

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**McLEOD COUNTY**  
**GLENCOE, MINNESOTA**

YEAR ENDED DECEMBER 31, 2006

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

The mission of the State Auditor's Office 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, 2006**



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

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

ORGANIZATION  
2006

Office	Name	Term of Office	
		From	To
<b>Commissioners</b>			
1st District	Ray Bayerl	June 1990	January 2009
2nd District	Melvin Dose	January 1995	January 2007
3rd District	Grant Knutson	January 1997	January 2009
4th District	Sheldon Nies*	January 1995	January 2007
5th District	Beverly Wangerin	January 1989	January 2009
<b>Officers</b>			
<b>Elected</b>			
Attorney	Michael K. Junge	May 1987	January 2007
Auditor	Cindy Schultz	January 1995	January 2007
District Judge	Michael Savre	May 2004	January 2007
District Judge	Terrence E. Conkel	August 1998	January 2007
Recorder	Lynnette Schrupp	January 2003	January 2007
Sheriff	Wayne Vinkemeier	January 1999	January 2007
Treasurer	Linda Radtke	January 1987	January 2007
<b>Appointed</b>			
Assessor	Sue Schulz	March 2005	January 2009
Court Administrator	Robert Schmidt	February 2000	Indefinite
Coroner	Dr. Amatuzio	January 2006	Indefinite
Highway Engineer	John Brunkhorst	November 2001	May 2010
Surveyor	Jeff Rausch	February 1996	January 2009
Veterans Service Officer	James Lauer	November 2004	January 2009
County Administrator	Nan Crary	January 1996	Indefinite
Human Resources	Mary Jo Wieseler	March 2005	Indefinite
Human Services Director	Gary Sprynczynatyk	August 1995	Indefinite
Regional Extension Director	Sarah Berg	January 2006	Indefinite
Public Health Nursing Service			
Director	Becky Felling	August 1994	Indefinite
Zoning Administrator	Larry Gasow	February 2000	January 2008
Park Superintendent	Allan Koglin	August 1979	Indefinite
Agriculture and Weed			
Inspector	Allan Koglin	January 1997	January 2007
Building Services Supervisor	Wayne Rosenfeld	December 1989	Indefinite

\*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

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, 2006, including the McLeod County Housing and Redevelopment Authority (HRA) as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of McLeod County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the McLeod County HRA, which is the discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the McLeod County HRA, is based solely upon the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

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

aggregate remaining fund information of McLeod County as of December 31, 2006, and the McLeod County HRA as of June 30, 2006, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated December 27, 2007, on our consideration of McLeod County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 27, 2007

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

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006  
(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, 2006. 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 \$120,026,055 (net assets). Of this amount, \$17,626,348 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$3,850,586 (three percent). The increase is a combination of additional capital assets and budget savings from operations.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$9,391,923, or 71 percent, of total 2006 General Fund expenditures.
- Governmental funds' fund balances increased by \$2,604,542.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Government-Wide Financial Statements**

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

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

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

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

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

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

## **Fund Financial Statements**

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

### Governmental Funds

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

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

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

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

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

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

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

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

#### Fiduciary Funds

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

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

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

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

## Other Information

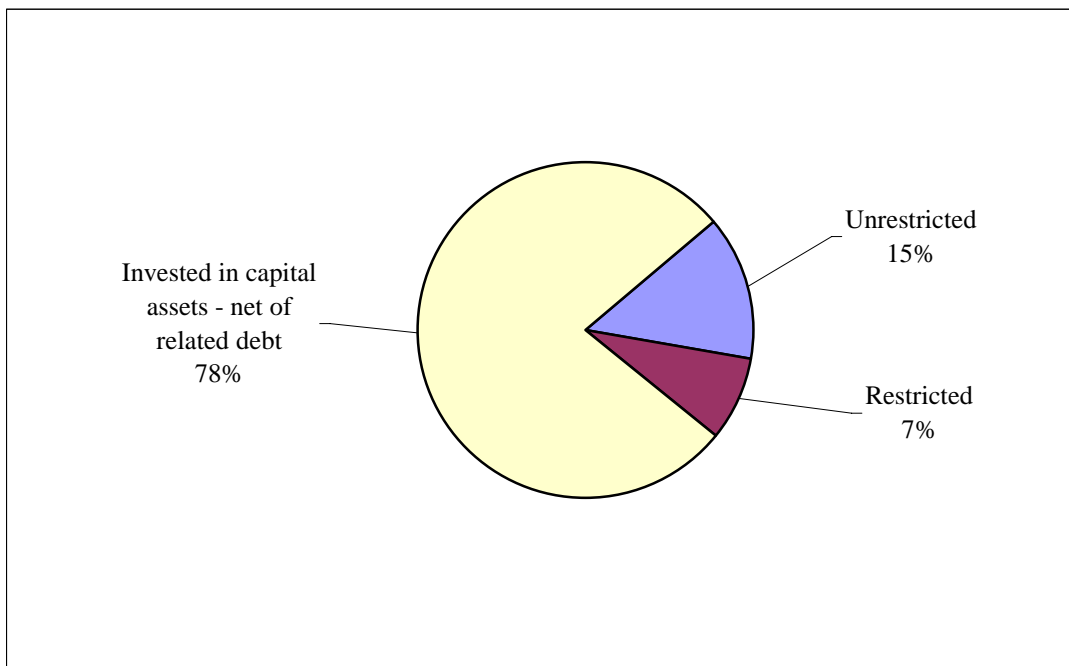
In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

## Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of McLeod County, assets exceeded liabilities by \$120,026,055 as of December 31, 2006. The investment in capital assets, net of related debt, is the largest portion of McLeod County's net assets at 78 percent. These capital assets are used to provide services to citizens and are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Approximately seven percent of McLeod County's net assets are subject to external restrictions on how they may be used and, therefore, are considered restricted. The remaining 15 percent, or \$17,626,348, is unrestricted and available to be used to meet the government's ongoing obligations to citizens and creditors.

Net Assets



**Net Assets**

	<u>Governmental Activities</u>		<u>Discretely Presented Component Unit</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 33,294,931	\$ 32,015,254	\$ 210,515	\$ 184,195
Capital assets	<u>94,248,618</u>	<u>92,628,171</u>	<u>3,879,997</u>	<u>4,018,608</u>
<b>Total Assets</b>	<b><u>\$ 127,543,549</u></b>	<b><u>\$ 124,643,425</u></b>	<b><u>\$ 4,090,512</u></b>	<b><u>\$ 4,202,803</u></b>
Current and other liabilities	\$ 2,588,518	\$ 2,394,889	\$ 125,245	\$ 159,670
Long-term liabilities - due within one year	3,171,353	2,077,133	105,398	101,806
Long-term liabilities - due in more than one year	<u>1,757,623</u>	<u>3,995,934</u>	<u>4,161,882</u>	<u>4,276,134</u>
<b>Total Liabilities</b>	<b><u>\$ 7,517,494</u></b>	<b><u>\$ 8,467,956</u></b>	<b><u>\$ 4,392,525</u></b>	<b><u>\$ 4,537,610</u></b>
<b>Net Assets</b>				
Invested in capital assets - net of related debt	\$ 93,068,618	\$ 90,563,020	\$ (387,283)	\$ -
Restricted	9,331,089	9,681,772	-	-
Unrestricted	<u>17,626,348</u>	<u>15,930,677</u>	<u>85,270</u>	<u>(334,807)</u>
<b>Total Net Assets</b>	<b><u>\$ 120,026,055</u></b>	<b><u>\$ 116,175,469</u></b>	<b><u>\$ (302,013)</u></b>	<b><u>\$ (334,807)</u></b>

**GOVERNMENTAL ACTIVITIES**

McLeod County's governmental activities increased net assets by \$3,850,586 during the current fiscal year. This increase is primarily due to the increase in capital assets, which included the following major items: highway and bridge construction, construction of the Hutchinson Area Transportation Services (HATS) building, and other improvement projects.

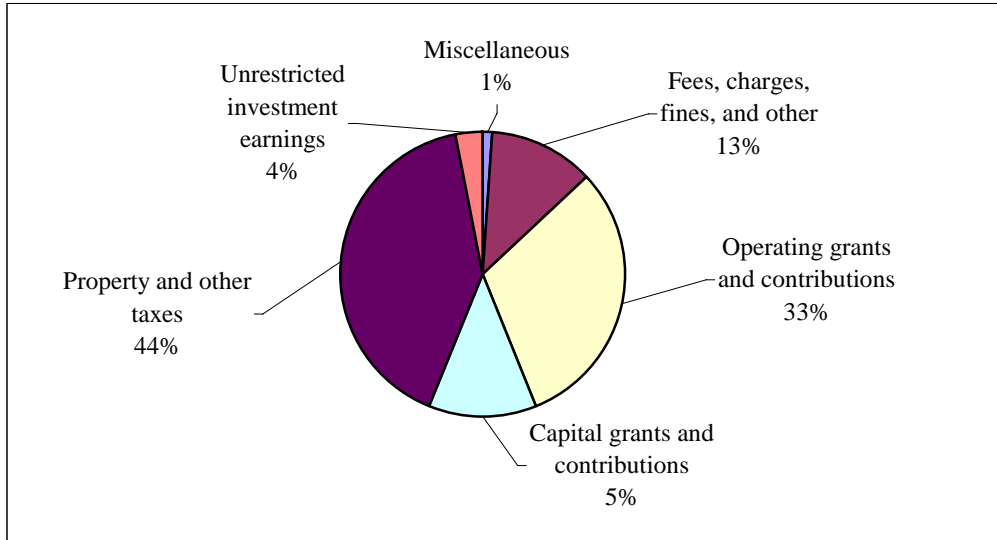
The McLeod County HRA is a discretely presented component unit of McLeod County. As of June 30, 2006, liabilities exceeded assets by \$302,013, and there was an increase in net assets of \$32,794 from the prior year. The increase is primarily due to increased revenues and decreased utilities expense, administrative expense, and repairs and maintenance expense.

### Changes in Net Assets

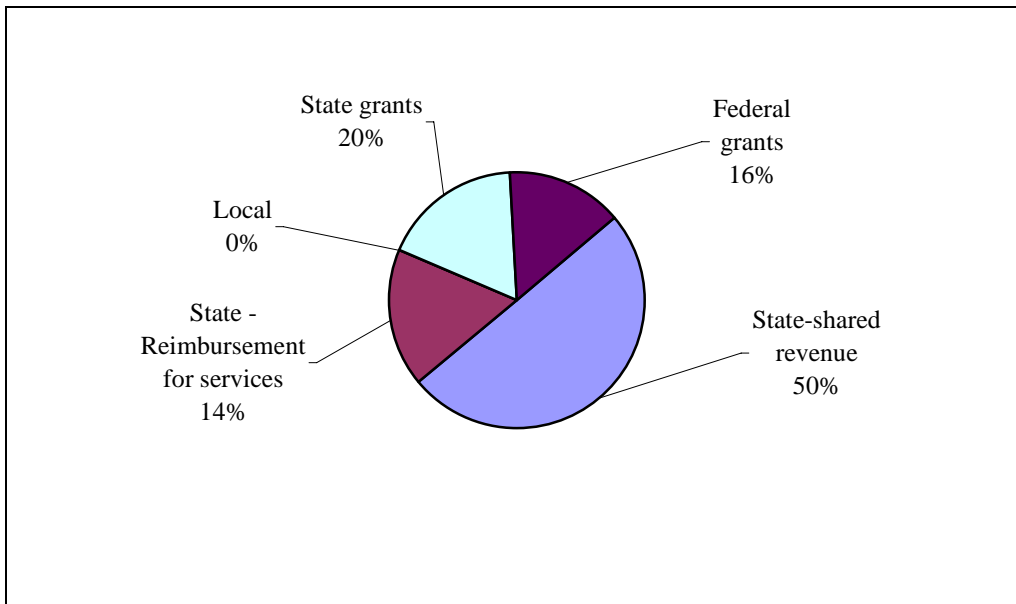
	Governmental Activities		Discretely Presented Component Unit	
	2006	2005	2006	2005
<b>Revenues</b>				
Program revenues				
Charges for services, fees, fines, and other	\$ 4,487,125	\$ 3,964,948	\$ 821,413	\$ 779,070
Operating grants and contributions	8,070,380	6,520,544	-	-
Capital grants and contributions	1,740,943	3,852,918	-	-
General revenues				
Property taxes	15,223,422	13,092,459	-	-
Other taxes	112,781	71,718	-	-
Grants and contributions not restricted to specific programs	3,487,862	3,450,579	-	-
Unrestricted investment earnings	1,270,363	819,181	2,200	430
Other	277,539	299,801	-	-
<b>Total Revenues</b>	<b>\$ 34,670,415</b>	<b>\$ 32,072,148</b>	<b>\$ 823,613</b>	<b>\$ 779,500</b>
<b>Expenses</b>				
General government	\$ 4,796,850	\$ 4,818,992	\$ -	\$ -
Public safety	5,876,447	4,968,108	-	-
Highways and streets	7,166,960	5,578,962	-	-
Sanitation	1,739,396	1,498,786	-	-
Human services	8,171,679	7,389,733	-	-
Health	1,776,809	1,771,679	-	-
Culture and recreation	524,668	451,782	-	-
Conservation of natural resources	609,150	645,278	-	-
Economic development	1,850	2,445	-	-
Interest	156,020	193,638	-	-
HRA	-	-	790,819	843,013
<b>Total Expenses</b>	<b>\$ 30,819,829</b>	<b>\$ 27,319,403</b>	<b>\$ 790,819</b>	<b>\$ 843,013</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 3,850,586</b>	<b>\$ 4,752,745</b>	<b>\$ 32,794</b>	<b>\$ (63,513)</b>
<b>Net Assets - January 1</b>	<b>116,175,469</b>	<b>111,422,724</b>	<b>(334,807)</b>	<b>(271,294)</b>
<b>Net Assets - December 31</b>	<b>\$ 120,026,055</b>	<b>\$ 116,175,469</b>	<b>\$ (302,013)</b>	<b>\$ (334,807)</b>

The following charts show additional information on the revenues of McLeod County for the year ended December 31, 2006.

### Revenues by Source - Governmental Activities



### Intergovernmental Revenue



## FINANCIAL ANALYSIS

### Governmental Funds

At the end of 2006, McLeod County's governmental funds reported a combined fund balance of \$27,329,195. This is an increase of \$2,604,542 from the prior year. The General Fund fund balance increased by \$2,767,469 due to increases in revenues. The fund balance in the Road and Bridge Special Revenue Fund increased by \$1,111,742 due to increased revenues. The fund balance in the Human Services Special Revenue Fund increased by \$182,931 due to decreased expenditures. There was also an increase in the nonmajor governmental funds of \$166,791.

### General Fund Budgetary Highlights

In total, General Fund revenues ended 2006 \$1,332,640 higher than budgeted. Licenses and permits, fines and forfeits, intergovernmental, gifts and contributions, investment earnings, and miscellaneous charges came in higher than anticipated. Total General Fund expenditures were \$285,238 less than the final budget. The primary reasons for the variance are as follows: The jail expenditures were under budget due to approved positions not filled in 2006, and various budgeted capital assets in other departments were not purchased in 2006.

## CAPITAL ASSETS AND LONG-TERM DEBT

### Capital Assets

At the end of 2006, McLeod County had \$94,248,618 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)	
	2006	2005
Land, including right-of-way	\$ 5,549,204	\$ 5,388,314
Infrastructure	72,907,646	71,838,077
Buildings	11,024,585	10,546,260
Improvements other than buildings	371,005	356,715
Machinery and equipment	3,321,937	2,697,128
Construction in progress	1,074,241	1,801,677
Total	<u>\$ 94,248,618</u>	<u>\$ 92,628,171</u>

Major capital asset events during the year included the following:

- Construction of the North Complex addition was started.
- Infrastructure construction continued in 2006.

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

### **Long-Term Debt**

At the end of the current fiscal year, McLeod County had bonded debt and capital notes outstanding of \$3,732,290. This is a decrease of \$1,092,903 from the beginning of the year. The decrease is due to the reduction in debt principal.

Current and future County tax levies are used to finance the County's debt obligations. State statutes limit the amount of general obligation debt a county can incur to no more than two percent of the market value of taxable property in the county. The current debt limitation for McLeod County is \$57,228,564, which is significantly in excess of McLeod County's outstanding general obligation debt.

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

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

- The unemployment rate for McLeod County is currently 3.9 percent. McLeod County's unemployment rate is less than the state unemployment rate of 4.3 and the United States unemployment rate of 4.6 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 2007 fiscal year.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of McLeod County's finances for those with an interest in the government finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the McLeod County Auditor, 2385 Hennepin Avenue North, Glencoe, Minnesota 55336.

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

## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

*EXHIBIT 1*

**STATEMENT OF NET ASSETS  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2006**

	<b>Primary Government Governmental Activities</b>	<b>Discretely Presented Component Unit</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 26,362,844	\$ 114,902
Petty cash and change funds	23,055	-
Departmental cash	5,936	-
Cash with fiscal agent	626,918	-
Cash with escrow agent	1,240,105	-
Taxes receivable		-
Prior - net	344,957	-
Special assessments receivable		
Noncurrent - net	232,179	-
Prior	1,051	-
Accounts receivable - net	292,811	5,682
Accrued interest receivable	190,357	-
Due from other governments	3,507,624	-
Deferred charges-current	4,805	-
Inventories	441,681	-
Prepaid items	-	6,024
Restricted assets		
Cash and pooled investments	-	39,059
Deferred charges	20,608	44,848
Capital assets		
Non-depreciable	6,623,445	197,000
Depreciable - net of accumulated depreciation	87,625,173	3,682,997
<b>Total Assets</b>	<b>\$ 127,543,549</b>	<b>\$ 4,090,512</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**EXHIBIT 1  
(Continued)**

**STATEMENT OF NET ASSETS  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2006**

	<b>Primary Government Governmental Activities</b>	<b>Discretely Presented Component Unit</b>
<b><u>Liabilities</u></b>		
Accounts payable	\$ 940,251	\$ 8,280
Salaries payable	682,572	-
Accrued payroll taxes	48,299	-
Other accrued liabilities	80,469	41,018
Contracts payable	206,912	-
Retainage payable	99,132	-
Due to other governments	305,384	37,518
Accrued interest payable	53,583	-
Claims payable	96,997	-
Unearned revenue	74,919	-
Long-term liabilities		
Due within one year	3,171,353	105,398
Due in more than one year	1,757,623	4,161,882
Liabilities payable from restricted assets (security deposits)	-	38,429
	<b>\$ 7,517,494</b>	<b>\$ 4,392,525</b>
<b><u>Net Assets</u></b>		
Invested in capital assets - net of related debt	\$ 93,068,618	\$ (387,283)
Restricted for		
General government	1,150,504	-
Public safety	405,402	-
Culture and recreation	738	-
Conservation of natural resources	22,476	-
Sanitation	3,867,106	-
Capital projects	1,036,944	-
Debt service	2,847,919	-
Unrestricted	17,626,348	85,270
	<b>\$ 120,026,055</b>	<b>\$ (302,013)</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>
<b><u>Functions/Programs</u></b>		
<b>Primary government</b>		
Governmental activities		
General government	\$ 4,796,850	\$ 1,067,814
Public safety	5,876,447	278,703
Highways and streets	7,166,960	168,835
Sanitation	1,739,396	1,332,145
Human services	8,171,679	750,255
Health	1,776,809	516,173
Culture and recreation	524,668	76,620
Conservation of natural resources	609,150	296,580
Economic development	1,850	-
Interest	156,020	-
<b>Total Primary Government</b>	<b>\$ 30,819,829</b>	<b>\$ 4,487,125</b>
<b>Component Unit</b>		
Housing and Redevelopment Authority	<b>\$ 790,819</b>	<b>\$ 821,413</b>

**General Revenues**

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

**Total general revenues**

**Change in Net Assets**

**Net Assets - Beginning**

**Net Assets - Ending**

**EXHIBIT 2**

<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>	
<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary-Government Governmental Activities</u>	<u>Discretely Presented Component Unit</u>
\$ 279,441	\$ -	\$ (3,449,595)	
220,460	-	(5,377,284)	
3,069,920	1,740,943	(2,187,262)	
-	-	(407,251)	
3,692,403	-	(3,729,021)	
599,215	-	(661,421)	
-	-	(448,048)	
208,941	-	(103,629)	
-	-	(1,850)	
-	-	(156,020)	
<b>\$ 8,070,380</b>	<b>\$ 1,740,943</b>	<b>\$ (16,521,381)</b>	
<b>\$ -</b>	<b>\$ -</b>		<b>\$ 30,594</b>
		\$ 15,223,422	\$ -
		40,268	-
		72,513	-
		3,487,862	-
		1,270,363	2,200
		277,539	-
		<b>\$ 20,371,967</b>	<b>\$ 2,200</b>
		<b>\$ 3,850,586</b>	<b>\$ 32,794</b>
		<b>116,175,469</b>	<b>(334,807)</b>
		<b>\$ 120,026,055</b>	<b>\$ (302,013)</b>

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**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

	<b>General</b>	<b>Road and Bridge</b>
<u><b>Assets</b></u>		
Cash and pooled investments	\$ 10,797,732	\$ 5,065,563
Petty cash and change funds	2,605	100
Departmental cash	5,803	133
Cash with fiscal agent	626,918	-
Cash with escrow agent	-	-
Taxes receivable		
Prior	180,805	45,494
Special assessments receivable		
Prior	-	-
Noncurrent	99,025	-
Accounts receivable	65,647	2,381
Accrued interest receivable	160,753	-
Due from other funds	9,050	1,845
Due from other governments	212,665	2,922,805
Inventories	13,649	399,786
Advances to other funds	118,000	-
	<b>\$ 12,292,652</b>	<b>\$ 8,438,107</b>
<u><b>Liabilities and Fund Balances</b></u>		
<b>Liabilities</b>		
Accounts payable	\$ 132,557	\$ 71,984
Salaries payable	414,338	65,292
Accrued payroll taxes	28,401	4,824
Accrued interest payable	-	-
Accrued expenses	7,457	19,822
Advances from other funds	-	-
Contracts payable	-	74,587
Retainage payable	-	70,073
Due to other funds	3,301	-
Due to other governments	156,501	13,675
Deferred revenue - unavailable	322,804	2,824,826
Deferred revenue - unearned	34,382	-
Claims payable	87,614	-
	<b>\$ 1,187,355</b>	<b>\$ 3,145,083</b>

**EXHIBIT 3**

<u>Welfare</u>	<u>Solid Waste</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 4,138,315	\$ 3,910,729	\$ 718,197	\$ 1,732,308	\$ 26,362,844
300	20,050	-	-	23,055
-	-	-	-	5,936
-	-	-	-	626,918
-	-	-	1,240,105	1,240,105
80,320	-	8,252	30,086	344,957
-	-	-	1,051	1,051
-	-	-	133,154	232,179
71,948	152,835	-	-	292,811
-	-	-	29,604	190,357
595	861	-	-	12,351
368,171	11	-	3,972	3,507,624
-	28,246	-	-	441,681
-	-	-	-	118,000
<b><u>\$ 4,659,649</u></b>	<b><u>\$ 4,112,732</u></b>	<b><u>\$ 726,449</u></b>	<b><u>\$ 3,170,280</u></b>	<b><u>\$ 33,399,869</u></b>
\$ 472,052	\$ 141,950	\$ 121,468	\$ 240	\$ 940,251
183,169	19,773	-	-	682,572
13,610	1,464	-	-	48,299
-	-	-	288	288
53,190	-	-	-	80,469
-	-	-	118,000	118,000
-	-	132,325	-	206,912
-	-	29,059	-	99,132
9,050	-	-	-	12,351
106,664	18,429	-	10,115	305,384
89,611	3,473	8,252	165,517	3,414,483
-	40,537	-	-	74,919
-	-	-	-	87,614
<b><u>\$ 927,346</u></b>	<b><u>\$ 225,626</u></b>	<b><u>\$ 291,104</u></b>	<b><u>\$ 294,160</u></b>	<b><u>\$ 6,070,674</u></b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

	<b>General</b>	<b>Road and Bridge</b>
<b>Fund Balances</b>		
Reserved for		
Advances to other funds	\$ 118,000	\$ -
Law library	141,161	-
Recorder's equipment	309,174	-
Inventories	13,649	399,786
Encumbrances	-	1,164,354
Sheriff's contingency	59,788	-
Land records technology	8,908	-
E-911	11,493	-
Veterans van	19,956	-
Drug enforcement	5,350	-
Conservation of natural resources	22,476	-
Petty cash	2,605	100
HAVA equipment	60,702	-
Sheriff's radio	251,917	-
Capital assets	450,000	-
Court services	76,854	-
Records compliance	102,629	-
Records preservation	57,974	-
4-H after-school adventures	738	-
Landfill	-	-
Solid waste abatement	-	-
Refunding bonds	-	-
Unreserved		
Designated for future expenditures	4,169,383	3,575,125
Undesignated	5,222,540	153,659
Unreserved, reported in nonmajor		
Special revenue funds	-	-
Debt service fund	-	-
	<b>\$ 11,105,297</b>	<b>\$ 5,293,024</b>
<b>Total Fund Balances</b>		
	<b>\$ 12,292,652</b>	<b>\$ 8,438,107</b>
<b>Total Liabilities and Fund Balances</b>		

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

<u>Welfare</u>	<u>Solid Waste</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 118,000
-	-	-	-	141,161
-	-	-	-	309,174
-	28,246	-	-	441,681
-	-	1,036,944	-	2,201,298
-	-	-	-	59,788
-	-	-	-	8,908
-	-	-	-	11,493
-	-	-	-	19,956
-	-	-	-	5,350
-	-	-	-	22,476
300	20,050	-	-	23,055
-	-	-	-	60,702
-	-	-	-	251,917
-	-	-	-	450,000
-	-	-	-	76,854
-	-	-	-	102,629
-	-	-	-	57,974
-	-	-	-	738
-	370,878	-	-	370,878
-	3,539,852	-	-	3,539,852
-	-	-	1,254,795	1,254,795
2,542,377	-	-	-	10,286,885
1,189,626	(71,920)	(601,599)	-	5,892,306
-	-	-	30,405	30,405
-	-	-	1,590,920	1,590,920
<b>\$ 3,732,303</b>	<b>\$ 3,887,106</b>	<b>\$ 435,345</b>	<b>\$ 2,876,120</b>	<b>\$ 27,329,195</b>
<b>\$ 4,659,649</b>	<b>\$ 4,112,732</b>	<b>\$ 726,449</b>	<b>\$ 3,170,280</b>	<b>\$ 33,399,869</b>

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2006**

<b>Fund balance - total governmental funds (Exhibit 3)</b>		<b>\$</b>	<b>27,329,195</b>
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			94,248,618
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			3,414,483
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.			
General obligation bonds	\$		(3,635,000)
Loans payable			(103,028)
Additional claims payable			(9,383)
Compensated absences			(1,196,686)
Accrued interest payable			(53,295)
Deferred debt issuance charges			25,413
Unamortized discount on bonds			5,738
			(4,966,241)
<b>Net Assets of Governmental Activities (Exhibit 1)</b>		<b>\$</b>	<b>120,026,055</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

	<b>General</b>	<b>Road and Bridge</b>
<b>Revenues</b>		
Taxes	\$ 8,029,616	\$ 2,076,294
Special assessments	1,855	-
Licenses and permits	126,617	7,710
Intergovernmental	4,123,379	6,272,383
Charges for services	1,750,707	151,645
Fines and forfeits	27,933	-
Gifts and contributions	19,894	-
Investment earnings	1,169,379	-
Miscellaneous	396,565	39,486
	<b>\$ 15,645,945</b>	<b>\$ 8,547,518</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 4,968,903	\$ -
Public safety	5,479,500	-
Highways and streets	-	7,856,553
Sanitation	-	-
Human services	-	-
Health	1,764,662	-
Culture and recreation	525,078	-
Conservation of natural resources	576,063	-
Economic development	1,850	-
<b>Capital outlay</b>	-	-
<b>Debt service</b>		
Principal	-	-
Interest	-	-
Administrative charges	-	-
	<b>\$ 13,316,056</b>	<b>\$ 7,856,553</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 2,329,889</b>	<b>\$ 690,965</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ 333,123	\$ 400,895
Transfers out	(785)	-
Proceeds from loan	87,097	-
Proceeds from the sale of capital assets	31,541	9,400
	<b>\$ 450,976</b>	<b>\$ 410,295</b>
<b>Net Change in Fund Balance</b>	<b>\$ 2,780,865</b>	<b>\$ 1,101,260</b>
<b>Fund Balance - January 1</b>	<b>8,337,828</b>	<b>4,181,282</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>(13,396)</b>	<b>10,482</b>
<b>Fund Balance - December 31</b>	<b>\$ 11,105,297</b>	<b>\$ 5,293,024</b>

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

**EXHIBIT 5**

<b>Human Services</b>	<b>Solid Waste</b>	<b>Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 3,386,680	\$ -	\$ 562,651	\$ 1,138,336	\$ 15,193,577
-	-	-	233,682	235,537
-	5,795	-	-	140,122
4,153,376	81,141	-	127,782	14,758,061
524,632	1,295,433	-	-	3,722,417
-	-	-	-	27,933
20	-	-	-	19,914
-	-	45,477	55,507	1,270,363
300,412	29,880	-	-	766,343
<b>\$ 8,365,120</b>	<b>\$ 1,412,249</b>	<b>\$ 608,128</b>	<b>\$ 1,555,307</b>	<b>\$ 36,134,267</b>
\$ -	\$ -	\$ -	\$ 785	\$ 4,969,688
-	-	-	-	5,479,500
-	-	-	-	7,856,553
-	1,692,259	-	-	1,692,259
8,182,189	-	-	-	8,182,189
-	-	-	-	1,764,662
-	-	-	-	525,078
-	-	-	53,064	629,127
-	-	-	-	1,850
-	-	1,246,737	-	1,246,737
-	-	-	1,180,000	1,180,000
-	-	-	154,952	154,952
-	-	-	500	500
<b>\$ 8,182,189</b>	<b>\$ 1,692,259</b>	<b>\$ 1,246,737</b>	<b>\$ 1,389,301</b>	<b>\$ 33,683,095</b>
<b>\$ 182,931</b>	<b>\$ (280,010)</b>	<b>\$ (638,609)</b>	<b>\$ 166,006</b>	<b>\$ 2,451,172</b>
\$ -	\$ -	\$ -	\$ 785	\$ 734,803
-	(333,123)	(400,895)	-	(734,803)
-	-	-	-	87,097
-	-	-	-	40,941
<b>\$ -</b>	<b>\$ (333,123)</b>	<b>\$ (400,895)</b>	<b>\$ 785</b>	<b>\$ 128,038</b>
<b>\$ 182,931</b>	<b>\$ (613,133)</b>	<b>\$ (1,039,504)</b>	<b>\$ 166,791</b>	<b>\$ 2,579,210</b>
<b>3,549,372</b>	<b>4,471,993</b>	<b>1,474,849</b>	<b>2,709,329</b>	<b>24,724,653</b>
<b>-</b>	<b>28,246</b>	<b>-</b>	<b>-</b>	<b>25,332</b>
<b>\$ 3,732,303</b>	<b>\$ 3,887,106</b>	<b>\$ 435,345</b>	<b>\$ 2,876,120</b>	<b>\$ 27,329,195</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**Net change in fund balance - total governmental funds (Exhibit 5) \$ 2,579,210**

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

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

Deferred revenue - December 31	\$ 3,414,483	
Deferred revenue - January 1	<u>(4,794,723)</u>	(1,380,240)

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

Expenditures for general capital assets and infrastructure	\$ 4,741,272	
Net book value of disposed assets	(3,752)	
Current year depreciation	<u>(3,117,073)</u>	1,620,447

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.

Debt issued		
Loans		(87,097)

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

Principal repayments		
General obligation bonds	\$ 1,090,000	
Certificates of participation	<u>90,000</u>	1,180,000

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	\$ 9,905	
Amortization of deferred issuance charges	(12,327)	
Change in compensated absences	(107,428)	
Change in claims payable	22,784	
Change in inventories	<u>25,332</u>	<u>(61,734)</u>

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ 3,850,586**

McLEOD COUNTY  
GLENCOE, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2006

	<u>Agency</u>
<b><u>Assets</u></b>	
Cash and pooled investments	\$ 1,145,003
Departmental cash	2,333
Accounts receivable	815
Due from other governments	<u>228,832</u>
<b>Total Assets</b>	<b><u>\$ 1,376,983</u></b>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 19,608
Due to other governments	<u>1,357,375</u>
<b>Total Liabilities</b>	<b><u>\$ 1,376,983</u></b>

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006

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, 2006. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Discretely Presented Component Unit

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

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
McLeod County Housing and Redevelopment Authority (HRA) provides services pursuant to Minn. Stat. §§ 469.001-469.047.	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**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

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

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

Additionally, the County reports the following fund types:

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

C. Measurement Focus and Basis of Accounting

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2006,

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2006 were \$1,169,379.

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

2. Receivables and Payables

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

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

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

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

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

3. Inventories

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

4. Restricted Assets

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

5. Capital Assets

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Capital Assets (Continued)

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

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

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

6. Compensated Absences

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

7. Deferred Revenue

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

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

8. Long-Term Obligations (Continued)

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

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

9. Fund Equity

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

10. Use of Estimates

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

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Revenues (Continued)

accounting is used by all governmental fund types. Under this basis, revenue is not recognized in the financial statements unless it is available to finance current expenditures.

Imposed Nonexchange Transactions

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

Intergovernmental

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

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

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Revenues (Continued)

Exchange Transactions

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

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The Ditch Special Revenue Fund had a fund balance of \$30,405 as of December 31, 2006. Ditch system deficits will be eliminated in future years with special assessment levies against benefited properties. Following is a summary of the individual ditch systems:

38 ditches with positive balances	\$ 146,889
18 ditches with deficit balances	<u>(116,484)</u>
Net Fund Balance	<u>\$ 30,405</u>

B. Component Unit Deficit

The McLeod County HRA at June 30, 2006, had a net assets deficit of \$302,013, an improvement from the previous year's deficit balance of \$334,807. The increase in net assets is due in part to increased revenues and decreased depreciation, insurance, utilities, maintenance, and administrative expenses.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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2. Stewardship, Compliance, and Accountability (Continued)

C. Excess of Expenditures over Appropriations

In the Road and Bridge Special Revenue Fund, the expenditures exceeded appropriations for the year ended December 31, 2006 by \$1,239,799.

In the Solid Waste Special Revenue Fund, the expenditures exceeded appropriations for the year ended December 31, 2006, by \$477,908.

In the Debt Service Fund, the expenditures exceeded appropriations for the year ended December 31, 2006, by \$35,542.

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	\$ 26,362,844
Petty cash and change funds	23,055
Cash with fiscal agent	626,918
Cash with escrow agent	1,240,105
Departmental cash	5,936
Agency fund	
Cash and pooled investments	<u>1,145,003</u>
Total Cash and Investments	<u>\$ 29,403,861</u>
Deposits	\$ 16,513,790
Petty cash and change funds	23,055
Departmental cash	5,936
Investments	<u>12,861,080</u>
Total Deposits, Cash on Hand, and Investments	<u>\$ 29,403,861</u>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a financial institution failure, the County deposits may not be returned to it. The County does not have a policy on custodial credit risk for deposits. As of December 31, 2006, McLeod County's deposits were not exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy regarding custodial credit risk. At December 31, 2006, all of the investments held in the fiscal and escrow agent accounts listed on the next page totaled \$1,867,023 and were subject to custodial credit risk.

Concentration of Credit Risk

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

The following table presents the County's investment balances at December 31, 2006, and information relating to potential investment risks:

Investment - Issuer	Concentration Risk Percent (%)	Interest Rate Risk Maturity Date	Fair Value
McLeod County			
Mutual Fund - Public Financial Management Cash Management Fund (MAGIC Fund)	85.48	N/A	\$ 10,994,057
Fiscal agent			
Money Market M&I Bank	0.22	N/A	\$ 27,651
Negotiable certificates of deposit			
Wells Fargo			
General Elec Cap Corp	0.92	01/16/2007	\$ 117,665
Freemont Investment & Loan	0.45	02/02/2007	58,381
Firstbank of Puerto Rico	0.45	02/26/2007	58,375
Madison Community Bank, WI	0.45	03/15/2007	58,354
Morgan Stanley, UT	0.45	04/11/2007	58,345
Capital One Bank, VA	0.45	05/08/2007	58,336
Anchorbank FSB, WI	0.45	06/20/2007	58,289
Total negotiable certificates of deposit			\$ 467,745
Mutual Fund			
Wells Fargo Adv Government MMF Service*	1.03	N/A	\$ 131,522
Total fiscal agent			\$ 626,918
Escrow Agent			
Securities			
Bank of New York			
U.S. Treasury Note Slug	9.65	02/01/2007	\$ 1,240,105
Total Investments			\$ 12,861,080

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2006, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 344,957	\$ -
Special assessments	233,230	232,179
Due from other governments	3,507,624	-
Accounts	292,811	-
Interest	190,357	-
Total Governmental Activities	\$ 4,568,979	\$ 232,179

A loan was made to Prime West Health System for \$75,000. The terms of the agreement stated that the loan will be paid back by the end of the third year of operations. Operations began July 1, 2003. The principal of \$75,000 and interest in the amount of \$32,819 were paid in full by July 2006.

3. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 3,157,925	\$ 16,650	\$ -	\$ 3,174,575
Construction in progress	1,801,677	1,074,241	1,801,677	1,074,241
Infrastructure - right-of-way	2,230,389	144,240	-	2,374,629
Total capital assets not depreciated	\$ 7,189,991	\$ 1,235,131	\$ 1,801,677	\$ 6,623,445

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Buildings	\$ 15,712,947	\$ 1,008,491	\$ -	\$ 16,721,438
Machinery, furniture, and equipment	7,326,287	1,364,336	250,407	8,440,216
Improvements other than buildings	586,659	42,225	-	628,884
Infrastructure	<u>92,819,649</u>	<u>2,892,766</u>	<u>-</u>	<u>95,712,415</u>
Total capital assets depreciated	<u>\$ 116,445,542</u>	<u>\$ 5,307,818</u>	<u>\$ 250,407</u>	<u>\$ 121,502,953</u>
Less: accumulated depreciation for				
Buildings	\$ 5,166,687	\$ 530,166	\$ -	\$ 5,696,853
Machinery, furniture, and equipment	4,629,159	735,775	246,655	5,118,279
Improvements other than buildings	229,944	27,935	-	257,879
Infrastructure	<u>20,981,572</u>	<u>1,823,197</u>	<u>-</u>	<u>22,804,769</u>
Total accumulated depreciation	<u>\$ 31,007,362</u>	<u>\$ 3,117,073</u>	<u>\$ 246,655</u>	<u>\$ 33,877,780</u>
Total capital assets depreciated, net	<u>\$ 85,438,180</u>	<u>\$ 2,190,745</u>	<u>\$ 3,752</u>	<u>\$ 87,625,173</u>
Governmental Activities Capital Assets, Net	<u>\$ 92,628,171</u>	<u>\$ 3,425,876</u>	<u>\$ 1,805,429</u>	<u>\$ 94,248,618</u>

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

Governmental Activities	
General government	\$ 478,254
Public safety	216,663
Highways and streets, including depreciation of infrastructure assets	2,131,207
Human services	46,083
Health	11,065
Culture and recreation	8,594
Conservation of natural resources	4,278
Sanitation	<u>220,929</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 3,117,073</u>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2006, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Welfare	\$ 9,050
Road and Bridge	General	1,845
Solid Waste	General	861
Welfare	General	<u>595</u>
Total Due To/From Other Funds		<u>\$ 12,351</u>

These balances reflect the interfund goods and services provided and not paid at year-end but expected to be paid in the subsequent year.

2. Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Ditch	<u>\$ 118,000</u>

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2006, consisted of the following:

Transfer to General Fund from Solid Waste Fund	\$ 333,123	Transferred prior years' interest revenue to the General Fund
Transfer to Road and Bridge Fund from Capital Projects Fund	400,895	County road overlays
Transfer to Forfeited Tax Fund from General Fund	<u>785</u>	Cover negative balance
Total Interfund Transfers	<u>\$ 734,803</u>	

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2006, were as follows:

Accounts	\$	940,251
Salaries		682,572
Accrued payroll taxes		48,299
Other accrued liabilities		80,469
Retainage		99,132
Contracts		206,912
Due to other governments		305,384
Claims		96,997
Total Payables	\$	2,460,016

2. Construction Commitments

The County has active construction projects as of December 31, 2006. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
HATS Tempered Storage Building	\$ 121,432	\$ 66,123
Roads and bridges	1,080,018	1,098,231

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
General obligation bonds					
2000A Capital Improvement Bonds	2012	\$175,000 - \$275,000	4.30 - 5.20	\$ 2,550,000	\$ 1,450,000
2003 Capital Improvement Bonds	2007	\$910,000 - \$1,000,000	1.00 - 1.94	3,680,000	910,000
2005 Capital Improvement Refunding Bonds	2012	\$245,000 - \$270,000	2.45 - 3.10	<u>1,275,000</u>	<u>1,275,000</u>
Total general obligation bonds				<u>\$ 7,505,000</u>	\$ 3,635,000
Less: unamortized discount					<u>(5,738)</u>
Net General Obligation Bonds					<u>\$ 3,629,262</u>
MnPCA loans	2016	N/A	2.00	<u>\$ 103,028</u>	<u>\$ 103,028</u>

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

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Debt Service Requirements

Debt service requirements at December 31, 2006, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2007	\$ 2,360,000	\$ 81,218
2008	245,000	32,541
2009	250,000	26,290
2010	250,000	19,540
2011	260,000	12,205
2012	270,000	4,185
Total	<u>\$ 3,635,000</u>	<u>\$ 175,979</u>

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 4,725,000	\$ -	\$ 1,090,000	\$ 3,635,000	\$ 2,360,000
Certificates of participation	90,000	-	90,000	-	-
MnPCA loans	15,931	87,097	-	103,028	-
Less: discounts	(5,738)	-	-	(5,738)	-
Total bonds and loans payable	<u>\$ 4,825,193</u>	<u>\$ 87,097</u>	<u>\$ 1,180,000</u>	<u>\$ 3,732,290</u>	<u>\$ 2,360,000</u>
Compensated absences	<u>1,089,258</u>	<u>107,428</u>	<u>-</u>	<u>1,196,686</u>	<u>811,353</u>
Long-Term Liabilities	<u>\$ 5,914,451</u>	<u>\$ 194,525</u>	<u>\$ 1,180,000</u>	<u>\$ 4,928,976</u>	<u>\$ 3,171,353</u>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Bond Refunding

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

4. Risk Management

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

The Workers’ Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers’ Compensation Reinsurance Association with coverage at \$390,000 and \$400,000 per claim in 2006 and 2007, respectively. Should the MCIT Workers’ Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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4. Risk Management (Continued)

Premiums are paid by the General Fund and are reimbursed from other funds for their share.

In 2000, the County entered into an agreement with Sibley County to provide a mechanism for utilizing a pooled, self-funded health insurance program under the authority granted to counties in Minn. Stat. § 471.59. Premiums are paid to MCIT, which provides bookkeeping services to the counties, including the payment of claims. For 2006, 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. For 2007, the County has retained risk up to a \$125,000 stop-loss per covered person per year (\$1,000,000 aggregate).

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

	Year Ended December 31	
	2006	2005
Unpaid claims, beginning of fiscal year	\$ 158,616	\$ 128,155
Incurred claims (including IBNRs)	1,099,063	1,160,031
Claims payments	(1,160,682)	(1,129,570)
Unpaid Claims, End of Fiscal Year	\$ 96,997	\$ 158,616

5. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of McLeod County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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5. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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5. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

For all Public Employees Retirement Fund members whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. Public Employees Police and Fire Fund members were required to contribute 7.00 percent of their annual covered salary in 2006. That rate increased to 7.80 percent in 2007. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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5. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2006 and 2007:

	2006	2007
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.00	6.25
Public Employees Police and Fire Fund	10.50	11.70
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2006, 2005, and 2004, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2006	\$ 430,409	\$ 132,045	\$ 60,613
2005	399,704	103,470	53,925
2004	382,748	96,869	54,425

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

B. Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer deferred compensation plan for local government officials, except elected county sheriffs. The plan is established and administered in accordance with Minn. Stat. ch. 353D. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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5. Pension Plans

B. Defined Contribution Plan (Continued)

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

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

The County's contributions for the years ending December 31, 2006, 2005, and 2004, were \$5,346, \$5,106, and \$4,945, respectively, equal to the contractually required contributions for each year as set by state statute.

6. Summary of Significant Contingencies and Other Items

A. Secondary Liability for Bonds

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

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

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

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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

B. Contingent Liabilities

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

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

C. Conduit Debt Obligation

The County has issued Commercial Development Revenue Bonds (Southwest Minnesota Foundation Project) for the purpose of financing all or a portion of the costs of acquisition of land and the construction of an administration building. The bonds are secured by the financed property and are payable solely from the revenue of the project. The bonds do not constitute a charge, lien, or encumbrance, legal or equitable, upon any property or funds of the County, nor is the County subject to any liability thereon. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The amount of outstanding principal was \$3,500,000 as of December 31, 2006.

D. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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

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

Meeker-McLeod-Sibley Community Health Services Board

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

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

Minnesota River Basin

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

**McLEOD COUNTY  
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6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Minnesota River Basin (Continued)

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

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

Regional Library

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

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

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

Southwest Metro Drug Task Force

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Southwest Metro Drug Task Force (Continued)

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

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

Prime West Health System

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

Funding from the state is the revenue source for this program. McLeod County has provided \$75,000 as a start-up loan to be repaid by the end of the third year of operation. Operations began July 1, 2003. This loan was paid in full to McLeod County by July 2006.

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

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Crow River Joint Powers Agreement

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

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

Trailblazer Transit Board

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

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

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Trailblazer Transit Board (Continued)

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

E. Jointly-Governed Organizations

McLeod Family Connection Collaborative

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

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

Minnesota Rural Counties Caucus

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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

A. Summary of Significant Accounting Policies

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

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

Property and Equipment

Property and equipment are stated at historical or estimated historical cost and are depreciated using the straight-line method over their estimated useful lives ranging from 8 to 40 years.

Bond Issuance Costs

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

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**

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

B. Cash and Investments

The HRA's cash and investments at June 30, 2006, are summarized as follows:

Cash on deposit	
Restricted	\$ 10,990
Unrestricted	<u>114,902</u>
Total cash on deposit	\$ 125,892
Certificates of deposit, due within one year	
Restricted	<u>28,069</u>
Total Cash and Investments	<u>\$ 153,961</u>

Deposits

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

The carrying amount of the HRA's deposits with financial institutions was \$153,961 as of June 30, 2006. Bank balances were \$174,618 as of June 30, 2006; \$129,423 was insured by the FDIC, and the remainder was covered by qualified collateral held in safekeeping.

Minnesota statutes require that all HRA deposits be protected by insurance, surety bond, or collateral and that securities pledged as collateral be legal instruments and be held in safekeeping by the HRA treasurer or in a financial institution other than that furnishing the collateral. The market value of collateral pledged must generally exceed deposits not covered by insurance or bonds by at least ten percent. The HRA was in compliance with these Minnesota statutes at all times during the year ended June 30, 2006.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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

B. Cash and Investments (Continued)

Investments

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

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

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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

C. Property and Equipment

The following is a summary of property and equipment transactions:

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2006</u>
Land	\$ 197,000	\$ -	\$ -	\$ 197,000
Site improvements	159,549	-	-	159,549
Building	4,343,003	-	-	4,343,003
Appliances	117,433	-	-	117,433
Total	\$ 4,816,985	\$ -	\$ -	\$ 4,816,985
Accumulated depreciation	(798,377)	(138,611)	-	(936,988)
Totals	<u>\$ 4,018,608</u>	<u>\$ (138,611)</u>	<u>\$ -</u>	<u>\$ 3,879,997</u>

D. Due to Other Governments

Included in payables and other current liabilities are amounts due to other governments at June 30, 2006:

United States Department of Housing and Urban Development, under the Section 8 Housing Program	<u>\$ 37,518</u>
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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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

E. Long-Term Debt Payable

The following is a summary of long-term debt transactions for the year ended June 30, 2006:

	<u>July 1, 2005</u>	<u>Issued</u>	<u>Payments</u>	<u>June 30, 2006</u>
Essential Function Housing Development Bond of 1996	\$ 1,054,886	\$ -	\$ 26,522	\$ 1,028,364
Essential Function Housing Development Bond of 1997	1,073,020	-	25,839	1,047,181
Essential Function Housing Development Bond of 1999	1,035,243	-	21,471	1,013,772
Essential Function Housing Development Bond of 2001	1,176,813	-	21,990	1,154,823
Assessments payable	<u>37,978</u>	<u>-</u>	<u>14,838</u>	<u>23,140</u>
Totals	<u>\$ 4,377,940</u>	<u>\$ -</u>	<u>\$ 110,660</u>	\$ 4,267,280
Less: current portion				<u>(105,398)</u>
Noncurrent Portion				<u>\$ 4,161,882</u>

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

The Essential Function Housing Development Revenue Bond of 1997 matures on April 1, 2028. The bond currently bears an interest rate of 5.000 percent per annum until July 1, 2008, at which time the rate becomes 6.125 percent per annum; the interest rate is thereafter adjustable periodically over the life of the bond. Principal and interest are payable monthly. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are insufficient to meet the bond obligations, the HRA may request funds from the McLeod

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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

E. Long-Term Debt Payable (Continued)

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

The Essential Function Housing Development Revenue Bond of 1999 matures on May 1, 2030. The bond bears an interest rate of 5.000 percent per annum until July 1, 2008, at which time the rate becomes 6.125 percent per annum; the interest rate is thereafter adjustable periodically over the life of the bond. Principal and interest are payable monthly. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are insufficient to meet the operation and maintenance costs, the HRA may request funds from the McLeod County General Fund by ordering a County-wide tax levy not to exceed \$75,000 each calendar year. The HRA agrees to repay the funds to McLeod County after bond obligations have been fulfilled.

The Essential Function Housing Development Revenue Bond of 2001 matures on June 1, 2022. The bond bears an interest rate of 5.400 percent per annum payable monthly; the interest rate shall be adjusted periodically over the life of the bond. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are insufficient to meet the operation and maintenance costs, the HRA may request funds from the McLeod County General Fund 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 assessments are payable to the City of Glencoe for the installation of sewer and water facilities. The debt matures October 1, 2009, and bears interest at the rate of 5.00 percent. Payments of \$2,369, including principal and interest, are payable quarterly beginning January 1, 2005. The debt is secured by the property in Glencoe.

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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

E. Long-Term Debt Payable (Continued)

The estimated debt service requirements as of June 30, 2006, are as follows:

<u>Years Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 105,398	\$ 215,326	\$ 320,724
2008	113,037	210,057	323,094
2009	117,690	204,180	321,870
2010	115,377	198,240	313,617
2011	121,387	192,230	313,617
2012 - 2016	708,620	862,466	1,571,086
2017 - 2021	913,466	654,620	1,568,086
2022 - 2026	1,177,609	390,477	1,568,086
2027 - 2031	843,585	100,837	944,422
2032 - 2036	51,111	972	52,083
Totals	<u>\$ 4,267,280</u>	<u>\$ 3,029,405</u>	<u>\$ 7,296,685</u>

F. Risk Management

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

**REQUIRED SUPPLEMENTARY INFORMATION**

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

*Schedule 1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 8,961,398	\$ 8,961,398	\$ 8,029,616	\$ (931,782)
Special assessments	-	-	1,855	1,855
Licenses and permits	84,000	84,000	126,617	42,617
Intergovernmental	2,754,151	2,754,151	4,123,379	1,369,228
Charges for services	1,761,635	1,761,635	1,750,707	(10,928)
Fines and forfeits	19,875	19,875	27,933	8,058
Gifts and contributions	5,500	5,500	19,894	14,394
Investment earnings	401,150	401,150	1,169,379	768,229
Miscellaneous	325,596	325,596	396,565	70,969
<b>Total Revenues</b>	<b>\$ 14,313,305</b>	<b>\$ 14,313,305</b>	<b>\$ 15,645,945</b>	<b>\$ 1,332,640</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 229,027	\$ 229,027	\$ 232,461	\$ (3,434)
County-wide	220,308	220,308	9,523	210,785
Courts	70,000	70,000	84,108	(14,108)
Law library	40,000	40,000	36,994	3,006
County administrator	202,924	202,924	201,487	1,437
County auditor	499,171	499,171	449,024	50,147
County treasurer	211,057	211,057	198,682	12,375
County assessor	349,300	349,300	317,867	31,433
Elections	63,378	63,378	197,228	(133,850)
Data processing	884,839	884,839	827,504	57,335
Central services	247,511	247,511	191,701	55,810
Attorney	430,534	430,534	451,609	(21,075)
Recorder	435,034	435,034	429,674	5,360
Planning and zoning	203,171	203,171	193,365	9,806
Buildings	477,685	477,685	568,511	(90,826)
County insurance	226,390	226,390	225,457	933
Veterans service officer	123,326	123,326	119,658	3,668
Fairgrounds	222,281	222,281	230,081	(7,800)
Safety	2,277	2,277	2,369	(92)
Other general government	1,500	1,500	1,600	(100)
<b>Total general government</b>	<b>\$ 5,139,713</b>	<b>\$ 5,139,713</b>	<b>\$ 4,968,903</b>	<b>\$ 170,810</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**Schedule 1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 3,044,682	\$ 3,044,682	\$ 3,001,066	\$ 43,616
Inmate account	-	-	11,100	(11,100)
Probation officer	337,406	337,406	335,880	1,526
County jail	2,089,475	2,089,475	1,691,972	397,503
Juvenile detention	2,300	2,300	10,424	(8,124)
Sheriff posse	39,096	39,096	45,049	(5,953)
Sheriff radio	-	-	229,190	(229,190)
Coroner	90,736	90,736	81,319	9,417
Emergency services	92,808	92,808	73,500	19,308
<b>Total public safety</b>	<b>\$ 5,696,503</b>	<b>\$ 5,696,503</b>	<b>\$ 5,479,500</b>	<b>\$ 217,003</b>
<b>Health</b>				
Nursing service	<b>\$ 1,750,378</b>	<b>\$ 1,750,378</b>	<b>\$ 1,764,662</b>	<b>\$ (14,284)</b>
<b>Culture and recreation</b>				
Historical society	\$ 30,000	\$ 30,000	\$ 35,000	\$ (5,000)
Regional library	145,919	145,919	145,919	-
Other	18,400	18,400	17,585	815
Parks	282,870	282,870	283,942	(1,072)
Snowmobile trail grant	30,000	30,000	42,632	(12,632)
<b>Total culture and recreation</b>	<b>\$ 507,189</b>	<b>\$ 507,189</b>	<b>\$ 525,078</b>	<b>\$ (17,889)</b>
<b>Conservation of natural resources</b>				
Soil and water conservation	\$ 53,000	\$ 53,000	\$ 53,572	\$ (572)
County extension	193,835	193,835	183,493	10,342
Agriculture ditch inspector	18,270	18,270	8,763	9,507
Water planning	31,612	31,612	42,749	(11,137)
Wetland	21,576	21,576	16,893	4,683
Shoreland	6,320	6,320	4,063	2,257
Board of adjustment	3,022	3,022	3,398	(376)
Feedlot	42,869	42,869	36,364	6,505
Environmental services	115,982	115,982	136,387	(20,405)
Other	2,657	2,657	3,284	(627)
Septic loans	16,000	16,000	87,097	(71,097)
<b>Total conservation of natural resources</b>	<b>\$ 505,143</b>	<b>\$ 505,143</b>	<b>\$ 576,063</b>	<b>\$ (70,920)</b>
<b>Economic development</b>				
Housing and redevelopment authority	<b>\$ 2,368</b>	<b>\$ 2,368</b>	<b>\$ 1,850</b>	<b>\$ 518</b>
<b>Total Expenditures</b>	<b>\$ 13,601,294</b>	<b>\$ 13,601,294</b>	<b>\$ 13,316,056</b>	<b>\$ 285,238</b>

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

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**Schedule 1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ 712,011</b>	<b>\$ 712,011</b>	<b>\$ 2,329,889</b>	<b>\$ 1,617,878</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 20,000	\$ 20,000	\$ 333,123	\$ 313,123
Transfers out	(50,000)	(50,000)	(785)	49,215
Proceeds from loan	-	-	87,097	87,097
Proceeds from the sale of capital assets	7,000	7,000	31,541	24,541
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (23,000)</b>	<b>\$ (23,000)</b>	<b>\$ 450,976</b>	<b>\$ 473,976</b>
<b>Net Change in Fund Balance</b>	<b>\$ 689,011</b>	<b>\$ 689,011</b>	<b>\$ 2,780,865</b>	<b>\$ 2,091,854</b>
<b>Fund Balance - January 1</b>	<b>8,337,828</b>	<b>8,337,828</b>	<b>8,337,828</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>(13,396)</b>	<b>(13,396)</b>
<b>Fund Balance - December 31</b>	<b>\$ 9,026,839</b>	<b>\$ 9,026,839</b>	<b>\$ 11,105,297</b>	<b>\$ 2,078,458</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,327,754	\$ 2,327,754	\$ 2,076,294	\$ (251,460)
Licenses and permits	5,000	5,000	7,710	2,710
Intergovernmental	4,067,000	4,067,000	6,272,383	2,205,383
Charges for services	183,000	183,000	151,645	(31,355)
Miscellaneous	34,000	34,000	39,486	5,486
<b>Total Revenues</b>	<b>\$ 6,616,754</b>	<b>\$ 6,616,754</b>	<b>\$ 8,547,518</b>	<b>\$ 1,930,764</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 633,480	\$ 633,480	\$ 745,805	\$ (112,325)
GIS	161,469	161,469	144,374	17,095
Maintenance	1,505,637	1,505,637	1,446,493	59,144
Engineering/construction	3,700,000	3,700,000	4,686,681	(986,681)
Equipment, maintenance, and shop	616,168	616,168	833,200	(217,032)
<b>Total Expenditures</b>	<b>\$ 6,616,754</b>	<b>\$ 6,616,754</b>	<b>\$ 7,856,553</b>	<b>\$ (1,239,799)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 690,965</b>	<b>\$ 690,965</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ -	\$ -	\$ 400,895	\$ 400,895
Proceeds from sale of assets	-	-	9,400	9,400
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 410,295</b>	<b>\$ 410,295</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,101,260</b>	<b>\$ 1,101,260</b>
<b>Fund Balance - January 1</b>	<b>4,181,282</b>	<b>4,181,282</b>	<b>4,181,282</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>10,482</b>	<b>10,482</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,181,282</b>	<b>\$ 4,181,282</b>	<b>\$ 5,293,024</b>	<b>\$ 1,111,742</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
WELFARE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 3,785,789	\$ 3,785,789	\$ 3,386,680	\$ (399,109)
Intergovernmental	3,553,516	3,553,516	4,153,376	599,860
Charges for services	733,349	733,349	524,632	(208,717)
Gifts and contributions	-	-	20	20
Miscellaneous	378,600	378,600	300,412	(78,188)
<b>Total Revenues</b>	<b>\$ 8,451,254</b>	<b>\$ 8,451,254</b>	<b>\$ 8,365,120</b>	<b>\$ (86,134)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 1,791,484	\$ 1,791,484	\$ 1,777,582	\$ 13,902
Social services	6,291,947	6,291,947	6,328,568	(36,621)
Transit authority	298,033	298,033	76,039	221,994
<b>Total Expenditures</b>	<b>\$ 8,381,464</b>	<b>\$ 8,381,464</b>	<b>\$ 8,182,189</b>	<b>\$ 199,275</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ 69,790</b>	<b>\$ 69,790</b>	<b>\$ 182,931</b>	<b>\$ 113,141</b>
<b>Fund Balance - January 1</b>	<b>3,549,372</b>	<b>3,549,372</b>	<b>3,549,372</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,619,162</b>	<b>\$ 3,619,162</b>	<b>\$ 3,732,303</b>	<b>\$ 113,141</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**Schedule 4**

**BUDGETARY COMPARISON SCHEDULE  
SOLID WASTE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Licenses and permits	\$ 5,000	\$ 5,000	\$ 5,795	\$ 795
Intergovernmental	80,000	80,000	81,141	1,141
Charges for services	990,148	990,148	1,295,433	305,285
Investment earnings	153,100	153,100	-	(153,100)
Miscellaneous	20,001	20,001	29,880	9,879
<b>Total Revenues</b>	<b>\$ 1,248,249</b>	<b>\$ 1,248,249</b>	<b>\$ 1,412,249</b>	<b>\$ 164,000</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Sanitation</b>				
Recycling	1,214,351	1,214,351	1,692,259	(477,908)
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ 33,898</b>	<b>\$ 33,898</b>	<b>\$ (280,010)</b>	<b>\$ (313,908)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 765,588	\$ 765,588	\$ -	\$ (765,588)
Transfers out	(765,588)	(765,588)	(333,123)	432,465
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (333,123)</b>	<b>\$ (333,123)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 33,898</b>	<b>\$ 33,898</b>	<b>\$ (613,133)</b>	<b>\$ (647,031)</b>
<b>Fund Balance - January 1</b>	<b>4,471,993</b>	<b>4,471,993</b>	<b>4,471,993</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>28,246</b>	<b>28,246</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,505,891</b>	<b>\$ 4,505,891</b>	<b>\$ 3,887,106</b>	<b>\$ (618,785)</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2006**

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1. Budgetary Information

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

On December 27, 2005, the Board approved the budgets for the General Fund, Road and Bridge Special Revenue Fund, Welfare Special Revenue Fund, and the Solid Waste Special Revenue Fund.

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

2. Excess of Expenditures over Appropriations

In the General Fund, the following departments' expenditures exceeded appropriations for the year ended December 31, 2006:

Commissioners	\$	3,434
Courts		14,108
Elections		133,850
Attorney		21,075
Buildings		90,826
Fairgrounds		7,800
Safety		92
Other general government		100
Inmate account		11,100
Juvenile detention		8,124
Sheriff's posse		5,953
Sheriff radio		229,190
Nursing service		14,284
Historical society		5,000
Parks		1,072
Snowmobile trail grant		12,632
Soil and water conservation		572
Water planning		11,137
Board of adjustment		376
Environmental services		20,405
Other conservation		627
Septic loans		71,097

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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2. Excess of Expenditures over Appropriations (Continued)

In the Road and Bridge Special Revenue Fund, the expenditures exceeded appropriations for the year ended December 31, 2006, by \$1,239,799,

In the Solid Waste Special Revenue Fund, the expenditures exceeded appropriations for the year ended December 31, 2006, by \$477,908.

**SUPPLEMENTARY INFORMATION**

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**NONMAJOR GOVERNMENTAL FUNDS**

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**Statement 1**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Total</u>
	<u>Ditch</u>	<u>Forfeited Tax</u>		
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 156,108	\$ -	\$ 1,576,200	\$ 1,732,308
Cash with escrow agent	-	-	1,240,105	1,240,105
Taxes receivable				
Prior	-	-	30,086	30,086
Special assessments receivable				
Prior	1,051	-	-	1,051
Noncurrent	133,154	-	-	133,154
Accrued interest receivable	194	-	29,410	29,604
Due from other governments	3,972	-	-	3,972
<b>Total Assets</b>	<b>\$ 294,479</b>	<b>\$ -</b>	<b>\$ 2,875,801</b>	<b>\$ 3,170,280</b>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 240	\$ -	\$ -	\$ 240
Due to other governments	10,115	-	-	10,115
Accrued interest payable	288	-	-	288
Deferred revenue - unavailable	135,431	-	30,086	165,517
Advance from other funds	118,000	-	-	118,000
<b>Total Liabilities</b>	<b>\$ 264,074</b>	<b>\$ -</b>	<b>\$ 30,086</b>	<b>\$ 294,160</b>
<b>Fund Balances</b>				
Reserved for				
Refunding bonds	\$ -	\$ -	\$ 1,254,795	\$ 1,254,795
Unreserved				
Designated for debt service	-	-	1,590,920	1,590,920
Undesignated	30,405	-	-	30,405
<b>Total Fund Balances</b>	<b>\$ 30,405</b>	<b>\$ -</b>	<b>\$ 2,845,715</b>	<b>\$ 2,876,120</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 294,479</b>	<b>\$ -</b>	<b>\$ 2,875,801</b>	<b>\$ 3,170,280</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

Statement 2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Total</u>
	<u>Ditch</u>	<u>Forfeited Tax</u>		
<b>Revenues</b>				
Taxes	\$ -	\$ -	\$ 1,138,336	\$ 1,138,336
Special assessments	233,682	-	-	233,682
Intergovernmental	-	-	127,782	127,782
Investment earnings	5,275	-	50,232	55,507
<b>Total Revenues</b>	<b>\$ 238,957</b>	<b>\$ -</b>	<b>\$ 1,316,350</b>	<b>\$ 1,555,307</b>
<b>Expenditures</b>				
<b>Current</b>				
General government	\$ -	\$ 785	\$ -	\$ 785
Conservation of natural resources	53,064	-	-	53,064
<b>Debt service</b>				
Principal	-	-	1,180,000	1,180,000
Interest	11,452	-	143,500	154,952
Administrative - fiscal charges	-	-	500	500
<b>Total Expenditures</b>	<b>\$ 64,516</b>	<b>\$ 785</b>	<b>\$ 1,324,000</b>	<b>\$ 1,389,301</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 174,441</b>	<b>\$ (785)</b>	<b>\$ (7,650)</b>	<b>\$ 166,006</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	785	-	785
<b>Net Change in Fund Balance</b>	<b>\$ 174,441</b>	<b>\$ -</b>	<b>\$ (7,650)</b>	<b>\$ 166,791</b>
<b>Fund Balance - January 1</b>	<b>(144,036)</b>	<b>-</b>	<b>2,853,365</b>	<b>2,709,329</b>
<b>Fund Balance - December 31</b>	<b>\$ 30,405</b>	<b>\$ -</b>	<b>\$ 2,845,715</b>	<b>\$ 2,876,120</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

*Schedule 5*

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,277,243	\$ 1,277,243	\$ 1,138,336	\$ (138,907)
Intergovernmental	-	-	127,782	127,782
Investment earnings	-	-	50,232	50,232
<b>Total Revenues</b>	<b>\$ 1,277,243</b>	<b>\$ 1,277,243</b>	<b>\$ 1,316,350</b>	<b>\$ 39,107</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 1,180,000	\$ 1,180,000	\$ 1,180,000	\$ -
Interest	107,958	107,958	143,500	(35,542)
Administrative charges	500	500	500	-
<b>Total Expenditures</b>	<b>\$ 1,288,458</b>	<b>\$ 1,288,458</b>	<b>\$ 1,324,000</b>	<b>\$ (35,542)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (11,215)</b>	<b>\$ (11,215)</b>	<b>\$ (7,650)</b>	<b>\$ 3,565</b>
<b>Fund Balance - January 1</b>	<b>2,853,365</b>	<b>2,853,365</b>	<b>2,853,365</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,842,150</b>	<b>\$ 2,842,150</b>	<b>\$ 2,845,715</b>	<b>\$ 3,565</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>MEEKER-MCLEOD-SIBLEY</u></b>				
<b><u>COMMUNITY HEALTH SERVICES FUND</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 211,277	\$ 1,687,681	\$ 1,702,524	\$ 196,434
Accounts receivable	80	-	80	-
Due from other governments	130,363	228,352	130,363	228,352
<b>Total Assets</b>	<b>\$ 341,720</b>	<b>\$ 1,916,033</b>	<b>\$ 1,832,967</b>	<b>\$ 424,786</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 4,040	\$ 4,733	\$ 4,040	\$ 4,733
Due to other governments	337,680	420,053	337,680	420,053
<b>Total Liabilities</b>	<b>\$ 341,720</b>	<b>\$ 424,786</b>	<b>\$ 341,720</b>	<b>\$ 424,786</b>
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 204,898	\$ 35,488,866	\$ 35,381,970	\$ 311,794
<b><u>Liabilities</u></b>				
Due to other governments	\$ 204,898	\$ 311,794	\$ 204,898	\$ 311,794

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

Statement 3  
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>STATE AGENCY FUND</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 123,823	\$ 4,142,358	\$ 4,138,686	\$ 127,495
Departmental cash	-	2,333	-	2,333
Accounts receivable	1,087	815	1,087	815
Due from other governments	18,011	480	18,011	480
<b>Total Assets</b>	<b><u>\$ 142,921</u></b>	<b><u>\$ 4,145,986</u></b>	<b><u>\$ 4,157,784</u></b>	<b><u>\$ 131,123</u></b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 629	-	\$ 629	-
Due to other governments	142,292	131,123	142,292	131,123
<b>Total Liabilities</b>	<b><u>\$ 142,921</u></b>	<b><u>\$ 131,123</u></b>	<b><u>\$ 142,921</u></b>	<b><u>\$ 131,123</u></b>
 <b><u>COUNTY COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 703,320	\$ 146,773	\$ 340,813	\$ 509,280
Due from other governments	3,978	-	3,978	-
<b>Total Assets</b>	<b><u>\$ 707,298</u></b>	<b><u>\$ 146,773</u></b>	<b><u>\$ 344,791</u></b>	<b><u>\$ 509,280</u></b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 34,398	\$ 14,875	\$ 34,398	\$ 14,875
Due to other governments	672,900	494,405	672,900	494,405
<b>Total Assets</b>	<b><u>\$ 707,298</u></b>	<b><u>\$ 509,280</u></b>	<b><u>\$ 707,298</u></b>	<b><u>\$ 509,280</u></b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

Statement 3  
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 1,243,318	\$ 41,465,678	\$ 41,563,993	\$ 1,145,003
Departmental cash	-	2,333	-	2,333
Accounts receivable	1,167	815	1,167	815
Due from other governments	152,352	228,832	152,352	228,832
<b>Total Assets</b>	<b>\$ 1,396,837</b>	<b>\$ 41,697,658</b>	<b>\$ 41,717,512</b>	<b>\$ 1,376,983</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 39,067	\$ 19,608	\$ 39,067	\$ 19,608
Due to other governments	1,357,770	1,357,375	1,357,770	1,357,375
<b>Total Liabilities</b>	<b>\$ 1,396,837</b>	<b>\$ 1,376,983</b>	<b>\$ 1,396,837</b>	<b>\$ 1,376,983</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

**Schedule 6**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**Shared Revenue**

**State**

Highway users tax	\$	3,653,650
Market value credit		1,703,140
PERA rate reimbursement		36,151
Disparity reduction aid		60,910
County program aid		1,685,144
Police aid		105,464
E-911		72,949
		72,949

**Total Shared Revenue** **\$ 7,317,408**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$	2,002,014
		2,002,014

**Payments**

**Local**

Payments in lieu of taxes	\$	72,513
		72,513

**Grants**

**State**

Minnesota Department/Board of		
Corrections	\$	102,195
Public Safety		4,004
Transportation		1,058,250
Health		240,212
Natural Resources		35,361
Human Services		1,333,389
Soil and Water Resources		95,659
Veterans Affairs		4,200
Office of Environmental Assistance		81,141
		81,141

**Total State** **\$ 2,954,411**

**Federal**

Department of		
Agriculture	\$	146,489
Justice		36,813
Transportation		1,332,730
Election Assistance Commission		197,663
Health and Human Services		680,928
Homeland Security		17,092
		17,092

**Total Federal** **\$ 2,411,715**

**Total State and Federal Grants** **\$ 5,366,126**

**Total Intergovernmental Revenue** **\$ 14,758,061**

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

*Schedule 7*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

99-1 Accounting Policies and Procedures

Previous reports have recommended that a comprehensive manual of accounting policies and procedures be developed. The County Board has shown substantial progress in establishing accounting policies and procedures. Of importance to the County's overall internal controls are written procedures covering the cash receipting process, revenue recognition, cash disbursement process, payroll process, and financial reporting. These areas are significant to the County's financial operations and should help in providing consistency over time and guidance to new officials and staff.

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

Client's Response:

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

PREVIOUSLY REPORTED ITEMS RESOLVED

**Sheriff's Office Checking Account (05-1)**

Our previous report noted that funds in the Sheriff's checking account were not remitted to the County Treasurer in a timely manner. We also noted that some expenses of the Sheriff's Office were paid out of the checking account, which is not the purpose of the account. Finally, a theft of \$550 was disclosed, because the money was not secured in the lockbox.

**Resolution**

Funds are now being remitted to the County Treasurer on a timely basis. We did not note any departmental expenses being paid from the checking account. Regarding the theft, two additional thefts were reported in 2006, totaling \$94. Following these additional thefts, the Sheriff established the procedure to remit all inmate funds to the County Treasurer upon their receipt, with any refunds due inmates to be paid by a County check.

**Social Welfare Fund Disbursements (05-2)**

Our previous report noted the following conditions, relative to social welfare fund disbursements:

- Authorization forms did not include approval signatures by the caseworker.
- Some checks were made payable to a caseworker.
- Blank authorization forms were signed in advance by the caseworker, and copies of the forms were used to authorize disbursements.
- Account activity reports are sent to caseworkers and clients only upon request.
- There is no formal policy on the procedures for disbursing social welfare funds or obtaining the supporting documentation required.

**Resolution**

Our current review found the following:

- Authorization forms now include approval signatures by the caseworker.
- Checks are no longer made payable to the caseworker.
- Blank authorization forms are no longer signed in advance by the caseworker.
- Account activity reports are now sent to clients on a regular basis.
- A policy has been established to address the disbursing process. We recommend that the policy be approved by the County Board.

**Approval of Journal Entries (05-3)**

Our previous report recommended that the process for preparing and recording journal entries be modified to limit the County Auditor to only approving the entries and placing responsibility for preparing the entries with someone else.

**Resolution**

The County implemented a new procedure that calls for the County Auditor to only approve journal entries, while someone else is responsible for preparing the entries.

**Approval of Payroll (05-4)**

Our previous report noted that the payroll clerk was able to make adjustments to employees' pay without any oversight of the transactions by another individual. We recommended that a review process be implemented by the County Auditor's Office.

**Resolution**

Changes to employees' pay are now reviewed and approved by the accountant in the County Auditor's Office.

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

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

**Social Welfare - Money Manager Accounts (05-5)**

Our previous report found that "money manager" checking accounts maintained for social welfare clients had no statutory authority and lacked internal controls. We recommended that the accounts be closed, with the activity transferred to the social welfare checking account maintained by the Social Services Accounting Department.

**Resolution**

We found that, except for a couple of accounts requiring additional attention before they could be closed, the "money manager" accounts had been closed to the social welfare checking account.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

00-7 Absence of Business Continuity Plan

The County has not developed a business continuity plan to ensure continued operations if a disaster or major computer breakdown were to occur. The County has acknowledged the need for a plan and has taken some steps toward its development.

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

Client's Response:

*The McLeod County Information Systems Department is being assisted by the State of Minnesota Office of Enterprise Technology (OET) to create a technology disaster recovery plan as part of the Business Continuity Plan. OET is assisting McLeod County I.S. department from June 2007 to June 2008. The factors of the plan are, but not limited to; using the business impact analysis, creating a recovery timeline, creating recovery strategies, identifying resources needed, creating recovery priorities, creating recovery procedures, and access to software to create and maintain the plan.*

ITEM ARISING THIS YEAR

06-1 Solid Waste Department - Contracting for Services

The Solid Waste Department is in the business of collecting recyclable materials and having them transported to a recycling center. The County pays a private hauler to transport the recycled materials. We found there is no written agreement between the County and private hauler that sets forth the obligations of each party. We also found that the County is paying the hauler for services provided by the hauler to its other customers, with the County eventually being reimbursed. The only explanation for these additional payments seemed to be for the convenience of the hauler.

We recommend that the County enter into a written agreement with the hauler(s) providing transportation services for recyclable materials. We also recommend that payments to the hauler for non-County related services be discontinued.

Client's Response:

*McLeod County recognizes the importance of written contracts and will work on implementing written contracts with our vendors in the future.*

OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

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

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

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

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

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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

Board of County Commissioners  
McLeod County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of McLeod County as of and for the year ended December 31, 2006, and have issued our report thereon dated December 27, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the McLeod County Housing and Redevelopment Authority (HRA), as described in our report on McLeod County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

#### Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified one deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 99-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by McLeod County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

#### Compliance and Other Matters

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

#### Minnesota Legal Compliance

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

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

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

Also included in the Schedule of Findings and Questioned Costs are management practices comments and an other item for consideration. We believe these recommendations and information to be of benefit to McLeod County and are reported for that purpose.

McLeod County's written responses to the significant deficiency and management practice findings identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 27, 2007

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

Board of County Commissioners  
McLeod County

### Compliance

We have audited the compliance of McLeod County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program as of and for the year ended December 31, 2006. McLeod County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

McLeod County's financial statements include the operations of the McLeod County Housing and Redevelopment Authority (HRA) discretely presented component unit, which expended \$330,237 in federal awards during the year ended June 30, 2006, which are not included in the accompanying Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the McLeod County HRA because the McLeod County HRA was audited by other auditors.

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

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

In our opinion, McLeod County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2006.

#### Internal Control Over Compliance

The management of McLeod County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by McLeod County's internal control.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of McLeod County as of and for the year ended December 31, 2006, and have issued our report thereon dated December 27, 2007. We did not audit the financial statements of the McLeod County HRA, a component unit of McLeod County. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise McLeod County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

*/s/Rebecca Otto*

*/s/Greg Hierlinger*

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 27, 2007

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**McLEOD COUNTY  
GLENCOE, MINNESOTA**

*Schedule 8*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Meeker-McLeod-Sibley Community Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 140,297
Passed Through Minnesota Department of Human Services Matching Grants for Food Stamp Program	10.561	6,192
<b>Total U.S. Department of Agriculture</b>		<b>\$ 146,489</b>
<b>U.S. Department of Justice</b>		
Passed Through Meeker-McLeod-Sibley Community Health Services Drug Free Communities Support Program	16.729	<b>\$ 36,813</b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,326,047
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	6,683
<b>Total U.S. Department of Transportation</b>		<b>\$ 1,332,730</b>
<b>U.S. Election Assistance Commission</b>		
Passed Through Minnesota Secretary of State Help America Vote Act	90.401	<b>\$ 136,961</b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	\$ 15,418
Temporary Assistance for Needy Families (TANF)	93.558	198,782
Child Care and Development Block Grant	93.596	13,983
Foster Care Title IV-E	93.658	122,539
Social Services Block Grant Title XX	93.667	193,985
Chafee Foster Care Independent Living	93.674	2,921
Community Mental Health Block Grant	93.958	6,186
Passed Through Meeker-McLeod-Sibley Community Health Services		
Center for Disease Control and Prevention Block Grant	93.283	44,788
Comprehensive Breast/Cervical Cancer Control Program	93.919	3,500
Block Grant for Prevention and Treatment of Substance Abuse	93.959	45,831
Maternal and Child Health Services Block Grant	93.994	32,995
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 680,928</b>

**McLEOD COUNTY  
GLENCOE, MINNESOTA**

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety		
State Domestic Preparedness Equipment Support Program	97.004	\$ 2,520
Emergency Management Performance Grants	97.042	14,572
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 17,092</b>
<b>Total Federal Awards</b>		<b>\$ 2,351,013</b>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by McLeod County. The County's reporting entity is defined in Note 1 to the financial statements. The schedule does not include the McLeod County Housing and Redevelopment Authority's federal awards.
2. The expenditures on this schedule are on the full accrual basis of accounting. In 2006, \$60,702 of current year federal revenues for CFDA No. 90.401 were not recognized as expenditures because they had not been spent by year-end.
3. Pass-through grant numbers were not assigned by the pass-through agencies.
4. During 2006, McLeod County did not pass any federal money to subrecipients.