
\$ 10,427,486	\$ 704,865	\$ (14,855,960)	
\$ 421,331	\$ -		\$ 29,258
		\$ 18,175,087	\$ -
		26,213	-
		40,908	-
		1,862,718	-
		62,650	394
		148,233	-
		112,424	-
		\$ 20,428,233	\$ 394
		\$ 5,572,273	\$ 29,652
		153,575,003	(282,112)
		\$ 159,147,276	\$ (252,460)

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 23,268,537	\$ 8,415,068
Petty cash and change funds	2,205	100
Departmental cash	4,917	-
Cash with fiscal agent	1,251,714	-
Taxes receivable		
Prior	269,940	77,755
Special assessments receivable		
Prior	-	-
Noncurrent	762,482	-
Accounts receivable	88,534	2,056
Accrued interest receivable	69,369	-
Due from other funds	84	-
Due from other governments	466,429	1,754,391
Inventories	8,575	420,944
Advances to other funds	524,150	-
	\$ 26,716,936	\$ 10,670,314
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 242,016	\$ 204,517
Salaries payable	384,213	61,022
Accrued payroll taxes	21,782	4,342
Accrued interest payable	-	-
Accrued expenses	196,427	10,214
Advances from other funds	-	-
Retainage payable	-	301,484
Due to other funds	-	-
Due to other governments	293,287	16,529
Deferred revenue - unavailable	1,236,494	1,305,964
Deferred revenue - unearned	119,902	-
Claims payable	100,094	-
	\$ 2,594,215	\$ 1,904,072

EXHIBIT 3

<u>Human Services</u>	<u>Solid Waste</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 5,522,646	\$ 5,100,539	\$ 149,015	\$ 17,384	\$ 42,473,189
-	20,050	-	-	22,355
-	-	-	-	4,917
-	-	-	-	1,251,714
101,638	-	-	-	449,333
-	-	1,101	-	1,101
-	-	505,311	-	1,267,793
30,702	160,050	-	-	281,342
-	-	-	-	69,369
-	-	-	-	84
666,968	2,253	8,250	-	2,898,291
-	-	-	-	429,519
-	-	-	-	524,150
<u>\$ 6,321,954</u>	<u>\$ 5,282,892</u>	<u>\$ 663,677</u>	<u>\$ 17,384</u>	<u>\$ 49,673,157</u>
\$ 233,445	\$ 88,991	\$ 40,049	\$ -	\$ 809,018
201,302	18,935	-	-	665,472
13,621	1,336	-	-	41,081
-	-	2,634	-	2,634
50,760	5,193	-	-	262,594
-	-	524,150	-	524,150
-	-	-	-	301,484
-	-	84	-	84
88,697	51,533	23,067	15	473,128
246,200	2,686	514,662	-	3,306,006
-	-	-	-	119,902
-	-	-	-	100,094
<u>\$ 834,025</u>	<u>\$ 168,674</u>	<u>\$ 1,104,646</u>	<u>\$ 15</u>	<u>\$ 6,605,647</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
(Continued)		
Fund Balances		
Nonspendable		
Inventories	\$ 8,575	\$ 420,944
Advances to other funds	524,150	-
Restricted		
Restricted for E-911	134,954	-
Restricted for HAVA equipment	13,407	-
Restricted for records preservation	44,530	-
Restricted for law library	75,042	-
Restricted for recorder's equipment purchases	237,212	-
Restricted for new jail construction	3,847,640	-
Restricted for snowmobile enforcement	251	-
Restricted for law enforcement	92,308	-
Restricted for land records technology	68,090	-
Restricted for drug enforcement	11,536	-
Restricted for conservation	305,114	-
Restricted for court services	51,296	-
Restricted for SSTS Biscay City	176,650	-
Restricted for records compliance	394,427	-
Restricted for road and bridge	-	982,327
Restricted for solid waste abatement	-	-
Restricted for ditch maintenance and construction	-	-
Committed		
Committed for petty cash and change funds	2,205	100
Assigned		
Assigned for capital projects	6,711,506	-
Assigned for 4-H after school adventures	1,347	-
Assigned for McLeod for Tomorrow	11,003	-
Assigned for lidar and orthophotography	26,660	-
Assigned for aerial photos	10,000	-
Assigned for veterans van	57,118	-
Assigned for new canine	5,901	-
Assigned for ag programing	1,991	-
Assigned for highways and streets	-	7,362,871
Assigned for human services	-	-
Unassigned	11,309,808	-
Total Fund Balances	\$ 24,122,721	\$ 8,766,242
Total Liabilities and Fund Balances	\$ 26,716,936	\$ 10,670,314

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

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>Solid Waste</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 429,519
-	-	-	-	524,150
-	-	-	-	134,954
-	-	-	-	13,407
-	-	-	-	44,530
-	-	-	-	75,042
-	-	-	-	237,212
-	-	-	-	3,847,640
-	-	-	-	251
-	-	-	-	92,308
-	-	-	-	68,090
-	-	-	-	11,536
-	-	-	-	305,114
-	-	-	-	51,296
-	-	-	-	176,650
-	-	-	-	394,427
-	-	-	-	982,327
-	5,094,168	-	-	5,094,168
-	-	95,816	-	95,816
-	20,050	-	-	22,355
-	-	-	17,369	6,728,875
-	-	-	-	1,347
-	-	-	-	11,003
-	-	-	-	26,660
-	-	-	-	10,000
-	-	-	-	57,118
-	-	-	-	5,901
-	-	-	-	1,991
-	-	-	-	7,362,871
5,487,929	-	-	-	5,487,929
-	-	(536,785)	-	10,773,023
<u>\$ 5,487,929</u>	<u>\$ 5,114,218</u>	<u>\$ (440,969)</u>	<u>\$ 17,369</u>	<u>\$ 43,067,510</u>
<u>\$ 6,321,954</u>	<u>\$ 5,282,892</u>	<u>\$ 663,677</u>	<u>\$ 17,384</u>	<u>\$ 49,673,157</u>

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

Fund balance - total governmental funds (Exhibit 3)		\$	43,067,510
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			115,588,301
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			3,306,006
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.			
Loans payable	\$	(1,079,516)	
Additional claims payable		75	
Compensated absences		(1,197,570)	
OPEB liabilities		(537,530)	(2,814,541)
Net Position of Governmental Activities (Exhibit 1)			<u>\$ 159,147,276</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Road and Bridge
Revenues		
Taxes	\$ 10,800,839	\$ 3,218,616
Special assessments	113,693	-
Licenses and permits	70,283	7,905
Intergovernmental	3,462,704	5,507,736
Charges for services	1,819,663	169,218
Fines and forfeits	19,354	-
Gifts and contributions	151,996	-
Investment earnings	38,228	-
Miscellaneous	453,157	21,137
	\$ 16,929,917	\$ 8,924,612
Expenditures		
Current		
General government	\$ 5,149,856	\$ -
Public safety	5,636,732	-
Highways and streets	-	8,434,130
Sanitation	-	-
Human services	-	-
Health	2,065,551	-
Culture and recreation	655,901	-
Conservation of natural resources	633,333	-
Economic development	1,593	-
Capital outlay	2,292,990	-
Intergovernmental	-	228,853
Debt service		
Principal	72,571	-
Interest	12,063	-
Administrative charges	-	-
	\$ 16,520,590	\$ 8,662,983
Excess of Revenues Over (Under) Expenditures	\$ 409,327	\$ 261,629

EXHIBIT 5

<u>Human Services</u>	<u>Solid Waste</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 4,159,104	\$ -	\$ -	\$ -	\$ 18,178,559
-	-	318,583	-	432,276
-	4,265	-	-	82,453
4,123,553	89,879	-	-	13,183,872
888,260	2,617,741	-	-	5,494,882
-	-	-	-	19,354
-	-	-	-	151,996
-	-	1,442	586	40,256
491,946	42,372	-	-	1,008,612
\$ 9,662,863	\$ 2,754,257	\$ 320,025	\$ 586	\$ 38,592,260
\$ -	\$ -	\$ -	\$ 3,165	\$ 5,153,021
-	-	-	-	5,636,732
-	-	-	-	8,434,130
-	1,866,415	-	-	1,866,415
9,175,676	-	-	-	9,175,676
-	-	-	-	2,065,551
-	-	-	-	655,901
-	-	268,485	-	901,818
-	-	-	-	1,593
-	-	-	-	2,292,990
-	-	-	-	228,853
-	-	-	1,325,000	1,397,571
-	-	7,514	11,308	30,885
-	-	-	250	250
\$ 9,175,676	\$ 1,866,415	\$ 275,999	\$ 1,339,723	\$ 37,841,386
\$ 487,187	\$ 887,842	\$ 44,026	\$ (1,339,137)	\$ 750,874

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Road and Bridge
Other Financing Sources (Uses)		
Transfers in	\$ 961,887	\$ 782,279
Transfers out	(3,165)	-
Loan issued	49,806	-
Proceeds from the sale of capital assets	32,646	173,277
	\$ 1,041,174	\$ 955,556
Net Change in Fund Balance	\$ 1,450,501	\$ 1,217,185
Fund Balance - January 1	22,671,800	7,544,879
Increase (decrease) in inventories	420	4,178
	\$ 24,122,721	\$ 8,766,242
Fund Balance - December 31	\$ 24,122,721	\$ 8,766,242

EXHIBIT 5
(Continued)

<u>Human Services</u>	<u>Solid Waste</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 3,165	\$ 1,747,331
-	-	-	(1,744,166)	(1,747,331)
-	-	-	-	49,806
-	-	-	-	205,923
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,741,001)</u>	<u>\$ 255,729</u>
\$ 487,187	\$ 887,842	\$ 44,026	\$ (3,080,138)	\$ 1,006,603
5,000,742	4,226,376	(484,995)	3,097,507	42,056,309
-	-	-	-	4,598
<u>\$ 5,487,929</u>	<u>\$ 5,114,218</u>	<u>\$ (440,969)</u>	<u>\$ 17,369</u>	<u>\$ 43,067,510</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 1,006,603

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

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

Deferred revenue - December 31	\$ 3,306,006	
Deferred revenue - January 1	(3,443,314)	(137,308)

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

Expenditures for general capital assets and infrastructure	\$ 7,762,089	
Net book value of disposed assets	(66,581)	
Current year depreciation	(4,250,992)	3,444,516

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

Loans issued		(49,806)
Principal repayments - general obligation bonds and notes		1,325,000
Principal repayments - Minnesota Pollution Control Agency loans		71,966

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	\$ 9,497	
Amortization of deferred issuance charges	(9,974)	
Amortization discount on bonds	(3,958)	
Change in compensated absences	34,353	
Change in additional claims payable	12,433	
Change in OPEB liability	(135,647)	
Change in inventories	4,598	(88,698)

Change in Net Position of Governmental Activities (Exhibit 2) \$ 5,572,273

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

FIDUCIARY FUNDS

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McLEOD COUNTY
GLENCOE, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2012

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ 907,429
Accounts receivable	3,152
Due from other governments	<u>577,486</u>
Total Assets	<u>\$ 1,488,067</u>
<u>Liabilities</u>	
Accounts payable	\$ 17,933
Salaries payable	26,931
Accrued payroll taxes	1,627
Accrued expenses	5,894
Due to other governments	<u>1,435,682</u>
Total Liabilities	<u>\$ 1,488,067</u>

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

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, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Discretely Presented Component Unit

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor-Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2012, 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 2012 were \$38,228.

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

2. Receivables and Payables

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

2. Receivables and Payables (Continued)

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 May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

3. Inventories

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

4. Restricted Assets

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Capital Assets

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

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

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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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 straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

9. Classification of Net Position

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

Investment in capital assets - the amount of new position representing capital assets, net of accumulated depreciation.

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

9. Classification of Net Position (Continued)

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

10. Classification of Fund Balance

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

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

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

10. Classification of Fund Balance (Continued)

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

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

11. Use of Estimates

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Revenues

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

Imposed Nonexchange Transactions

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

Intergovernmental

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues

Intergovernmental (Continued)

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

Exchange Transactions

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

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The Ditch Special Revenue Fund had a negative fund balance of \$440,969 as of December 31, 2012. 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:

25 ditches with positive balances	\$ 95,816
31 ditches with deficit balances	<u>(536,785)</u>
Net Fund Balance	<u>\$ (440,969)</u>

B. Component Unit Deficit

The McLeod County HRA, at June 30, 2012, had deficit net position of \$252,460, a decrease from the previous year's deficit balance of \$282,113. The increase in net position is due, in part, to revenues in excess of expenses.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

2. Stewardship, Compliance, and Accountability (Continued)

C. Excess of Expenditures Over Appropriations

In the following funds, the expenditures exceeded appropriations for the year ended December 31, 2012:

	Expenditures	Budget	Excess
Major governmental funds			
Solid Waste Special Revenue Fund	\$ 1,866,415	\$ 1,705,434	\$ 160,981

D. New Jail Construction

The net position restricted for new jail construction was donated to McLeod County by the estate of Annamarie Tudhope. In 2009, the County received \$1,170,500 in donations and \$41,024 in interest. In 2010, the County received \$2,264,482 in donations and \$24,445 in interest. In 2011, the County received \$150,000 in donations and \$39,997 in interest. In 2012, the County received \$130,432 in donations and \$26,760 in interest. As of December 31, 2012, \$3,847,640 was restricted. This money can be used only for new construction of a jail.

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	\$	42,473,189
Petty cash and change funds		22,355
Departmental cash		4,917
Cash with fiscal agent		1,251,714
Agency fund		
Cash and pooled investments		907,429
Total Cash and Investments	\$	44,659,604

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Deposits	\$ 28,656,726
Petty cash and change funds	22,355
Departmental cash	4,917
Investments	<u>15,975,606</u>
Total Deposits, Cash on Hand, and Investments	<u>\$ 44,659,604</u>

a. Deposits

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial credit risk is the risk that, in the event of a financial institution failure, the County deposits may not be returned to it. The County does not have a policy on custodial credit risk for deposits. As of December 31, 2012, McLeod County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy regarding custodial credit risk. At December 31, 2012, all of the investments held by the fiscal agent listed on pages 46 and 47 totaling \$1,251,714 and were subject to custodial credit risk.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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

The following table presents the County's investment balances at December 31, 2012, and information relating to potential investment risks:

Investment - Issuer	Concentration Risk Percent (%)	Interest Rate Risk Maturity Date	Fair Value
Mutual fund - Public Financial Management Cash Management Fund (MAGIC Fund)	2.63		\$ 419,868
Federal Home Loan Bank Securities - Wells Fargo Advisors			
Federal Home Loan Bank		07/18/2022	\$ 1,500,390
Federal Home Loan Bank		07/26/2022	1,000,250
Federal Home Loan Bank		08/15/2022	1,250,538
Federal Home Loan Bank		08/16/2022	759,953
Federal Home Loan Bank		09/28/2022	647,764
Federal Home Loan Bank		10/18/2022	1,300,182
Federal Home Loan Bank		10/25/2022	500,100
Federal Home Loan Bank		11/28/2022	498,745
Federal Home Loan Bank		12/28/2022	998,040
Total Federal Home Loan Bank	52.93		\$ 8,455,962
Negotiable Certificates of Deposit - Wells Fargo Advisors			
GE Money Bank - fiscal agent	0.39	02/05/2013	\$ 61,646
GE Capital Finance - fiscal agent	0.39	04/29/2013	61,646
Community First - SC - fiscal agent	0.39	06/03/2013	61,646
Commerce State Bank - fiscal agent	0.39	06/28/2013	61,646
Middleburg Bank - fiscal agent	0.39	08/19/2013	61,646
Charter Bank - WI - fiscal agent	0.38	09/30/2013	60,413
Discover Bank - DE - fiscal agent	0.39	09/30/2013	61,646
Goldman Sachs BK - NY - fiscal agent	0.39	11/25/2013	61,646
GE Money Bank - fiscal agent	0.39	02/05/2014	61,646
Sallie Mae Bank - fiscal agent	0.39	03/28/2014	61,646

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

<u>Investment - Issuer</u>	<u>Concentration Risk Percent (%)</u>	<u>Interest Rate Risk Maturity Date</u>	<u>Fair Value</u>
Negotiable Certificates of Deposit (continued)			
Goldman Sachs BK - NY - fiscal agent	0.39	05/23/2014	\$ 61,646
State BK of India - NY - fiscal agent	0.39	06/23/2014	61,646
Bank of China NYC - NY - fiscal agent	0.39	12/31/2014	61,646
Discover Bank - DE - fiscal agent	0.39	06/08/2015	61,646
Amex Centurion BK - fiscal agent	0.39	07/27/2015	61,646
Ally Bank - UT - fiscal agent	0.39	10/01/2015	61,646
Capital Bank	1.57	07/27/2018	251,487
Capital Retail Bank	1.57	07/27/2018	<u>251,487</u>
Total Negotiable Certificates of Deposit			<u>\$ 1,488,077</u>
Money Market Accounts - Wells Fargo Advisors			
Treasury Money Market		N/A	\$ 4,450,088
Advantage Government Money Market* - fiscal agent		N/A	<u>156,816</u>
Total Money Market Accounts	28.84		<u>\$ 4,606,904</u>
HH Bonds - U.S. Treasury	5.60	Various	<u>\$ 895,000</u>
Money market - BMO Harris Bank - fiscal agent	0.69	N/A	<u>\$ 109,795</u>
Total Investments			<u>\$ 15,975,606</u>

*This money market fund is rated AA+ by Standard & Poor's 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, 2012, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities		
Taxes	\$ 449,333	\$ -
Special assessments	1,268,894	1,267,793
Accounts	281,342	-
Accrued interest	69,369	-
Due from other governments	<u>2,898,291</u>	<u>-</u>
Total Governmental Activities	<u>\$ 4,967,229</u>	<u>\$ 1,267,793</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 3,956,141	\$ -	\$ -	\$ 3,956,141
Construction in progress	-	2,314,495	-	2,314,495
Infrastructure - right-of-way	3,166,233	7,139	-	3,173,372
Total capital assets not depreciated	<u>\$ 7,122,374</u>	<u>\$ 2,321,634</u>	<u>\$ -</u>	<u>\$ 9,444,008</u>
Capital assets depreciated				
Buildings	\$ 21,660,994	\$ 40,941	\$ 29,444	\$ 21,672,491
Machinery, furniture, and equipment	10,529,616	1,308,210	818,127	11,019,699
Improvements other than buildings	1,326,953	-	-	1,326,953
Infrastructure	121,942,745	4,091,304	-	126,034,049
Total capital assets depreciated	<u>\$ 155,460,308</u>	<u>\$ 5,440,455</u>	<u>\$ 847,571</u>	<u>\$ 160,053,192</u>
Less: accumulated depreciation for				
Buildings	\$ 9,061,859	\$ 776,127	\$ 29,444	\$ 9,808,542
Machinery, furniture, and equipment	7,948,621	1,023,708	751,546	8,220,783
Improvements other than buildings	530,512	62,743	-	593,255
Infrastructure	32,897,905	2,388,414	-	35,286,319
Total accumulated depreciation	<u>\$ 50,438,897</u>	<u>\$ 4,250,992</u>	<u>\$ 780,990</u>	<u>\$ 53,908,899</u>
Total capital assets depreciated, net	<u>\$ 105,021,411</u>	<u>\$ 1,189,463</u>	<u>\$ 66,581</u>	<u>\$ 106,144,293</u>
Governmental Activities Capital Assets, Net	<u>\$ 112,143,785</u>	<u>\$ 3,511,097</u>	<u>\$ 66,581</u>	<u>\$ 115,588,301</u>

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

Governmental Activities	
General government	\$ 751,765
Public safety	291,761
Highways and streets, including depreciation of infrastructure assets	2,839,200
Human services	61,283
Health	13,096
Culture and recreation	35,242
Conservation of natural resources	4,014
Sanitation	254,631
Total Depreciation Expense - Governmental Activities	<u>\$ 4,250,992</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. The composition of interfund balances as of December 31, 2012, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch	\$ 84
Total Due To/From Other Funds		\$ 84

Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch	\$ 524,150

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2012, consisted of the following:

Transfer to General Fund from Capital Projects Fund	\$ 382,175	Capital equipment
Transfer to General Fund from Debt Service Fund	579,712	Close account
Transfer to Road and Bridge Fund from Capital Projects Fund	782,279	Capital equipment
Transfer to Forfeited Tax Fund from General Fund	3,165	Cover negative balance
Total Interfund Transfers	\$ 1,747,331	

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2012, were as follows:

	<u>Governmental Activities</u>
Accounts	\$ 809,018
Salaries	665,472
Accrued payroll taxes	41,081
Accrued expenses	262,594
Retainage	301,484
Due to other governments	473,128
Claims	<u>100,019</u>
Total Payables	<u>\$ 2,652,796</u>

2. Construction Commitments

The County has active construction projects as of December 31, 2012. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Roads and bridges	<u>\$ 12,723,054</u>	<u>\$ 982,327</u>

3. Long-Term Debt

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2012</u>
Minnesota Pollution Control Agency (MnPCA) loans	2021	N/A	2.00	1,181,057	<u>\$ 1,079,516</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

In 2005, the County issued \$1,275,000 General Obligation Capital Improvement Refunding Bonds to refund the 2000A General Obligation Capital Improvement Bonds. This is a crossover refunding with the proceeds deposited with an escrow agent. The 2000A Series was called on February 1, 2007, and redeemed with proceeds from the escrow account. On February 1, 2008, the County started making payments on the 2005 General Obligation Capital Improvement Refunding Bonds. This refunding resulted in an economic gain of \$43,805 and reduced future debt service payments by \$50,012. The final payment on these bonds was made in 2012.

In 2009, the County issued \$3,000,000 of General Obligation Capital Notes. The proceeds of the notes were used to purchase capital equipment. The bonds have interest rates ranging from 0.90 to 1.35 percent and a final maturity date of February 1, 2012. The final payment on these bonds was made in 2012.

In 2004, the County entered into a loan agreement with the Minnesota Pollution Control Agency for High Island Creek Watershed septic system loans. According to the agreement, the County could borrow as much as \$191,000. The total amount disbursed through December 31, 2012, was \$103,643, which was the principal of the loan; accumulated interest is \$1,700. Principal payments of \$10,413 were made in 2012.

In 2008, the County entered into a loan agreement with the Minnesota Pollution Control Agency for High Island Creek Watershed septic system loans. According to the agreement, the County could borrow as much as \$115,000. The total amount disbursed through December 31, 2012, was \$115,000; accumulated interest is \$2,352. Principal payments of \$11,038 were made in 2012.

In 2008, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Buffalo Creek Watershed septic system loans. According to the agreement, the County can borrow as much as \$215,000. In 2010, the loan amount was amended by an additional \$4,502. The total amount disbursed through December 31, 2012, was \$219,502; accumulated interest is \$10,429. Principal payments of \$21,841 were made in 2012.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

In 2008, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Crow River Watershed septic system loans. According to the agreement, the County can borrow as much as \$248,000. In 2010, the loan amount was amended by an additional \$50,000. The total amount disbursed through December 31, 2012, was \$298,000; accumulated interest is \$13,017. A principal payment of \$28,675 was made in 2012.

In 2009, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Crow River Watershed septic system loans. According to the agreement, the County can borrow as much as \$300,000. In 2012, the loan amount was amended by an additional \$27,589. The total amount disbursed through December 31, 2012, was \$304,675. Repayment is estimated to begin in 2013.

In 2011, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Buffalo Creek Watershed septic system loans. According to the agreement, the County can borrow as much as \$200,000. The total amount disbursed through December 31, 2012, was \$199,494. Repayment is estimated to begin in 2014.

In 2012, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Crow River Watershed septic system loans. According to the agreement, the County can borrow as much as \$300,000. As of December 31, 2012, none of this money has been disbursed. Repayment is estimated to begin in 2015.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2012, were as follows:

Year Ending December 31	High Island Creek Watershed Septic System Loans (2004)		High Island Creek Watershed Septic System Loans (2008)	
	Principal	Interest	Principal	Interest
2013	\$ 10,622	\$ 1,053	\$ 11,148	\$ 1,859
2014	10,836	839	11,371	1,635
2015	11,054	621	11,600	1,406
2016	11,276	399	11,833	1,173
2017	11,502	173	12,071	935
2018 - 2021	-	-	37,579	1,330
Total	\$ 55,290	\$ 3,085	\$ 95,602	\$ 8,338

Year Ending December 31	Crow River Watershed Septic System Loans (2008)		Buffalo Creek Watershed Septic System Loans (2006)	
	Principal	Interest	Principal	Interest
2013	\$ 29,252	\$ 5,219	\$ 22,280	\$ 3,204
2014	29,839	4,631	22,728	2,756
2015	30,439	4,031	23,186	2,298
2016	31,051	3,419	23,651	1,832
2017	31,675	2,795	24,126	1,357
2018 - 2021	115,961	4,685	49,718	1,249
Total	\$ 268,217	\$ 24,780	\$ 165,689	\$ 12,696

Year Ending December 31	Total	
	Principal	Interest
2013	\$ 73,302	\$ 11,335
2014	74,774	9,861
2015	76,279	8,356
2016	77,811	6,823
2017	79,374	5,260
2018 - 2021	203,258	7,264
Total	\$ 584,798	\$ 48,899

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements (Continued)

The 2009 Crow River Watershed Septic Loans that were issued in 2010 for \$176,083, in 2011 for \$97,142, and in 2012 for \$22,000 are not included in the debt service requirements because a fixed repayment schedule is not available.

The 2011 Buffalo Creek Watershed Septic Loans that were issued in 2011 for \$171,688 and in 2012 for \$27,807 are not included in the debt service requirements because a fixed repayment schedule is not available.

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

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 270,000	\$ -	\$ 270,000	\$ -	\$ -
General obligation capital equipment notes	1,055,000	-	1,055,000	-	-
MnPCA loans	1,101,676	49,807	71,967	1,079,516	73,302
Less: discounts	(3,958)	3,958	-	-	-
Total bonds and loans payable	\$ 2,422,718	\$ 53,765	\$ 1,396,967	\$ 1,079,516	\$ 73,302
OPEB liability	401,883	135,647	-	537,530	-
Compensated absences	1,231,923	-	34,353	1,197,570	811,953
Long-Term Liabilities	<u>\$ 4,056,524</u>	<u>\$ 189,412</u>	<u>\$ 1,431,320</u>	<u>\$ 2,814,616</u>	<u>\$ 885,255</u>

Payments on the general obligation bonds and notes are made from the Debt Service Fund. Payments on MnPCA loans are made from the General Fund with special assessments. Compensated absences are liquidated by each fund based on actual direct labor hours incurred.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

4. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 per claim in 2012. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

In 2000, the County entered into an agreement with Sibley County to provide a mechanism for utilizing a pooled, self-funded health insurance program under the authority granted to counties in Minn. Stat. § 471.59. Premiums are paid to MCIT, which provides bookkeeping services to the counties, including the payment of claims. For both 2011 and 2012, the County has retained risk up to a \$125,000 stop-loss per covered person per year (\$1,000,000 aggregate) for the health plan.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as

**McLEOD COUNTY
GLENCOE, MINNESOTA**

4. Risk Management (Continued)

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	
	2012	2011
Unpaid claims, beginning of fiscal year	\$ 131,251	\$ 83,202
Incurred claims (including IBNRs)	1,910,209	1,871,219
Claims payments	(1,941,441)	(1,823,170)
Unpaid Claims, End of Fiscal Year	\$ 100,019	\$ 131,251

5. Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

Funding Policy

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

The County is required to contribute the following percentages of annual covered payroll in 2012:

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2012, 2011, and 2010, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
General Employees Retirement Fund	\$ 753,250	\$ 748,616	\$ 707,987
Public Employees Police and Fire Fund	196,168	199,415	202,817
Public Employees Correctional Fund	68,954	71,286	73,396

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

B. Defined Contribution Plan

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2012, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 7,141	\$ 7,141
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

6. Other Postemployment Benefits (OPEB)

A. Plan Description

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

B. Funding Policy

Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the County, based on contract terms with Medica, Midwest Dental, and Minnesota Life. The required contributions are based on projected pay-as-you-go financing requirements. For fiscal year 2012, the County contributed \$37,645 to the plan. As of January 1, 2012, there were seven retirees receiving health benefits from the County's health plan.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

6. Other Postemployment Benefits (OPEB) (Continued)

C. Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$	179,890
Interest on net OPEB obligation		18,085
Adjustment to ARC		<u>(24,683)</u>
Annual OPEB cost	\$	173,292
Contributions made		<u>(37,645)</u>
Increase in net OPEB obligation	\$	135,647
Net OPEB Obligation - Beginning of Year		<u>401,883</u>
Net OPEB Obligation - End of Year	<u>\$</u>	<u>537,530</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009, 2010, 2011 and 2012 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2010	\$ 164,317	26.10%	\$ 285,936
December 31, 2011	162,330	28.57	401,883
December 31, 2012	173,292	21.72	537,530

**McLEOD COUNTY
GLENCOE, MINNESOTA**

6. Other Postemployment Benefits (OPEB) (Continued)

D. Funded Status and Funding Progress

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

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

E. Actuarial Methods and Assumptions

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

A. Secondary Liability for Bonds

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

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

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

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

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.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

C. Conduit Debt Obligation

The County has issued Commercial Development Revenue Bonds (Southwest Initiative Foundation) for the purpose of financing all or a portion of the costs of acquisition of land and the construction of an administration building. The bonds are secured by the financed property and are payable solely from the revenue of the project. The bonds do not constitute a charge, lien, or encumbrance, legal or equitable, upon any property or funds of the County, nor is the County subject to any liability thereon. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The amount of outstanding principal was \$3,023,431 as of June 30, 2012.

D. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Meeker-McLeod-Sibley Community Health Services Board

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

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

Minnesota River Basin

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Regional Library

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

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

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

Southwest Metro Drug Task Force

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Prime West Health System

In December 1998, McLeod County became a member of the Prime West Central County-Based Purchasing Initiative Joint Powers Board (since renamed Prime West Health System) with Big Stone, Douglas, Grant, Meeker, Pipestone, Pope, Renville, Stevens, and Traverse Counties. 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.

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

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

Crow River Joint Powers Agreement

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Crow River Joint Powers Agreement (Continued)

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

Trailblazer Transit Board

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

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

Financing is primarily provided from state and federal grants. Member counties are committed to providing the local match necessary to meet the requirements for state and federal funding. For 2012, McLeod County contributed \$322,200. Current financial statements can be obtained with a one-day notice from the administrative office at Trailblazer Transit, Gary Ludwig, Director, 207 - 11th Street West, Glencoe, Minnesota 55336.

Supporting Hands Nurse Family Partnership Board

The Supporting Hands Nurse Family Partnership Board was established pursuant to Minn. Stat. §§ 471.59 and 145A.17 and a joint powers agreement, effective June 5, 2007. The Board consists of 18 members, which include an appointed Commissioner from each participating county. McLeod County is the fiscal agent. The primary purpose of the joint venture is to improve the health and life-course of low-income, first-time mothers and their children. The joint venture is financed primarily by contributions from participating counties.

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

E. Jointly-Governed Organizations

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.

South Central Minnesota Regional Radio Board

The South Central Minnesota Regional Radio Board was established pursuant to Minn. Stat. §§ 471.59 and 403.39 and a joint powers agreement effective May 27, 2008. The Board was formed for the planning, financing, development, design, construction, operation, management, control, and administration of the regional enhancement to the statewide public safety radio and communications system (ARMER) in accordance with the Statewide Public Safety Radio Plan and the operational standards of the Statewide Radio Board. The Regional Radio Board consists of one County Commissioner or City Council member of member organizations. The Chair of the Board is Kip Bruender, and the address is: P. O. Box 8608, Mankato, Minnesota 56002-8608.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

Putting All Communities Together for Families Collaborative (PACT)

PACT was established in 1996 by a joint powers agreement among Kandiyohi, Meeker, Renville, and Yellow Medicine Counties. Effective January 1, 2012, an additional joint powers agreement was entered into to add McLeod County as a fifth County partner to PACT. As a result, the name was changed from PACT 4 Families Collaborative to PACT for Families Collaborative. The joint powers agreements were established to provide coordinated services to children and families. McLeod County has no operational or financial control over the Collaborative.

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

A. Summary of Significant Accounting Policies

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

A. Summary of Significant Accounting Policies (Continued)

Property and Equipment

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

Bond Issuance Costs

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

Use of Estimates

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

B. Cash and Investments

The HRA's cash and investments at June 30, 2012, are summarized as follows:

Cash on deposit	
Restricted	\$ 131,404
Unrestricted	<u>8,461</u>
Total cash on deposit	\$ 139,865
Certificates of deposit, due within one year	
Restricted	<u>33,072</u>
Total Cash and Investments	<u>\$ 172,937</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

B. Cash and Investments (Continued)

Deposits

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

The carrying amount of the HRA's deposits with financial institutions was \$172,937 as of June 30, 2012. Bank balance was \$193,437 as of June 30, 2012, which was insured by the FDIC.

Minnesota statutes require that all HRA deposits be protected by insurance, surety bond, or collateral and that securities pledged as collateral be legal instruments and be held in safekeeping in a restricted account at the Federal Reserve Bank or in a financial institution other than that furnishing the collateral. The market value of collateral pledged must generally exceed deposits not covered by insurance or bonds by at least ten percent. The HRA was in compliance with these Minnesota statutes at all times during the year ended June 30, 2012.

Investments

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

B. Cash and Investments

Investments (Continued)

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

C. Property and Equipment

The following is a summary of property and equipment transactions:

	July 1, 2011	Additions	Disposals	June 30, 2012
Land	\$ 197,000	\$ -	\$ -	\$ 197,000
Site improvements	209,772	-	-	209,772
Building	4,343,003	-	-	4,343,003
Appliances	117,433	-	-	117,433
Total	\$ 4,867,208	\$ -	\$ -	\$ 4,867,208
Accumulated depreciation	(1,564,934)	(121,248)	-	(1,686,182)
Totals	\$ 3,302,274	\$ (121,248)	\$ -	\$ 3,181,026

D. Long-Term Debt Payable

The following is a summary of long-term debt transactions for the year ended June 30, 2012:

	July 1, 2011	Issued	Payments	June 30, 2012
Essential Function Housing Development Bond of 1996	\$ 873,958	\$ -	\$ 35,778	\$ 838,180
Essential Function Housing Development Bond of 1997	896,748	-	34,858	861,890
Essential Function Housing Development Bond of 1999	888,773	-	28,965	859,808
Essential Function Housing Development Bond of 2001	1,032,784	-	29,147	1,003,637
Assessments payable	6,167	-	247	5,920
Totals	\$ 3,698,430	\$ -	\$ 128,995	\$ 3,569,435

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

D. Long-Term Debt Payable (Continued)

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

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

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

The Essential Function Housing Development Revenue Bond of 2001 matures on June 1, 2032. The bond bears an interest rate of 5.4 percent per annum payable monthly; the interest rate shall be adjusted periodically over the life of the bond. The

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

D. Long-Term Debt Payable (Continued)

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

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

The Security Bank & Trust of Glencoe loan was a single advance in the amount of \$15,000 to fund the roof replacement on HRA units in Stewart. The debt matured October 22, 2010, and bears interest at the rate of 6.5 percent per annum. During the fiscal year, the loan to Security Bank & Trust of Glencoe was paid in full.

The estimated debt service requirements as of June 30, 2012, are as follows:

<u>Years Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 135,679	\$ 178,231	\$ 313,910
2014	142,714	171,197	313,911
2015	150,114	163,796	313,910
2016	157,898	156,013	313,911
2017	166,085	147,824	313,909
2018 - 2022	968,887	598,888	1,567,775
2023 - 2027	1,246,762	321,885	1,568,647
2028 - 2032	601,296	55,456	656,752
Totals	<u>\$ 3,569,435</u>	<u>\$ 1,793,290</u>	<u>\$ 5,362,725</u>

E. Risk Management

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

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REQUIRED SUPPLEMENTARY INFORMATION

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 11,028,713	\$ 11,028,713	\$ 10,800,839	\$ (227,874)
Special assessments	65,354	65,354	113,693	48,339
Licenses and permits	62,865	62,865	70,283	7,418
Intergovernmental	2,289,950	2,289,950	3,462,704	1,172,754
Charges for services	1,609,515	1,609,515	1,819,663	210,148
Fines and forfeits	25,500	25,500	19,354	(6,146)
Gifts and contributions	17,000	17,000	151,996	134,996
Investment earnings	226,700	226,700	38,228	(188,472)
Miscellaneous	397,142	397,142	453,157	56,015
Total Revenues	\$ 15,722,739	\$ 15,722,739	\$ 16,929,917	\$ 1,207,178
Expenditures				
Current				
General government				
Commissioners	\$ 283,421	\$ 283,421	\$ 248,691	\$ 34,730
County-wide	293,146	293,146	35,978	257,168
Courts	128,000	128,000	117,296	10,704
Law library	45,000	45,000	51,844	(6,844)
County administrator	335,699	335,699	324,705	10,994
County auditor-treasurer	648,739	648,739	629,055	19,684
County assessor	419,670	419,670	362,146	57,524
Elections	106,677	106,677	96,284	10,393
Data processing	820,929	820,929	860,024	(39,095)
Central services	273,100	273,100	105,829	167,271
Attorney	584,045	584,045	566,378	17,667
Recorder	399,492	399,492	370,549	28,943
Planning and zoning	212,701	212,701	220,470	(7,769)
Buildings	719,567	719,567	690,173	29,394
County insurance	269,400	269,400	4,072	265,328
Veterans service officer	158,784	158,784	146,455	12,329
Fairgrounds	257,946	257,946	232,708	25,238
Safety	5,150	5,150	3,983	1,167
Other general government	900	900	83,216	(82,316)
Total general government	\$ 5,962,366	\$ 5,962,366	\$ 5,149,856	\$ 812,510

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 3,707,913	\$ 3,707,913	\$ 3,476,317	\$ 231,596
Inmate account	9,150	9,150	7,079	2,071
Probation officer	367,732	367,732	347,933	19,799
County jail	1,855,760	1,855,760	1,663,851	191,909
Juvenile detention	6,000	6,000	4,273	1,727
Sheriff posse	40,000	40,000	35,018	4,982
Emergency services	112,036	112,036	102,261	9,775
Total public safety	\$ 6,098,591	\$ 6,098,591	\$ 5,636,732	\$ 461,859
Health				
Nursing service	\$ 2,042,645	\$ 2,042,645	\$ 2,065,551	\$ (22,906)
Culture and recreation				
Historical society	\$ 39,312	\$ 39,312	\$ 39,312	\$ -
Regional library	187,513	187,513	187,513	-
Other	30,624	30,624	35,186	(4,562)
Parks	330,309	330,309	339,533	(9,224)
Snowmobile trail grant	44,640	44,640	54,357	(9,717)
Total culture and recreation	\$ 632,398	\$ 632,398	\$ 655,901	\$ (23,503)
Conservation of natural resources				
Soil and water conservation	\$ 61,000	\$ 61,000	\$ 60,000	\$ 1,000
County extension	224,523	224,523	214,305	10,218
Agriculture ditch inspector	19,700	19,700	12,992	6,708
Water planning	20,886	20,886	25,436	(4,550)
Wetland	27,340	27,340	37,736	(10,396)
Shoreland	5,876	5,876	6,194	(318)
Feedlot	54,044	54,044	56,576	(2,532)
Environmental services	145,511	145,511	140,326	5,185
Other	19,959	19,959	22,361	(2,402)
Ag programming	3,000	3,000	3,651	(651)
Septic loans	-	-	53,756	(53,756)
Total conservation of natural resources	\$ 581,839	\$ 581,839	\$ 633,333	\$ (51,494)

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Housing and Redevelopment Authority	\$ 2,476	\$ 2,476	\$ 1,593	\$ 883
Capital Outlay				
Public safety	\$ 2,168,750	\$ 2,168,750	\$ 2,292,990	\$ (124,240)
Debt service				
Principal	\$ 71,095	\$ 71,095	\$ 72,571	\$ (1,476)
Interest	12,624	12,624	12,063	561
Total debt service	\$ 83,719	\$ 83,719	\$ 84,634	\$ (915)
Total Expenditures	\$ 17,572,784	\$ 17,572,784	\$ 16,520,590	\$ 1,052,194
Excess of Revenues Over (Under) Expenditures	\$ (1,850,045)	\$ (1,850,045)	\$ 409,327	\$ 2,259,372
Other Financing Sources (Uses)				
Transfers in	\$ 400,000	\$ 400,000	\$ 961,887	\$ 561,887
Transfers out	-	-	(3,165)	(3,165)
Loan issued	-	-	49,806	49,806
Proceeds from the sale of capital assets	5,000	5,000	32,646	27,646
Total Other Financing Sources (Uses)	\$ 405,000	\$ 405,000	\$ 1,041,174	\$ 636,174
Net Change in Fund Balance	\$ (1,445,045)	\$ (1,445,045)	\$ 1,450,501	\$ 2,895,546
Fund Balance - January 1	22,671,800	22,671,800	22,671,800	-
Increase (decrease) in inventories	-	-	420	420
Fund Balance - December 31	\$ 21,226,755	\$ 21,226,755	\$ 24,122,721	\$ 2,895,966

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,280,097	\$ 3,280,097	\$ 3,218,616	\$ (61,481)
Licenses and permits	4,000	4,000	7,905	3,905
Intergovernmental	5,042,146	5,042,146	5,507,736	465,590
Charges for services	216,000	216,000	169,218	(46,782)
Miscellaneous	5,300	5,300	21,137	15,837
Total Revenues	\$ 8,547,543	\$ 8,547,543	\$ 8,924,612	\$ 377,069
Expenditures				
Current				
Highways and streets				
Administration	\$ 747,635	\$ 747,635	\$ 652,643	\$ 94,992
GIS	133,403	133,403	95,297	38,106
Maintenance	1,953,753	1,953,753	1,943,842	9,911
Engineering/construction	6,365,146	6,365,146	4,920,464	1,444,682
Equipment, maintenance, and shop	1,001,654	1,001,654	821,884	179,770
Total highways and streets	\$ 10,201,591	\$ 10,201,591	\$ 8,434,130	\$ 1,767,461
Intergovernmental	190,000	190,000	228,853	(38,853)
Total Expenditures	\$ 10,391,591	\$ 10,391,591	\$ 8,662,983	\$ 1,728,608
Excess of Revenues Over (Under) Expenditures	\$ (1,844,048)	\$ (1,844,048)	\$ 261,629	\$ 2,105,677
Other Financing Sources (Uses)				
Transfers in	\$ 600,000	\$ 600,000	\$ 782,279	\$ 182,279
Proceeds from the sale of capital assets	-	-	173,277	173,277
Total Other Financing Sources (Uses)	\$ 600,000	\$ 600,000	\$ 955,556	\$ 355,556
Net Change in Fund Balance	\$ (1,244,048)	\$ (1,244,048)	\$ 1,217,185	\$ 2,461,233
Fund Balance - January 1	7,544,879	7,544,879	7,544,879	-
Increase (decrease) in inventories	-	-	4,178	4,178
Fund Balance - December 31	\$ 6,300,831	\$ 6,300,831	\$ 8,766,242	\$ 2,465,411

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 4,244,178	\$ 4,244,178	\$ 4,159,104	\$ (85,074)
Intergovernmental	3,810,178	3,810,178	4,123,553	313,375
Charges for services	876,138	876,138	888,260	12,122
Miscellaneous	284,989	284,989	491,946	206,957
Total Revenues	\$ 9,215,483	\$ 9,215,483	\$ 9,662,863	\$ 447,380
Expenditures				
Current				
Human services				
Income maintenance	\$ 2,284,314	\$ 2,284,314	\$ 2,408,136	\$ (123,822)
Social services	6,792,534	6,792,534	6,445,340	347,194
Transit authority	543,600	543,600	322,200	221,400
Total Expenditures	\$ 9,620,448	\$ 9,620,448	\$ 9,175,676	\$ 444,772
Net Change in Fund Balance	\$ (404,965)	\$ (404,965)	\$ 487,187	\$ 892,152
Fund Balance - January 1	5,000,742	5,000,742	5,000,742	-
Fund Balance - December 31	\$ 4,595,777	\$ 4,595,777	\$ 5,487,929	\$ 892,152

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 7,000	\$ 7,000	\$ 4,265	\$ (2,735)
Intergovernmental	91,497	91,497	89,879	(1,618)
Charges for services	1,651,500	1,651,500	2,617,741	966,241
Miscellaneous	35,251	35,251	42,372	7,121
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	\$ 1,785,248	\$ 1,785,248	\$ 2,754,257	\$ 969,009
Expenditures				
Current				
Sanitation				
Recycling	1,705,434	1,705,434	1,866,415	(160,981)
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Net Change in Fund Balance	\$ 79,814	\$ 79,814	\$ 887,842	\$ 808,028
Fund Balance - January 1	3,843,347	3,843,347	4,226,376	383,029
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Fund Balance - December 31	\$ 3,923,161	\$ 3,923,161	\$ 5,114,218	\$ 1,191,057
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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2012**

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

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012**

1. Budgetary Information

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

On December 27, 2011, the Board approved the budgets for the General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Solid Waste Special Revenue Fund, and the Debt Service Fund.

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

2. Excess of Expenditures Over Appropriations

The following funds and departments had expenditures exceeding appropriations for the year ended December 31, 2012:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Major governmental funds			
General Fund			
Current			
General government			
Law library	\$ 51,844	\$ 45,000	\$ 6,844
Data processing	860,024	820,929	39,095
Planning & zoning	220,470	212,701	7,769
Other general government	83,216	900	82,316
Health			
Nursing service	2,065,551	2,042,645	22,906
Culture and recreation			
Other	35,186	30,624	4,562
Parks	339,533	330,309	9,224
Snowmobile trail grant	54,357	44,640	9,717
Conservation of natural resources			
Water planning	25,436	20,886	4,550
Wetland	37,736	27,340	10,396
Shoreland	6,194	5,876	318
Feedlot	56,576	54,044	2,532
Other	22,361	19,959	2,402
Ag programming	3,651	3,000	651
Septic loans	53,756	-	53,756

**McLEOD COUNTY
GLENCOE, MINNESOTA**

2. Excess of Expenditures Over Appropriations (Continued)

	Expenditures	Budget	Excess
Major governmental funds			
General Fund (Continued)			
Capital Outlay			
Public safety	2,292,990	2,168,750	124,240
Debt service			
Principal	72,571	71,095	1,476
Road and Bridge Special Revenue Fund			
Intergovernmental			
Highways and streets	228,853	190,000	38,853
Human Services Special Revenue Fund			
Current			
Human services			
Income maintenance	2,408,136	2,284,314	123,822
Solid Waste Special Revenue Fund			
Current			
Sanitation			
Recycling	1,866,415	1,705,434	160,981

3. Other Postemployment Benefits

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

SUPPLEMENTARY INFORMATION

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

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

CAPITAL PROJECTS FUND

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

DEBT SERVICE FUND

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

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	Forfeited Tax Special Revenue	Capital Projects	Debt Service	Total
<u>Assets</u>				
Cash and pooled investments	<u>\$ 15</u>	<u>\$ 17,369</u>	<u>\$ -</u>	<u>\$ 17,384</u>
<u>Liabilities and Fund Balances</u>				
Liabilities				
Due to other governments	\$ 15	\$ -	\$ -	\$ 15
Fund Balance				
Assigned for capital projects	<u>-</u>	<u>17,369</u>	<u>-</u>	<u>17,369</u>
Total Liabilities and Fund Balance	<u>\$ 15</u>	<u>\$ 17,369</u>	<u>\$ -</u>	<u>\$ 17,384</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Forfeited Tax Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
Revenues				
Investment earnings	\$ -	\$ 586	\$ -	\$ 586
Expenditures				
Current				
General government	\$ 3,165	\$ -	\$ -	\$ 3,165
Debt service				
Principal	-	-	1,325,000	1,325,000
Interest	-	-	11,308	11,308
Administrative - fiscal charges	-	-	250	250
Total Expenditures	\$ 3,165	\$ -	\$ 1,336,558	\$ 1,339,723
Excess of Revenues Over (Under) Expenditures	\$ (3,165)	\$ 586	\$ (1,336,558)	\$ (1,339,137)
Other Financing Sources (Uses)				
Transfers in	\$ 3,165	\$ -	\$ -	\$ 3,165
Transfers out	-	(1,164,454)	(579,712)	(1,744,166)
Total Other Financing Sources (Uses)	\$ 3,165	\$ (1,164,454)	\$ (579,712)	\$ (1,741,001)
Net Change in Fund Balance	\$ -	\$ (1,163,868)	\$ (1,916,270)	\$ (3,080,138)
Fund Balance - January 1	-	1,181,237	1,916,270	3,097,507
Fund Balance - December 31	\$ -	\$ 17,369	\$ -	\$ 17,369

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Debt service				
Principal	\$ 1,325,000	\$ 1,325,000	\$ 1,325,000	\$ -
Interest	22,612	22,612	11,308	11,304
Administrative charges	-	-	250	(250)
Total Expenditures	\$ 1,347,612	\$ 1,347,612	\$ 1,336,558	\$ 11,054
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (579,712)	\$ (579,712)
Net Change in Fund Balance	\$ (1,347,612)	\$ (1,347,612)	\$ (1,916,270)	\$ (568,658)
Fund Balance - January 1	1,916,270	1,916,270	1,916,270	-
Fund Balance - December 31	\$ 568,658	\$ 568,658	\$ -	\$ (568,658)

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AGENCY FUNDS

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 205,650	\$ 1,998,109	\$ 1,985,671	\$ 218,088
Due from other governments	403,770	544,180	403,770	544,180
Total Assets	\$ 609,420	\$ 2,542,289	\$ 2,389,441	\$ 762,268
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 16,205	\$ -	\$ 16,205
Salaries payable	5,168	6,329	5,168	6,329
Accrued payroll taxes	392	354	392	354
Accrued expenses	2,094	1,221	2,094	1,221
Due to other governments	601,766	738,159	601,766	738,159
Total Liabilities	\$ 609,420	\$ 762,268	\$ 609,420	\$ 762,268
<u>SUPPORTING HANDS NURSE FAMILY PARTNERSHIP FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 187,960	\$ 728,736	\$ 775,215	\$ 141,481
Accounts receivable	9,000	-	9,000	-
Due from other governments	49,165	12,979	49,165	12,979
Total Assets	\$ 246,125	\$ 741,715	\$ 833,380	\$ 154,460
<u>Liabilities</u>				
Accounts payable	\$ 5,140	\$ 1,728	\$ 5,140	\$ 1,728
Salaries payable	15,361	20,602	15,361	20,602
Accrued payroll taxes	890	1,273	890	1,273
Accrued expenses	4,627	4,673	4,627	4,673
Due to other governments	220,107	126,184	220,107	126,184
Total Liabilities	\$ 246,125	\$ 154,460	\$ 246,125	\$ 154,460

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT C-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TAXES AND PENALTIES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 283,361	\$ 46,426,273	\$ 46,303,272	\$ 406,362
<u>Liabilities</u>				
Due to other governments	\$ 283,361	\$ 406,362	\$ 283,361	\$ 406,362
 <u>STATE AGENCY FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 132,294	\$ 1,158,361	\$ 1,149,157	\$ 141,498
Accounts receivable	4,700	3,152	4,700	3,152
Due from other governments	130	20,327	130	20,327
Total Assets	\$ 137,124	\$ 1,181,840	\$ 1,153,987	\$ 164,977
<u>Liabilities</u>				
Due to other governments	\$ 137,124	\$ 164,977	\$ 137,124	\$ 164,977

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT C-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 809,265	\$ 50,311,479	\$ 50,213,315	\$ 907,429
Accounts receivable	13,700	3,152	13,700	3,152
Due from other governments	453,065	577,486	453,065	577,486
Total Assets	\$ 1,276,030	\$ 50,892,117	\$ 50,680,080	\$ 1,488,067
<u>Liabilities</u>				
Accounts payable	\$ 5,140	\$ 17,933	\$ 5,140	\$ 17,933
Salaries payable	20,529	26,931	20,529	26,931
Accrued payroll taxes	1,282	1,627	1,282	1,627
Accrued expenses	6,721	5,894	6,721	5,894
Due to other governments	1,242,358	1,435,682	1,242,358	1,435,682
Total Liabilities	\$ 1,276,030	\$ 1,488,067	\$ 1,276,030	\$ 1,488,067

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OTHER SCHEDULES

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2012**

Shared Revenue

State

Highway users tax	\$ 5,055,290
Market value credit	237,188
PERA rate reimbursement	36,151
Disparity reduction aid	60,750
County program aid	1,511,249
Police aid	148,868
Performance Aid	10,262
E-911	70,839
	<u>70,839</u>

Total shared revenue **\$ 7,130,597**

Reimbursement for Services

State - Minnesota Department of Human Services **\$ 1,044,892**

Payments

Local - Payments in lieu of taxes **\$ 40,908**

Grants

Local

Highway	\$ 131,185
City Contribution	6,577
	<u>6,577</u>

Total local **\$ 137,762**

State

Minnesota Department/Board of Corrections	\$ 95,071
Transportation	519
Health	174,507
Natural Resources	56,277
Human Services	1,434,771
Water and Soil Resources	246,113
Pollution Control Agency	110,781
	<u>110,781</u>

Total state **\$ 2,118,039**

Federal

Department of Agriculture	\$ 359,378
Commerce	214,574
Justice	9,070
Transportation	297,371
Health and Human Services	1,798,947
Homeland Security	32,334
	<u>32,334</u>

Total federal **\$ 2,711,674**

Total local, state, and federal grants **\$ 4,967,475**

Total Intergovernmental Revenue **\$ 13,183,872**

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Meeker-McLeod-Sibley Community Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 155,701
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>195,944</u>
Total U.S. Department of Agriculture		<u>\$ 351,645</u>
U.S. Department of Commerce		
Passed Through South Central Minnesota Regional Radio Board Public Safety Interoperable Communications Grant Program	11.555	<u>\$ 214,574</u>
U.S. Department of Justice		
Direct State Criminal Alien Assistance Program	16.606	<u>\$ 9,070</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 269,870
Passed Through Minnesota Department of Public Safety Highway Safety Cluster		
State and Community Highway Safety	20.600	22,501
State Traffic Safety Information System Improvement Grants	20.610	<u>5,000</u>
Total U.S. Department of Transportation		<u>\$ 297,371</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	\$ 21,251
Temporary Assistance for Needy Families Cluster		
Temporary Assistance for Needy Families	93.558	232,724
(Total Temporary Assistance for Needy Families 93.558 \$260,802)		
Emergency Contingency Fund for Temporary Assistance for Needy Families		
(TANF) State Program - ARRA	93.714	23,622
Child Support Enforcement	93.563	478,212
Refugee and Entrant Assistance - State Administered Programs	93.566	321
Child Care Development Block Grant	93.575	13,797
Community-Based Child Abuse Prevention Grants	93.590	12,110
Stephanie Tubbs Jones Child Welfare Services Program	93.645	11,442
Foster Care - Title IV-E	93.658	121,447
Social Services Block Grant	93.667	189,801
Chafee Foster Care Independence Program	93.674	1,388
Children's Health Insurance Program	93.767	45
Medical Assistance Program	93.778	559,138
(Total Medical Assistance 93.778 \$585,216)		
Passed Through Meeker-McLeod-Sibley Community Health Services		
Public Health Emergency Preparedness	93.069	20,620
Universal Newborn Hearing Screening	93.251	300
Immunization Cooperative Agreements	93.268	1,030
Drug-Free Communities Support Program Grants	93.276	110,461
Temporary Assistance for Needy Families Cluster		
Temporary Assistance for Needy Families	93.558	28,078
(Total Temporary Assistance for Needy Families 93.558 \$260,802)		
Medical Assistance Program	93.778	26,078
(Total Medical Assistance 93.778 \$585,216)		
Block Grants for Prevention and Treatment of Substance Abuse	93.959	30,134
Maternal and Child Health Services Block Grant to the States	93.994	24,993
Passed Through Minnesota River Area Agency on Aging, Inc.		
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043	1,076
Total U.S. Department of Health and Human Services		\$ 1,908,068

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 6,400
Emergency Management Performance Grants	97.042	23,879
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	<u>2,027</u>
Total U.S. Department of Homeland Security		<u>\$ 32,306</u>
Total Federal Awards		<u><u>\$ 2,813,034</u></u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by McLeod County. The County's reporting entity is defined in Note 1 to the financial statements. McLeod County's financial statements include the operations of the McLeod County Housing and Redevelopment Authority component unit, which expended \$421,331 in federal awards during the year ended June 30, 2012, which are not included in the Schedule of Expenditures of Federal Awards.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of McLeod County under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of McLeod County, it is not intended to and does not present the financial position or changes in net position of McLeod County.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 2,711,674
Grants received more than 60 days after year-end, deferred in 2012	
Foster Care - Title IV-E	25,613
Block Grants for Prevention and Treatment of Substance Abuse	16,361
Immunization Cooperative Agreements	300
Medical Assistance Program	82,698
Child Care Development Block Grant	384
Emergency Management Performance Grants	23,879

**McLEOD COUNTY
GLENCOE, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue (Continued)

Deferred in 2011, recognized as revenue in 2012	
Child Care Development Block Grant	(1,101)
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	(7,733)
Medical Assistance Program	(15,134)
Emergency Management Performance Grants	<u>(23,907)</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 2,813,034</u>

5. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Highway Safety Cluster	\$ 27,501
Temporary Assistance for Needy Families Cluster	284,424

6. Subrecipients

Of the expenditures presented in the schedule, McLeod County provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
20.600	State and Community Highway Safety	<u>\$ 16,575</u>

7. American Recovery and Reinvestment Act

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

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major programs are:

Child Support Enforcement	CFDA #93.563
Medical Assistance Program	CFDA #93.778

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-1 Accounting Policies and Procedures

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

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

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

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

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

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

Client's Response:

McLeod County recognizes the importance and the need for formal policies and procedures for all accounting functions. McLeod County will continue to work towards completion of these policies. McLeod County does have a written procedure in place for payroll and accounts payable.

07-1 Monitoring Internal Controls

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

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

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

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

Cause: Limited time and resources.

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

Client's Response:

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

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM RESOLVED

Cash Management (11-1)

Reimbursement for federal program expenditures relating to Highway Planning and Construction (CFDA No. 20.205) were requested before full payment of the expenditure was made.

Resolution

Program expenditures were paid in full prior to the County submitting for reimbursement.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

12-1 Driver Awareness Class

Criteria: As stated in Minn. Stat. § 169.022, in part, “. . . Local authorities may adopt traffic regulations which are not in conflict with the provisions of this chapter; provided, that when any local ordinance regulating traffic covers the same subject for which a penalty is provided for in this chapter, then the penalty provided for violation of said local ordinance shall be identical with the penalties provided for in this chapter for the same offense.”

In 2009, the Minnesota Legislature enacted a new statute, Minn. Stat. § 169.999, to authorize the issuance of administrative citations and prescribe criteria for them. *See* 2009 Minn. Laws, ch. 158. Among other provisions, the statute states that a governing body resolution must be passed to authorize issuance of administrative citations. The resolution must bar peace officers from issuing administrative citations in violation of Minn. Stat. § 169.999. The statute specifies the offenses for which an administrative citation may be used. The authority requires the use of a uniform administrative citation prescribed by the Commissioner of Public Safety and specifies that the fine for an administrative violation must be \$60, two-thirds of which must be credited to the general revenue fund of the local unit of government, and one-third of which must be transferred to the Commissioner of Minnesota Management & Budget for deposit in the state’s General Fund. A local unit of government receiving administrative fine proceeds must use one-half of the funds for law enforcement purposes. Each local unit of government must follow these and other criteria specified in the new statute.

Condition: McLeod County has established a Driver Awareness Class option in lieu of issuance or court filing of a state uniform traffic ticket. Sheriff’s Deputies have the discretion to offer traffic violators the option of attending the Driver Awareness Class in lieu of a citation. The course is two hours long and costs \$75.

Context: In a letter to State Representative Steve Smith on December 1, 2003, the Minnesota Attorney General specifically addressed the issue of a driver improvement course or clinic in lieu of a ticket or other penalty. After reviewing the state law, the Attorney General concluded: “All such programs, however, require that a *trial court* make the determination as to whether attendance at such a [driver’s] clinic is appropriate. We are aware of no express authority for local officials to create a *pretrial* diversion program.” (Emphasis is that of the Attorney General.)

The Minnesota Supreme Court has stated, “[a]s a creature of the state deriving its sovereignty from the state, the county should play a leadership role in carrying out legislative policy.” *Kasch v. Clearwater County*, 289 N.W. 2d 148, 152 (Minn. 1980), quoting *County of Freeborn v. Bryson*, 243 N.W. 2d 316, 321 (Minn. 1976).

Effect: The County’s Driver Awareness Class is unauthorized and in violation of Minn. Stat. § 169.022.

Cause: The County believes the class is authorized.

Recommendation: We recommend the County comply with Minn. Stat. ch. 169, including Minn. Stat. § 169.999 (2009) or any subsequent legislation, by not offering a Driver Awareness Class in lieu of issuance or court filing of a state uniform traffic ticket.

Client’s Response:

The McLeod County Sheriff decided on August 21, 2013, to suspend indefinitely the Driver Awareness Program until the Minnesota Legislation can further clarify the authority to provide the Driver Awareness Classes to the McLeod County residents.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

09-2 Ditch Fund Balance Deficits

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

Condition: As of December 31, 2012, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balances.

Context: Thirty-one of the 56 individual ditch systems have deficit unassigned fund balances as of December 31, 2012, totaling \$536,785, the largest being \$117,972. These 31 ditches combined with the remaining ditch systems leave the Ditch Special Revenue Fund with a deficit unassigned fund balance of \$440,969.

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

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

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

Client's Response:

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

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



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
McLeod County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of McLeod County as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 26, 2013.

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

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 99-1 and 07-1, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether McLeod County's financial statements are free 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

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

In connection with our audit, nothing came to our attention that caused us to believe that McLeod County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 12-1. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

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

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 26, 2013

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REBECCA OTTO
STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
McLeod County

Report on Compliance for Each Major Federal Program

We have audited McLeod County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal program for the year ended December 31, 2012. McLeod County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

McLeod County's basic financial statements include the operations of the McLeod County Housing and Redevelopment Authority (HRA) component unit, which expended \$421,331 in federal awards during the year ended June 30, 2012, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the McLeod County HRA because the McLeod County HRA was audited by other auditors.

Management's Responsibility

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

Auditor's Responsibility

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

Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about McLeod County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, McLeod County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

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

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However material weaknesses may exist that have not been identified.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 26, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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