

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

MCLEOD COUNTY
GLENCOE, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

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

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

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

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

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

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

Pension - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

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

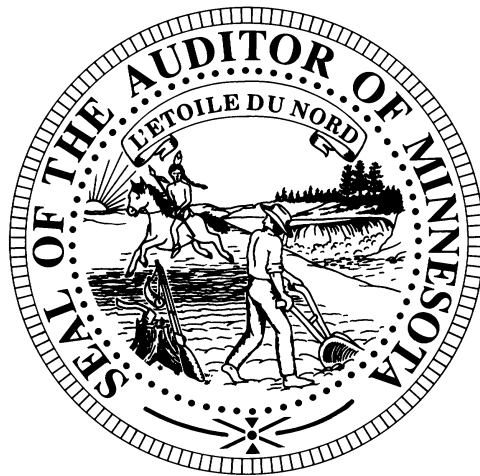
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**MCLEOD COUNTY
GLENCOE, MINNESOTA**

Year Ended December 31, 2004



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

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

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**MCLEOD COUNTY
GLENCOE, MINNESOTA**

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**MCLEOD COUNTY
GLENCOE, MINNESOTA**

**ORGANIZATION
2004**

Office	Name	Term of Office	
		From	To
Commissioners			
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
Officers			
Elected			
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. Coukel	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
Appointed			
Assessor	Harold Kirchoff	March 1997	January 2005
Court Administrator	Robert Schmidt	February 2000	Indefinite
Coroner	Dr. Brian Bonte	January 1997	January 2006
Highway Engineer	John Brunkhorst	November 2001	May 2006
Surveyor	Jeff Rausch	February 1996	January 2005
Veterans Service Officer	James Lauer	November 2004	January 2009
County Administrator	Nan Crary	January 1996	Indefinite
Human Services Director	Gary Sprynczynatyk	August 1995	Indefinite
Extension Director	Joe Neubauer	November 1981	Indefinite
PHN Service Director	Becky Felling	August 1994	Indefinite
Zoning Administrator	Larry Gasow	February 2000	January 2008
Park Superintendent	Allan Koglin	August 1979	Indefinite
Ag and Weed Inspector	Allan Koglin	January 1997	January 2005
Building Services Supervisor	Wayne Rosenfeld	December 1989	Indefinite

*Chair

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PATRICIA ANDERSON
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, 2004, including the McLeod County Housing and Redevelopment Authority (HRA) as of and for the year ended June 30, 2004, 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, 2004, and the McLeod County HRA as of June 30, 2004, 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 September 19, 2005, on our consideration of McLeod County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: September 19, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**MCLEOD COUNTY
GLENCOE, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

(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, 2004. 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 \$111,422,724 (net assets). Of this amount, \$15,848,136 (unrestricted net assets) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's total net assets increased by \$968,798 (less than one percent). The increase is due to budget savings from operations.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$5,304,114, or 47 percent of total 2004 General Fund expenditures.
- Governmental funds' fund balances increased by \$1,793,959.

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 or 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. McLeod County Housing and Redevelopment Authority 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 Fund, Welfare

Fund, Solid Waste 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, Welfare, Solid Waste, and Debt Service. A budgetary comparison statement has been provided for these funds to demonstrate compliance with their budgets.

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

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

Special Revenue Funds - used to account for the proceeds of specific revenue sources 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 statements may be found immediately following the Exhibits.

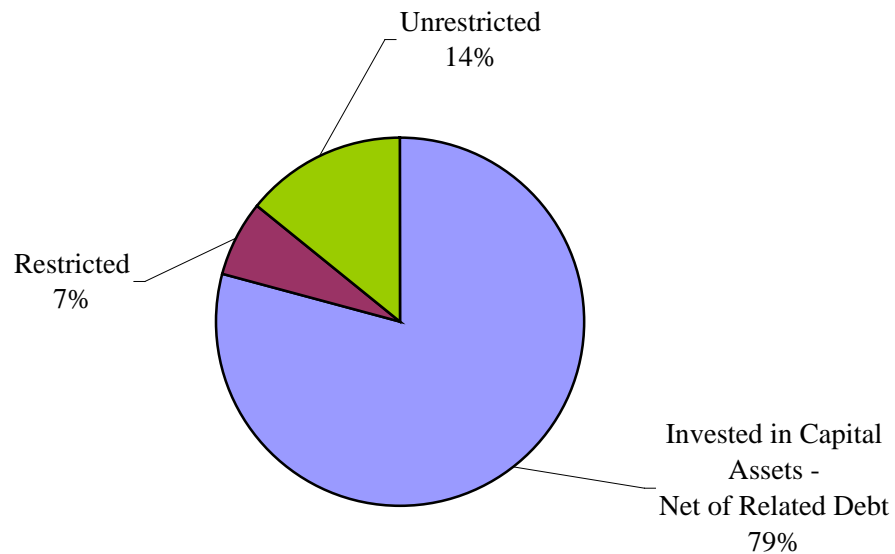
Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary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

Financial Analysis

Net 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 \$111,422,724 as of December 31, 2004. The investment in capital assets, net of related debt, is the largest portion of McLeod County's net assets at 79 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 fourteen percent or \$15,848,136 is unrestricted and available to be used to meet the government's ongoing obligations to citizens and creditors.

McLeod County Net Assets



**McLeod County
Net Assets**

	Governmental Activities 2004	Governmental Activities 2003	Discretely Presented Component Unit 2004	Discretely Presented Component Unit 2003
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Current and other assets	\$ 29,034,701	\$ 27,152,460	\$ 141,384	\$ 171,259
Capital assets	<u>90,963,530</u>	<u>94,323,495</u>	<u>4,163,512</u>	<u>4,262,651</u>
Total Assets	<u>\$ 119,998,231</u>	<u>\$ 121,475,955</u>	<u>\$ 4,304,896</u>	<u>\$ 4,433,910</u>
Current and other liabilities	\$ 2,012,316	\$ 2,511,618	\$ 104,910	\$ 190,224
Long-term liabilities - due within one year	2,687,817	2,770,657	93,138	84,129
Long-term liabilities - due in more than one year	<u>3,875,374</u>	<u>5,739,754</u>	<u>4,378,142</u>	<u>4,429,583</u>
Total Liabilities	<u>\$ 8,575,507</u>	<u>\$ 11,022,029</u>	<u>\$ 4,576,190</u>	<u>\$ 4,703,936</u>
Net Assets				
Invested in Capital Assets - net of related debt	\$ 88,120,709	\$ 91,352,902	\$ -	\$ -
Restricted	7,453,879	7,364,509	-	-
Unrestricted	<u>15,848,136</u>	<u>11,736,515</u>	<u>(271,294)</u>	<u>(270,026)</u>
Total Net Assets	<u>\$ 111,422,724</u>	<u>\$ 110,453,926</u>	<u>\$ (271,294)</u>	<u>\$ (270,026)</u>

GOVERNMENTAL ACTIVITIES

McLeod County's governmental activities increased net assets by \$968,798 during the current fiscal year. This increase is primarily due to budget savings from operations.

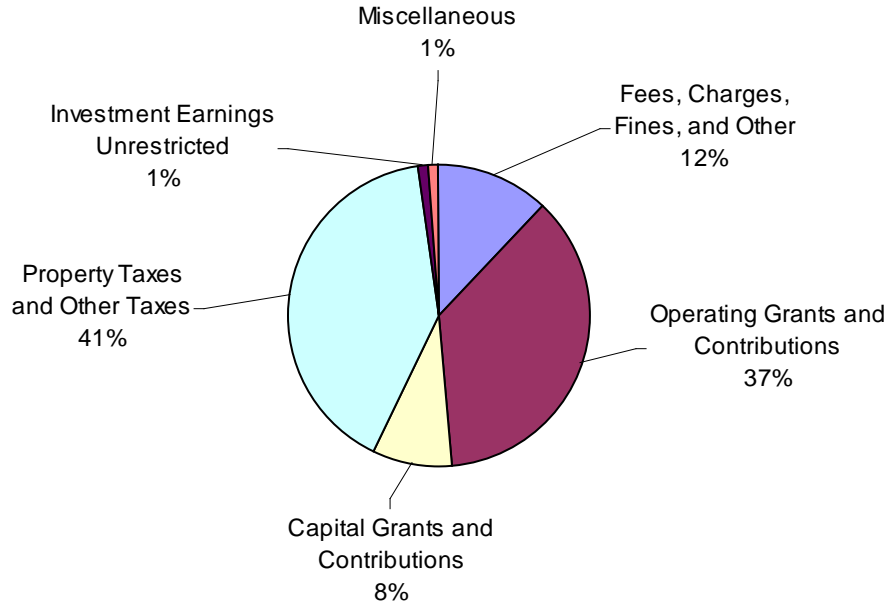
The McLeod County Housing and Redevelopment Authority is a discretely presented component unit of McLeod County. As of June 30, 2004, liabilities exceeded assets by \$271,294; and there was a decrease in net assets of \$1,268 from the prior year. The decrease is primarily due to depreciation expense, insurance expense, and increased repairs expense.

McLeod County
Changes in Net Assets

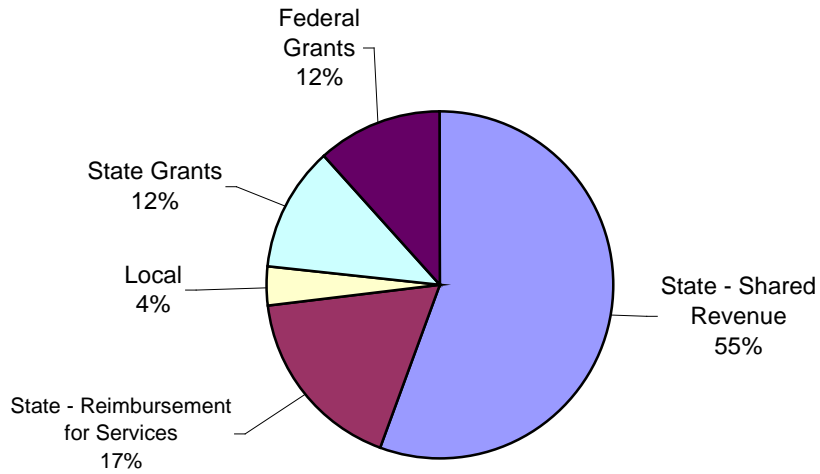
	Governmental Activities 2004	Governmental Activities 2003	Discretely Presented Component Unit 2004	Discretely Presented Component Unit 2003
Revenues				
Program revenues				
Charges for services, fees, fines, and other	\$ 3,643,269	\$ 4,065,469	\$ 787,541	\$ 739,856
Operating grants and contributions	7,861,966	7,255,599	-	-
Capital grants and contributions	2,421,255	4,503,333	-	-
General revenues				
Property taxes	11,959,696	10,632,073	-	-
Other taxes	93,931	85,922	-	-
Grants and contributions not restricted to specific programs	2,891,484	3,241,114	-	-
Unrestricted investment earnings	381,438	396,916	7,636	1,621
Other	300,064	624,670	-	-
Special item - donation of fairgrounds	-	3,354,770	-	-
Total Revenues	\$ 29,553,103	\$ 34,159,866	\$ 795,177	\$ 741,477
Expenses				
General government	\$ 4,392,938	\$ 4,583,480	\$ -	\$ -
Public safety	4,711,071	4,553,577	-	-
Highways and streets	8,021,118	5,407,982	-	-
Sanitation	1,526,668	1,158,123	-	-
Human services	7,366,678	7,906,806	-	-
Health	1,530,611	1,566,248	-	-
Culture and recreation	400,634	473,654	-	-
Conservation of natural resources	432,996	502,776	-	-
Economic development	2,183	2,720	-	-
Interest	199,408	215,116	-	-
Housing and Redevelopment Authority	-	-	796,445	841,037
Total Expenses	\$ 28,584,305	\$ 26,370,482	\$ 796,445	\$ 841,037
Increase (Decrease) in Net Assets	\$ 968,798	\$ 7,789,384	\$ (1,268)	\$ (99,560)
Net Assets - January 1	<u>110,453,926</u>	<u>102,664,542</u>	<u>(270,026)</u>	<u>(170,466)</u>
Net Assets - December 31	<u><u>\$ 111,422,724</u></u>	<u><u>\$ 110,453,926</u></u>	<u><u>\$ (271,294)</u></u>	<u><u>\$ (270,026)</u></u>

The following charts show additional information on the revenues of McLeod County for the year ended December 31, 2004.

Revenues by Source - Governmental Activities



Intergovernmental Revenue



FINANCIAL ANALYSIS

Governmental Funds

At the end of 2004, McLeod County governmental funds reported a combined fund balance of \$24,329,643. This is an increase of \$1,793,959 from the prior year. The General Fund fund balance increased by \$1,070,654 due to increases in revenues by departments. The fund balance in the Solid Waste Fund decreased by \$121,514 due to the construction of the Materials Recovery Facility and equipment associated with it. An increase of \$43,562 in the other governmental fund's fund balance is due to increases in revenues.

General Fund Budgetary Highlights

In total, General Fund revenues ended 2004 \$331,438 lower than budgeted. Licenses and permits, intergovernmental, charges for services, gifts and contributions, and miscellaneous charges came in higher than anticipated. Total General Fund expenditures were \$1,049,693 less than the final budget. The primary reasons for the variance are as follows: County-wide expenditures were estimated to include the increase of salaries expenditures from union contract negotiations which weren't finalized in 2004, and escrow deposit expenditures in the amount of \$688,000 were budgeted for but no expenditures were incurred.

Capital Assets

At the end of 2004, McLeod County had \$90,963,530 invested in capital assets including land, infrastructure, buildings, improvements other than buildings, and equipment. The table below shows a summary of McLeod County capital assets as of December 31.

	McLeod County Capital Assets (net of depreciation)	
	<u>2004</u>	<u>2003</u>
Land, including right-of-way	\$ 5,123,471	\$ 4,999,171
Infrastructure	71,186,407	72,224,418
Buildings	11,017,019	9,285,294
Improvements other than buildings	328,417	285,784
Machinery and equipment	2,276,798	2,226,011
Construction in progress	<u>1,031,418</u>	<u>5,302,817</u>
Total	<u>\$ 90,963,530</u>	<u>\$ 94,323,495</u>

Major capital asset events during the year included the following:

- Construction of the Materials Recovery Facility at the current Solid Waste Building was finished.
- Infrastructure construction continued in 2004.

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 \$5,385,000. This is a decrease of \$1,940,000 from the beginning of the year. The decrease is due to the repayment 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 \$46,346,526, 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 4.6 percent. McLeod County's unemployment rate is .1 percent lower than the state unemployment rate of 4.7 percent but significantly lower than the United States unemployment rate of 5.6 percent.
- The State of Minnesota projected a large budget deficit for 2005. The budget deficit was not fully addressed by the legislature during the 2004 legislative session but is expected to be addressed in 2005. It is likely that McLeod County will see cuts in state revenues again in 2005 with the potential for further cuts in County program aid as was the case in 2004.
- Property tax levy increases have occurred over the past several years and are likely to continue. However, the tax base in McLeod County is also expanding which diminishes the effect to the individual taxpayer.

All of these factors were considered in preparing McLeod County's budget for the 2005 fiscal year.

REQUESTS FOR INFORMATION

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

The Housing and Redevelopment Authority (HRA) discretely presented component unit prepares separate financial statements. Complete financial statements of the HRA can be obtained by writing to McLeod County HRA, 237 S.W. 2nd Avenue, Suite 224, P. O. Box 368, Cambridge, Minnesota 55008.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**MCLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2004
AND JUNE 30, 2004, FOR THE COMPONENT UNIT**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 23,162,115	\$ 34,074
Receivables - net	5,427,726	4,335
Inventories	427,764	7,271
Restricted assets		
Cash and pooled investments	-	20,347
Investments	-	26,727
Deferred charges	17,096	48,630
Capital assets		
Non-depreciable capital assets	6,154,889	197,000
Depreciable capital assets - net of accumulated depreciation	84,808,641	3,966,512
Total Assets	\$ 119,998,231	\$ 4,304,896
<u>Liabilities</u>		
Accounts payable and other current liabilities	\$ 1,887,517	\$ 63,340
Accrued interest payable	58,768	-
Unearned revenue	66,031	-
Payable from restricted assets		
Rent deposits	-	41,570
Long-term liabilities		
Due within one year	2,687,817	93,138
Due in more than one year	3,875,374	4,378,142
Total Liabilities	\$ 8,575,507	\$ 4,576,190
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 88,120,709	\$ -
Restricted for		
General government	576,998	-
Sanitation	4,509,233	-
Debt service	2,175,295	-
Public safety	154,399	-
Conservation of natural resources	37,954	-
Unrestricted	15,848,136	(271,294)
Total Net Assets	\$ 111,422,724	\$ (271,294)

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004
AND JUNE 30, 2004, FOR THE COMPONENT UNIT**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Primary Government		
Governmental activities		
General government	\$ 4,392,938	\$ 993,119
Public safety	4,711,071	258,353
Highways and streets	8,021,118	165,611
Sanitation	1,526,668	1,062,626
Human services	7,366,678	465,980
Health	1,530,611	569,166
Culture and recreation	400,634	78,323
Conservation of natural resources	432,996	50,091
Economic development	2,183	-
Interest	199,408	-
Total primary government	<u>\$ 28,584,305</u>	<u>\$ 3,643,269</u>
Component unit		
Housing and Redevelopment Authority	<u>\$ 796,445</u>	<u>\$ 787,541</u>

General Revenues

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

Total general revenues

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expenses) Revenues and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Discretely Presented Component Unit
\$ 117,172	\$ -	\$ (3,282,647)	
266,033	44,349	(4,142,336)	
3,034,928	2,314,800	(2,505,779)	
81,628	-	(382,414)	
3,755,695	-	(3,145,003)	
543,898	-	(417,547)	
-	-	(322,311)	
62,612	62,106	(258,187)	
-	-	(2,183)	
-	-	(199,408)	
\$ 7,861,966	\$ 2,421,255	\$ (14,657,815)	
\$ -	\$ -		\$ (8,904)
		\$ 11,959,696	\$ -
		40,780	-
		12,117	-
		41,034	-
		2,891,484	-
		381,438	7,636
		281,316	-
		18,748	-
		\$ 15,626,613	\$ 7,636
		\$ 968,798	\$ (1,268)
		110,453,926	(270,026)
		\$ 111,422,724	\$ (271,294)

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FUND FINANCIAL STATEMENTS

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 6,100,276	\$ 3,978,749
Petty cash and change funds	2,305	100
Cash with fiscal agent	521,449	-
Departmental cash	2,647	-
Taxes receivable		
Prior	111,052	22,319
Special assessments receivable		
Prior	-	125
Noncurrent	-	-
Accounts receivable	55,573	318
Accrued interest receivable	39,847	-
Loans receivable	15,090	-
Due from other funds	12,727	240
Due from other governments	231,035	4,042,298
Inventories	36,872	390,892
Advances to other funds	157,103	-
	\$ 7,285,976	\$ 8,435,041

EXHIBIT 3

Welfare	Solid Waste	Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 3,135,151	\$ 4,525,076	\$ 2,542,179	\$ 2,343,833	\$ 22,625,264
300	10,050	-	-	12,755
-	-	-	-	521,449
-	-	-	-	2,647
49,231	-	-	29,052	211,654
-	-	-	2,117	2,242
-	-	-	97,875	97,875
6,139	144,749	-	-	206,779
5,625	29,500	-	89	75,061
75,000	-	-	-	90,090
14,347	204	-	-	27,518
440,635	16,310	8,421	5,326	4,744,025
-	-	-	-	427,764
-	-	-	-	157,103
<u>\$ 3,726,428</u>	<u>\$ 4,725,889</u>	<u>\$ 2,550,600</u>	<u>\$ 2,478,292</u>	<u>\$ 29,202,226</u>

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 201,911	\$ 109,492
Salaries payable	307,854	59,258
Accrued payroll taxes	38,035	7,121
Claims payable	128,155	-
Contracts payable	-	101,256
Retainage payable	-	72,575
Due to other funds	1,330	-
Due to other governments	136,698	7,445
Deferred revenue - unavailable	161,841	2,025,360
Deferred revenue - unearned	25,317	-
Advance from other funds	-	-
	\$ 1,001,141	\$ 2,382,507
Fund Balances		
Reserved for		
Encumbrances	\$ -	\$ 618,313
Inventories	36,872	390,892
Advances to other funds	157,103	-
Loan receivable	15,090	-
Law library	76,229	-
Recorder's equipment purchases	398,665	-
Enhanced 911	29,412	-
Landfill	-	-
Sheriff's contingency	119,987	-
Veterans' van	953	-
Drug enforcement	5,000	-
Conservation of natural resources	21,851	-
Petty cash	2,305	100
Records preservation	101,151	-
Water resource management	16,103	-
Solid waste abatement	-	-
Unreserved		
Designated for future expenditures	3,763,154	1,893,526
Designated for capital improvements	450,000	-
Undesignated	1,090,960	3,149,703
Unreserved, reported in nonmajor		
Special revenue funds	-	-
Debt service fund	-	-
	\$ 6,284,835	\$ 6,052,534
Total Liabilities and Fund Balances	\$ 7,285,976	\$ 8,435,041

EXHIBIT 3
(Continued)

<u>Welfare</u>	<u>Solid Waste</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 324,109	\$ 55,266	\$ 5,039	\$ 8,398	\$ 704,215
130,329	14,551	-	-	511,992
16,595	1,787	-	-	63,538
-	-	-	-	128,155
-	-	-	-	101,256
-	32,126	-	-	104,701
10,323	70	13,391	2,404	27,518
177,334	71,437	-	8,901	401,815
283,983	705	-	134,370	2,606,259
-	40,714	-	-	66,031
-	-	-	157,103	157,103
\$ 942,673	\$ 216,656	\$ 18,430	\$ 311,176	\$ 4,872,583
\$ -	\$ -	\$ -	\$ -	\$ 618,313
-	-	-	-	427,764
-	-	-	-	157,103
-	-	-	-	15,090
-	-	-	-	76,229
-	-	-	-	398,665
-	-	-	-	29,412
-	275,677	-	-	275,677
-	-	-	-	119,987
-	-	-	-	953
-	-	-	-	5,000
-	-	-	-	21,851
300	-	-	-	2,705
-	-	-	-	101,151
-	-	-	-	16,103
-	4,233,556	-	-	4,233,556
2,364,334	-	-	-	8,021,014
-	-	2,532,170	-	2,982,170
419,121	-	-	-	4,659,784
-	-	-	(20,799)	(20,799)
-	-	-	2,187,915	2,187,915
\$ 2,783,755	\$ 4,509,233	\$ 2,532,170	\$ 2,167,116	\$ 24,329,643
\$ 3,726,428	\$ 4,725,889	\$ 2,550,600	\$ 2,478,292	\$ 29,202,226

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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, 2004**

Fund balances - total governmental funds (Exhibit 3)	\$	24,329,643
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.		90,963,530
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,606,259
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (4,525,000)	
Certificates of participation	(175,000)	
Capital notes payable	(685,000)	
Capital leases	(8,501)	
Compensated absences	(1,041,535)	
Accrued interest payable	(58,768)	
Deferred debt issuance charges	17,096	(6,476,708)
Net assets of governmental activities (Exhibit 1)		<u>\$ 111,422,724</u>

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General	Road and Bridge
Revenues		
Taxes	\$ 6,165,559	\$ 1,057,752
Special assessments	-	-
Licenses and permits	134,712	5,500
Intergovernmental	3,197,589	4,880,341
Charges for services	1,549,898	198,098
Fines and forfeits	215,098	-
Gifts and contributions	10,376	-
Investment earnings	204,545	-
Miscellaneous	418,740	26,564
	\$ 11,896,517	\$ 6,168,255
Expenditures		
Current		
General government	\$ 4,336,576	\$ -
Public safety	4,565,114	-
Highways and streets	-	4,985,582
Sanitation	-	-
Human services	-	-
Health	1,517,095	-
Culture and recreation	384,247	-
Conservation of natural resources	369,483	-
Economic development	2,183	-
Debt service		
Principal retirement	-	7,916
Interest	-	998
Administrative (fiscal) charges	-	-
	\$ 11,174,698	\$ 4,994,496
Excess of Revenues Over (Under) Expenditures	\$ 721,819	\$ 1,173,759
Other Financing Sources (Uses)		
Transfers in	\$ 328,910	\$ 1,351,542
Transfers out	-	-
Proceeds from sale of capital assets	6,992	20,680
	\$ 335,902	\$ 1,372,222
Net Change in Fund Balance	\$ 1,057,721	\$ 2,545,981
Fund Balance - January 1	5,214,181	3,482,716
Increase (decrease) in reserved for inventories	12,933	23,837
Fund Balance - December 31	\$ 6,284,835	\$ 6,052,534

EXHIBIT 5

Welfare	Solid Waste	Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 2,862,190	\$ -	\$ -	\$ 1,902,504	\$ 11,988,005
-	-	-	92,054	92,054
-	225	-	-	140,437
4,105,929	81,628	-	262,040	12,527,527
349,398	1,018,328	-	-	3,115,722
-	-	-	-	215,098
415	-	-	-	10,791
3,750	111,249	59,884	2,010	381,438
116,582	44,073	8,421	-	614,380
\$ 7,438,264	\$ 1,255,503	\$ 68,305	\$ 2,258,608	\$ 29,085,452
\$ -	\$ -	\$ 169,926	\$ 5,011	\$ 4,511,513
-	-	-	-	4,565,114
-	-	-	-	4,985,582
-	1,377,017	-	-	1,377,017
7,424,752	-	-	-	7,424,752
-	-	-	-	1,517,095
-	-	-	-	384,247
-	-	-	66,425	435,908
-	-	-	-	2,183
-	-	-	1,940,000	1,947,916
-	-	-	203,109	204,107
-	-	-	501	501
\$ 7,424,752	\$ 1,377,017	\$ 169,926	\$ 2,215,046	\$ 27,355,935
\$ 13,512	\$ (121,514)	\$ (101,621)	\$ 43,562	\$ 1,729,517
\$ 13,391	\$ -	\$ -	\$ -	\$ 1,693,843
-	-	(1,693,843)	-	(1,693,843)
-	-	-	-	27,672
\$ 13,391	\$ -	\$ (1,693,843)	\$ -	\$ 27,672
\$ 26,903	\$ (121,514)	\$ (1,795,464)	\$ 43,562	\$ 1,757,189
2,756,852	4,630,747	4,327,634	2,123,554	22,535,684
-	-	-	-	36,770
\$ 2,783,755	\$ 4,509,233	\$ 2,532,170	\$ 2,167,116	\$ 24,329,643

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 1,757,189

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

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

Deferred revenue - December 31	\$ 2,606,259	
Deferred revenue - January 1	(2,058,356)	547,903

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	\$ 2,398,321	
Net book value of disposed assets	(2,869,424)	
Current year depreciation	(2,888,862)	(3,359,965)

Repayment of long-term debt principal consumes current financial resources of governmental funds, but has no effect on net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal repayments:		
General obligation bonds	\$ 1,185,000	
Certificates of participation	85,000	
Capital notes payable	670,000	
Capital lease	7,916	1,947,916

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	\$ 13,407	
Amortization of discounts and deferred issuance charges	(8,207)	
Change in compensated absences	33,785	
Change in inventories	36,770	75,755

Change in net assets of governmental activities (Exhibit 2) \$ 968,798

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2004**

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ 1,210,948
Accounts receivable	2,540
Due from other governments	<u>159,902</u>
Total Assets	<u>\$ 1,373,390</u>
<u>Liabilities</u>	
Accounts payable	\$ 17,864
Due to other governments	<u>1,355,526</u>
Total Liabilities	<u>\$ 1,373,390</u>

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**MCLEOD COUNTY
GLENCOE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Discretely Presented Component Unit

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

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

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in several joint ventures which are described in Note 6.D. The County also participates in jointly governed organizations which are 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 that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

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

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

Additionally, the County reports the following fund type:

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

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. McLeod County considers all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be 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, then unrestricted resources as they are 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, 2004, 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 2004 were \$204,545.

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

McLeod County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

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;
- (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.

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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 non-current portion of interfund loans).

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

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

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

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due October 15.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

3. Inventories

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

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Restricted Assets

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

5. Capital Assets

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

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

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

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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 that are not considered to be available to liquidate liabilities of the current period.

8. Long-Term Obligations

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

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.

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Fund Equity

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

10. Use of Estimates

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

E. Revenues

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

Imposed Nonexchange Transactions

Imposed nonexchange transactions result from assessments by governments on non-governmental 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.

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues (Continued)

Intergovernmental

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

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

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

Exchange Transactions

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

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The Ditch Special Revenue Fund had a fund balance deficit of \$20,799 as of December 31, 2004. Following is a summary of the individual ditch systems:

30 ditches with positive balances	\$	131,609
25 ditches with deficit balances		(152,408)
Net Fund Balance	\$	(20,799)

B. Component Unit Deficit

The McLeod County HRA at June 30, 2004, had a net assets deficit of \$271,294. The County issued a loan to the HRA in 2003 to provide working capital and eliminate the overdraft. The decrease in net assets is due in part to depreciation expense, increased insurance expense, and increased repairs expense.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments are reported as follows:

Governmental funds		
Cash and pooled investments	\$	22,625,264
Departmental cash		2,647
Petty cash and change fund		12,755
Cash with fiscal agent		521,449
Agency funds		
Cash and pooled investments		1,210,948
Total Cash and Investments	\$	24,373,063

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$13,108,718. The bank balance deposit amount was \$13,726,756. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 700,492
Collateralized with securities held by the pledging financial institution's agent in the County's name	<u>13,026,264</u>
Total covered deposits	\$ 13,726,756
Uncollateralized	<u>-</u>
Total	<u>\$ 13,726,756</u>

Three levels of custodial credit risk for securities are defined by generally accepted accounting principles:

- (1) securities that are insured or registered, or for which the securities are held by the County or its agent in the County's name;
- (2) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the County's name; and
- (3) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the County's name.

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Following is a summary of the fair values of the County's investments, categorized into the aforementioned levels of risk, at December 31, 2004:

	Category			Fair Value
	1	2	3	
Investments held by fiscal agent - negotiable certificates of deposit	\$ -	\$ -	\$ 286,952	\$ 286,952
Add				
Money market mutual funds with fiscal agent Minnesota Association of Governments Investing for Counties (MAGIC)				168,881
Petty cash and change funds				10,727,494
Departmental cash				12,755
Cash with fiscal agent				2,647
Deposits				65,616
				<u>13,108,718</u>
Total Cash and Investments				<u>\$ 24,373,063</u>

2. Receivables

Receivables as of December 31, 2004, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 211,654	\$ -
Special Assessments	100,117	97,875
Due from other governments	4,744,025	-
Accounts	206,779	-
Interest	75,061	-
Loans	90,090	75,000
	<u>\$ 5,427,726</u>	<u>\$ 172,875</u>
Total Governmental Activities	<u>\$ 5,427,726</u>	<u>\$ 172,875</u>

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

A loan was made to the McLeod County Housing and Redevelopment Authority (Component Unit) in 2003 in the amount of \$62,590. The terms of the agreement stated that the loan was to be paid back within one year. However, only \$47,500 was repaid in 2004. The remainder will be collected in 2005.

A loan was also made to Prime West Health System for \$75,000. The terms of the agreement state that the loan will be paid back by the end of the third year of operations. Operations began July 1, 2003. No payments have been received on this loan as of December 31, 2004.

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 3,159,925	\$ -	\$ 2,000	\$ 3,157,925
Construction in progress	5,302,817	1,031,418	5,302,817	1,031,418
Infrastructure - right-of-way	1,839,246	126,300	-	1,965,546
	<u>\$ 10,301,988</u>	<u>\$ 1,157,718</u>	<u>\$ 5,304,817</u>	<u>\$ 6,154,889</u>
Capital assets depreciated				
Buildings	\$ 13,494,850	\$ 2,223,762	\$ 30,472	\$ 15,688,140
Machinery, furniture, and equipment	5,971,729	671,095	142,411	6,500,413
Improvements other than buildings	469,684	63,694	-	533,378
Infrastructure	89,669,635	3,584,869	2,860,499	90,394,005
	<u>\$ 109,605,898</u>	<u>\$ 6,543,420</u>	<u>\$ 3,033,382</u>	<u>\$ 113,115,936</u>

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 4,209,556	\$ 492,037	\$ 30,472	\$ 4,671,121
Machinery, furniture, and equipment	3,745,718	613,383	135,486	4,223,615
Improvements other than buildings	183,900	21,061	-	204,961
Infrastructure	17,445,217	1,762,381	-	19,207,598
Total accumulated depreciation	\$ 25,584,391	\$ 2,888,862	\$ 165,958	\$ 28,307,295
Total capital assets depreciated, net	\$ 84,021,507	\$ 3,654,558	\$ 2,867,424	\$ 84,808,641
Governmental Activities Capital Assets, Net	\$ 94,323,495	\$ 4,812,276	\$ 8,172,241	\$ 90,963,530

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

Governmental Activities	
General government	\$ 344,031
Public safety	260,895
Highways and streets, including depreciation of infrastructure assets	2,026,657
Human services	44,382
Health	15,430
Culture and recreation	13,064
Conservation of natural resources	5,893
Sanitation	178,510
Total Depreciation Expense - Governmental Activities	\$ 2,888,862

**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, 2004, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Welfare Forfeited Tax	\$ 10,323 2,404
Total Due to General Fund		\$ 12,727
Road and Bridge	General Solid Waste	\$ 170 70
Total Due to Road and Bridge Fund		\$ 240
Welfare	General Capital Projects	\$ 956 13,391
Total Due to Welfare Fund		\$ 14,347
Solid Waste	General	\$ 204
Total Due To/From Other Funds		\$ 27,518

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch	\$ 157,103

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

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

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2004, consisted of the following:

Transfers to General Fund from Capital Projects Fund	\$ 328,910	Capital equipment notes
Transfers to Road and Bridge Fund from Capital Projects fund	1,351,542	Capital equipment notes
Transfers to Welfare Fund from Capital Projects Fund	<u>13,391</u>	Capital equipment notes
Total Interfund Transfers	<u>\$ 1,693,843</u>	

C. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

	<u>Governmental Activities</u>
Accounts	\$ 704,215
Salaries	511,992
Accrued payroll taxes	63,538
Retainage	104,701
Contracts	101,256
Due to other governments	<u>401,815</u>
Total Payables	<u>\$ 1,887,517</u>

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Construction Commitments

The County has active construction projects as of December 31, 2004. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Materials recovery facility	\$ 2,129,061	\$ 32,126
Roads and bridges	696,970	792,144

3. Capital Leases

The County has entered into a lease agreement as lessee for financing the acquisition of certain equipment. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The capital lease consists of the following at December 31, 2004:

Lease	Maturity	Installment	Payment Amount	Original	Balance
Governmental Activities					
2002 R-Way Bottom Dump Trailer	2005	Varies	\$ 1,783	\$ 28,078	\$ 8,501

Lease payments are made from the Road and Bridge Special Revenue Fund. The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2004, were as follows:

Year Ending December 31	Governmental Activities
2005	\$ 8,914
Less: amount representing interest	(413)
Present Value of Minimum Lease Payments	\$ 8,501

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
General Obligation Bonds					
2000A capital improvement bonds	2012	\$175,000 - \$275,000	4.30 - 5.20	\$ 2,550,000	\$ 1,845,000
1996 certificates of participation	2006	\$60,000 - \$90,000	4.30 - 5.20	\$ 745,000	\$ 175,000
2003 capital improvement bonds	2007	\$910,000 - \$1,000,000	1.00 - 1.94	\$ 3,680,000	\$ 2,680,000
Total General Obligation Bonds				<u>\$ 6,975,000</u>	<u>\$ 4,700,000</u>
2002 Capital Notes	2005	\$645,000 - \$685,000	2.50	\$ 2,000,000	\$ 685,000

Payments on the General Obligation Bonds, Capital Notes, and Certificates of Participation are made from the Debt Service Fund. Payments on the capital lease are made by the Road and Bridge Special Revenue Fund. Compensated absences are liquidated by each fund based on actual direct labor hours incurred.

5. Debt Service Requirements

Debt service requirements at December 31, 2004, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds		Capital Notes	
	Principal	Interest	Principal	Interest
2005	\$ 1,160,000	\$ 134,525	\$ 685,000	\$ 17,125
2006	1,180,000	107,956	-	-
2007	1,120,000	77,327	-	-
2008	225,000	57,678	-	-
2009	235,000	46,119	-	-
2010 - 2012	780,000	62,082	-	-
Total	<u>\$ 4,700,000</u>	<u>\$ 485,687</u>	<u>\$ 685,000</u>	<u>\$ 17,125</u>

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
General obligation bonds	\$ 5,710,000	\$ -	\$ 1,185,000	\$ 4,525,000	\$ 1,075,000
G.O. capital notes	1,355,000	-	670,000	685,000	685,000
Certificates of participation	260,000	-	85,000	175,000	85,000
Total bonds payable	\$ 7,325,000	\$ -	\$ 1,940,000	\$ 5,385,000	\$ 1,845,000
Capital leases	16,417	-	7,916	8,501	8,501
Compensated absences	1,075,320	-	33,785	1,041,535	706,161
Governmental Activity Long-Term Liabilities	<u>\$ 8,416,737</u>	<u>\$ -</u>	<u>\$ 1,981,701</u>	<u>\$ 6,435,036</u>	<u>\$ 2,559,662</u>

4. Employee Retirement Systems and 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 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

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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 for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all 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.

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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 web at 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 are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.2 percent of their annual covered salary. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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

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

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2004, 2003, and 2002, 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
2004	\$ 382,748	\$ 96,869	\$ 54,425
2003	384,765	93,686	49,868
2002	384,063	87,900	46,410

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.

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.

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

The County's contributions for the years ending December 31, 2004, 2003, and 2002, were \$4,945, \$4,779, and \$4,806, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Risk Management

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

The Workers' Compensation Division of the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 and \$760,000 per claim in 2004 and 2005, respectively. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

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

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

In 2000, the County entered into an agreement with Sibley County to provide a mechanism for utilizing a pooled self-funded health insurance program under the authority granted to counties in Minn. Stat. § 471.59. Premiums are paid to the MCIT which provides

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

5. Risk Management (Continued)

bookkeeping services to the counties including the payment of claims. For 2004, the County has retained risk up to an \$80,000 stop-loss per covered person per year (\$1,000,000 aggregate) for the health plan. For 2005, the County has once again retained risk up to an \$80,000 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	
	2004	2003
Unpaid claims, beginning of fiscal year	\$ 93,674	\$ 143,514
Incurred claims (including IBNRs)	848,171	728,423
Claims payments	(1,070,000)	(778,263)
Unpaid Claims, End of Fiscal Year	\$ (128,155)	\$ 93,674

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.

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Secondary Liability for Bonds (Continued)

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

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

B. Contingent Liabilities

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

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

C. Subsequent Event

On February 8, 2005, McLeod County issued \$1,275,000 General Obligation Capital Improvement Refunding Bonds, Series 2005. The proceeds will be used to refund outstanding debt from the 2000A bond issuance.

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

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

Mental Health Consortium Board under the authority of Minn. Stat. § 471.59. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host. The Board shall take actions and enter into such agreements as may be necessary to plan and develop within the Board's geographic jurisdiction, a system of care that will serve the needs of adults with serious and persistent mental illness. The governing board is composed of one board member from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

The following is a summary of the Board's annual financial report for the year ended December 31, 2003 (the most recent audited information):

Total assets	\$ 220,978
Total liabilities	5,230
Total equity	215,748
Total revenues	889,414
Total expenditures	856,904
Net increase (decrease) in fund balance	32,510

The Board reported no long-term obligations at December 31, 2003.

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.

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Minnesota River Basin

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

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

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

Regional Library

Western Plains merged with the Crow River Library System in 1983 to become the Pioneerland Library System (Minnesota Statutes, Chapter 134).

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

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Southwest Metro Drug Task Force

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

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.

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Prime West Health System (Continued)

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 at Jim Przybilla, CEO, Prime West Health System, Douglas County Courthouse, 305 - 8th Avenue West, Alexandria, Minnesota 56308.

Crow River Joint Powers Agreement

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

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
GLENCOE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Trailblazer Transit Board (Continued)

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

Financing is primarily provided from state and federal grants. Member counties are committed to providing the local match necessary to meet the requirements for state and federal funding. Sibley County is the fiscal agent. Current financial statements are not available.

E. Jointly-Governed Organizations

McLeod Family Connection Collaborative

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

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

Minnesota Rural Counties Caucus

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

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

7. Housing and Redevelopment Authority - Component Unit Disclosures

A. Summary of Significant Accounting Policies and Description of Entity

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

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

Reporting Entity

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

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

7. Housing and Redevelopment Authority - Component Unit Disclosures

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

Fund Accounting

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

Basis of Accounting

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

Operating Revenues and Expenses

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

Property and Equipment

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

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

7. Housing and Redevelopment Authority - Component Unit Disclosures

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

Bond Issuance Costs

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

Capitalized Interest

In determining the cost of capital projects, the HRA capitalizes that portion of the interest cost, which could have been avoided if the capital project had not been undertaken. No interest was capitalized for the year ended June 30, 2004.

Use of Estimates

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

B. Cash and Investments

The HRA's cash and investments at June 30, 2004, are summarized as follows:

Cash on deposit		
Restricted	\$	\$20,347
Unrestricted		<u>34,074</u>
Total cash on deposit	\$	\$54,421
Certificates of deposit, due within one year		
Restricted		<u>\$26,727</u>
Total Cash and Investments	\$	<u><u>\$81,148</u></u>

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

7. Housing and Redevelopment Authority - Component Unit Disclosures

B. Cash and Investments

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 amounts of the HRA's deposits with financial institutions were \$81,148 as of June 30, 2004. Bank balances were \$95,472 as of June 30, 2004, and were fully insured by the FDIC.

Minnesota Statutes require that all HRA deposits be protected by insurance, surety bond, or collateral and that securities pledged as collateral be legal instruments and be held in safekeeping by the HRA treasurer or in a financial institution other than that 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, 2004.

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 Statute.
- (c) General obligations of the State of Minnesota or any of its municipalities and other state and local government obligations as listed in Minnesota Statute.
- (d) Bankers acceptances of United States banks, eligible for purchase by the Federal Reserve System.

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

7. Housing and Redevelopment Authority - Component Unit Disclosures

B. Cash and Investments

Investments (Continued)

- (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.
- (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 Statute.

The HRA's investments are categorized to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the HRA or its agent in the HRA's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the dealer's trust department or agent in the HRA's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent, but not in the HRA's name. At June 30, 2004, the HRA had no investments of this type.

C. Property and Equipment

The following is a summary of property and equipment transactions:

	<u>July 1, 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2004</u>
Land	\$ 197,000	\$ -	\$ -	\$ 197,000
Site improvements	113,851	45,698	-	159,549
Building	4,343,003	-	-	4,343,003
Appliances	117,433	-	-	117,433
Total	\$ 4,771,287	\$ 45,698	\$ -	\$ 4,816,985
Accumulated depreciation	508,636	144,837	-	653,473
Totals	\$ 4,262,651	\$ (99,139)	\$ -	\$ 4,163,512

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

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

D. Due to Other Governments

Included in accounts payable and other current liabilities are amounts due to other governments at June 30, 2004:

United States Department of Housing and Urban Development, under the Section 8 Housing Program	\$ 934
McLeod County for the remainder of a 2003 loan of \$62,590 to pay construction costs. The loan bears no interest and is payable next year.	<u>17,590</u>
Total	<u>\$ 18,524</u>

E. Long-Term Debt Payable

The following is a summary of long-term debt transactions for the year ended June 30, 2004:

	July 1, 2003	Issued	Payments	June 30, 2004
Essential Function Housing Development Bond of 1996	\$ 1,103,822	\$ -	\$ 23,705	\$ 1,080,117
Essential Function Housing Development Bond of 1997	1,120,690	-	23,088	1,097,602
Essential Function Housing Development Bond of 1999	1,074,831	-	19,162	1,055,669
Essential Function Housing Development Bond of 2001	1,214,369	-	18,174	1,196,195
Assessments payable	<u>-</u>	<u>41,697</u>	<u>-</u>	<u>41,697</u>
Totals	<u>\$ 4,513,712</u>	<u>\$ 41,697</u>	<u>\$ 84,129</u>	<u>\$ 4,471,280</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

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

7. Housing and Redevelopment Authority - 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 1997 matures on April 1, 2028. The bond currently bears an interest rate of 5.000 percent per annum until July 1, 2008, at which time the rate becomes 6.125 percent per annum; the interest rate is thereafter adjustable periodically over the life of the bond. Principal and interest are payable monthly. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are insufficient to meet the bond obligations, the HRA may request funds from the McLeod County General Fund by ordering a County-wide tax levy not to exceed \$120,000. The HRA agrees to repay the funds to McLeod County from any subsequent excess cash flows.

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

The Essential Function Housing Development Revenue Bond of 2001 matures on June 1, 2022. The bond bears an interest rate of 5.400 percent per annum payable monthly; the interest rate shall be adjusted periodically over the life of the bond. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are insufficient to meet the operation and maintenance costs, the HRA may request funds from McLeod County General Fund not to exceed \$75,000 each calendar year. The HRA agrees to repay the funds to McLeod County after bond obligations have been fulfilled.

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

7. Housing and Redevelopment Authority - Component Unit Disclosures

E. Long-Term Debt Payable (Continued)

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

The estimated debt service requirements as of June 30, 2004, are as follows:

<u>For the Years Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 93,138	\$ 225,218	\$ 318,356
2006	101,795	221,300	323,095
2007	107,087	216,007	323,094
2008	112,652	210,442	323,094
2009	108,033	237,948	345,981
2010 through 2014	594,593	1,103,061	1,697,654
2015 through 2019	797,769	895,143	1,692,912
2020 through 2024	1,604,043	551,122	2,155,165
2025 through 2029	880,059	142,527	1,022,586
2030 through 2034	72,111	2,274	74,385
Totals	<u>\$ 4,471,280</u>	<u>\$ 3,805,042</u>	<u>\$ 8,276,322</u>

F. Risk Management

The Authority 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 Authority's insurance coverage in any of the immediately preceding three years.

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REQUIRED SUPPLEMENTARY INFORMATION

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**MCLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 7,039,993	\$ 7,039,993	\$ 6,165,559	\$ (874,434)
Licenses and permits	73,430	74,930	134,712	59,782
Intergovernmental	1,981,796	2,956,845	3,197,589	240,744
Charges for services	1,271,300	1,364,800	1,549,898	185,098
Fines and forfeits	225,600	238,875	215,098	(23,777)
Gifts and contributions	6,000	8,000	10,376	2,376
Investments earnings	206,000	206,600	204,545	(2,055)
Miscellaneous	374,650	337,912	418,740	80,828
Total Revenues	\$ 11,178,769	\$ 12,227,955	\$ 11,896,517	\$ (331,438)
Expenditures				
Current				
General government				
Commissioners	\$ 202,497	\$ 203,497	\$ 217,466	\$ (13,969)
County wide	379,000	379,000	19,875	359,125
Courts	289,908	289,908	261,535	28,373
Law library	-	42,000	33,062	8,938
County administration	123,860	123,860	126,010	(2,150)
County auditor	278,492	279,992	266,675	13,317
License bureau	109,402	109,402	108,101	1,301
County treasurer	168,020	868,020	158,523	709,497
County assessor	317,842	317,842	265,466	52,376
Elections	45,130	45,130	45,353	(223)
Data processing	543,895	543,895	563,928	(20,033)
Central services	245,923	245,923	188,690	57,233
County insurance	155,489	155,489	201,369	(45,880)
Safety	2,277	2,277	1,593	684
Attorney	377,348	377,348	368,225	9,123
Recorder	377,592	377,592	327,327	50,265
Planning and zoning	182,314	182,314	176,262	6,052
Buildings and plant	386,114	386,114	448,299	(62,185)
Fairgrounds	151,716	151,716	179,199	(27,483)
Veterans service officer	99,575	100,075	139,867	(39,792)
Other general government	-	-	239,751	(239,751)
Total general government	\$ 4,436,394	\$ 5,181,394	\$ 4,336,576	\$ 844,818

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 2,452,629	\$ 2,485,929	\$ 2,432,206	\$ 53,723
Boat and water safety	5,000	13,737	8,182	5,555
Emergency services	114,110	114,110	80,704	33,406
Coroner	47,000	47,000	32,621	14,379
Enhanced 911	-	64,100	65,668	(1,568)
Law enforcement center	1,622,397	1,622,397	1,567,228	55,169
Jail canteen fund	-	23,500	19,785	3,715
Probation and parole	298,809	303,809	310,286	(6,477)
Juvenile restitution	-	15,070	9,199	5,871
DARE program	-	500	448	52
Other - sheriff's posse	22,000	63,000	38,787	24,213
Total public safety	\$ 4,561,945	\$ 4,753,152	\$ 4,565,114	\$ 188,038
Health				
Nursing service	\$ 1,465,394	\$ 1,465,394	\$ 1,517,095	\$ (51,701)
Culture and recreation				
Historical society	\$ 29,700	\$ 29,700	\$ 29,600	\$ 100
Parks	206,190	206,190	213,194	(7,004)
Regional library	128,700	128,700	128,700	-
Other	13,553	13,553	12,753	800
Total culture and recreation	\$ 378,143	\$ 378,143	\$ 384,247	\$ (6,104)
Conservation of natural resources				
County extension	\$ 139,496	\$ 139,496	\$ 128,903	\$ 10,593
Soil and water conservation	43,065	43,065	43,065	-
Agricultural inspections	33,710	33,710	16,376	17,334
Water planning	8,216	25,216	24,483	733
Wetland	-	14,000	21,918	(7,918)
Shoreland	-	2,100	1,740	360
Board of adjustment	3,321	3,321	2,163	1,158
Feedlot	-	20,000	32,249	(12,249)
Environmental services	160,113	160,113	97,148	62,965
Other	2,918	2,918	1,438	1,480
Total conservation of natural resources	\$ 390,839	\$ 443,939	\$ 369,483	\$ 74,456
Economic development				
Community development	\$ 2,369	\$ 2,369	\$ 2,183	\$ 186
Total Expenditures	\$ 11,235,084	\$ 12,224,391	\$ 11,174,698	\$ 1,049,693

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Excess of Revenues Over (Under) Expenditures	\$ (56,315)	\$ 3,564	\$ 721,819	\$ 718,255
Other Financing Sources (Uses)				
Transfers in	\$ 280,633	\$ 299,133	\$ 328,910	\$ 29,777
Proceeds from sale of assets	-	-	6,992	6,992
Total Other Financing Sources (Uses)	\$ 280,633	\$ 299,133	\$ 335,902	\$ 36,769
Net Change in Fund Balance	\$ 224,318	\$ 302,697	\$ 1,057,721	\$ 755,024
Fund Balance - January 1	5,214,181	5,214,181	5,214,181	-
Increase (decrease) in reserved for inventories	-	-	12,933	12,933
Fund Balance - December 31	\$ 5,438,499	\$ 5,516,878	\$ 6,284,835	\$ 767,957

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,214,812	\$ 1,214,812	\$ 1,057,752	\$ (157,060)
Licenses and permits	-	-	5,500	5,500
Intergovernmental	3,107,000	3,107,000	4,880,341	1,773,341
Charges for services	255,000	255,000	198,098	(56,902)
Miscellaneous	17,000	17,000	26,564	9,564
Total Revenues	\$ 4,593,812	\$ 4,593,812	\$ 6,168,255	\$ 1,574,443
Expenditures				
Current				
Highways and Streets				
Administration	\$ 678,107	\$ 661,654	\$ 552,070	\$ 109,584
GIS/surveying	171,081	172,352	100,252	72,100
Maintenance	1,357,695	1,372,390	1,528,773	(156,383)
Construction	3,270,000	3,270,000	2,148,444	1,121,556
Equipment maintenance and shop	650,134	650,621	656,043	(5,422)
Debt service				
Principal retirement	-	-	7,916	(7,916)
Interest	-	-	998	(998)
Total Expenditures	\$ 6,127,017	\$ 6,127,017	\$ 4,994,496	\$ 1,132,521
Excess of Revenues Over (Under) Expenditures	\$ (1,533,205)	\$ (1,533,205)	\$ 1,173,759	\$ 2,706,964
Other Financing Sources (Uses)				
Transfers in	\$ 1,605,987	\$ 1,605,987	\$ 1,351,542	\$ (254,445)
Proceeds from sale of capital assets	30,000	30,000	20,680	(9,320)
Total Other Financing Sources (Uses)	\$ 1,635,987	\$ 1,635,987	\$ 1,372,222	\$ (263,765)
Net Change in Fund Balance	\$ 102,782	\$ 102,782	\$ 2,545,981	\$ 2,443,199
Fund Balance - January 1	3,482,716	3,482,716	3,482,716	-
Increase (decrease) in reserved for inventories	-	-	23,837	23,837
Fund Balance - December 31	\$ 3,585,498	\$ 3,585,498	\$ 6,052,534	\$ 2,467,036

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
WELFARE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,282,259	\$ 3,282,259	\$ 2,862,190	\$ (420,069)
Intergovernmental	3,743,451	3,743,451	4,105,929	362,478
Charges for services	351,699	351,699	349,398	(2,301)
Gifts and contributions	-	-	415	415
Investment earnings	-	-	3,750	3,750
Miscellaneous	265,249	265,249	116,582	(148,667)
Total Revenues	\$ 7,642,658	\$ 7,642,658	\$ 7,438,264	\$ (204,394)
Expenditures				
Current				
Human Services				
Income maintenance	\$ 1,313,668	\$ 1,313,668	\$ 1,518,672	\$ (205,004)
Social services	6,186,481	6,186,481	5,642,531	543,950
Transit authority	287,000	287,000	263,549	23,451
Total Expenditures	\$ 7,787,149	\$ 7,787,149	\$ 7,424,752	\$ 362,397
Excess of Revenues Over (Under) Expenditures	\$ (144,491)	\$ (144,491)	\$ 13,512	\$ 158,003
Other Financing Sources (Uses)				
Transfers in	-	-	13,391	13,391
Net Change in Fund Balance	\$ (144,491)	\$ (144,491)	\$ 26,903	\$ 171,394
Fund Balance - January 1	2,756,852	2,756,852	2,756,852	-
Fund Balance - December 31	\$ 2,612,361	\$ 2,612,361	\$ 2,783,755	\$ 171,394

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Licenses and permits	\$ -	\$ 8,500	\$ 225	\$ (8,275)
Intergovernmental	-	72,000	81,628	9,628
Charges for services	-	807,865	1,018,328	210,463
Investment earnings	-	133,000	111,249	(21,751)
Miscellaneous	-	60,001	44,073	(15,928)
Total Revenues	\$ -	\$ 1,081,366	\$ 1,255,503	\$ 174,137
Expenditures				
Current				
Sanitation				
Solid Waste	-	1,504,887	1,377,017	127,870
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ (423,521)	\$ (121,514)	\$ 302,007
Fund Balance - January 1	4,630,747	4,630,747	4,630,747	-
Fund Balance - December 31	\$ 4,630,747	\$ 4,207,226	\$ 4,509,233	\$ 302,007

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

A. Budgetary Information

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

On December 16, 2003, the Board approved the budgets for the General Fund, Road and Bridge Fund, Welfare Fund, and the Debt Service Fund. The Board approved the budget for the Solid Waste Fund on July 6, 2004. Prior to this time, there was no approved budget for the Solid Waste Fund.

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

B. Excess of Expenditures over Appropriations

In the General Fund, the following departments' expenditures exceeded appropriations for the year ended December 31, 2004:

County Commissioners	\$	13,969
County Administration		2,150
Elections		223
Data Processing		20,033
County Insurance		45,880
Buildings and Plant		62,185
Fairgrounds		27,483
Veterans Service Officer		39,792
Other General Government		239,751
Enhanced 911		1,568
Probation and Parole		6,477
Health		51,701
Parks		7,004
Wetland		7,918
Feedlot		12,249

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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, 2004**

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Total</u>
	<u>Ditch</u>	<u>Forfeited Tax</u>		
<u>Assets</u>				
Cash and pooled investments	\$ 151,296	\$ 4,622	\$ 2,187,915	\$ 2,343,833
Taxes receivable				
Prior	-	-	29,052	29,052
Special assessments receivable				
Prior	2,117	-	-	2,117
Noncurrent	97,875	-	-	97,875
Accrued interest receivable	89	-	-	89
Due from other governments	5,326	-	-	5,326
Total Assets	<u>\$ 256,703</u>	<u>\$ 4,622</u>	<u>\$ 2,216,967</u>	<u>\$ 2,478,292</u>
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 8,398	\$ -	\$ -	\$ 8,398
Due to other funds	-	2,404	-	2,404
Due to other governments	6,683	2,218	-	8,901
Deferred revenue - unavailable	105,318	-	29,052	134,370
Advance from other funds	157,103	-	-	157,103
Total Liabilities	<u>\$ 277,502</u>	<u>\$ 4,622</u>	<u>\$ 29,052</u>	<u>\$ 311,176</u>
Fund Balances				
Unreserved				
Designated for debt service	\$ -	\$ -	\$ 2,187,915	\$ 2,187,915
Undesignated	(20,799)	-	-	(20,799)
Total Fund Balances	<u>\$ (20,799)</u>	<u>\$ -</u>	<u>\$ 2,187,915</u>	<u>\$ 2,167,116</u>
Total Liabilities and Fund Balances	<u>\$ 256,703</u>	<u>\$ 4,622</u>	<u>\$ 2,216,967</u>	<u>\$ 2,478,292</u>

**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, 2004**

	Special Revenue		Debt Service	Total
	Ditch	Forfeited Tax		
Revenues				
Taxes	\$ -	\$ 2,000	\$ 1,900,504	\$ 1,902,504
Special assessments	92,054	-	-	92,054
Intergovernmental	-	-	262,040	262,040
Investment earnings	2,010	-	-	2,010
Total Revenues	\$ 94,064	\$ 2,000	\$ 2,162,544	\$ 2,258,608
Expenditures				
Current				
General government	\$ -	\$ 5,011	\$ -	\$ 5,011
Conservation of natural resources	66,425	-	-	66,425
Debt service				
Principal retirement	-	-	1,940,000	1,940,000
Interest	6,421	-	196,688	203,109
Administrative (fiscal) charges	-	-	501	501
Total Expenditures	\$ 72,846	\$ 5,011	\$ 2,137,189	\$ 2,215,046
Excess of Revenues Over (Under) Expenditures	\$ 21,218	\$ (3,011)	\$ 25,355	\$ 43,562
Fund Balance - January 1	(42,017)	3,011	2,162,560	2,123,554
Fund Balance - December 31	\$ (20,799)	\$ -	\$ 2,187,915	\$ 2,167,116

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,171,874	\$ 2,171,874	\$ 1,900,504	\$ (271,370)
Intergovernmental	-	-	262,040	262,040
Total Revenues	\$ 2,171,874	\$ 2,171,874	\$ 2,162,544	\$ (9,330)
Expenditures				
Debt service				
Principal retirement	\$ 1,820,000	\$ 1,820,000	\$ 1,940,000	\$ (120,000)
Interest	181,582	181,582	196,688	(15,106)
Administrative (fiscal) charges	-	-	501	(501)
Total Expenditures	\$ 2,001,582	\$ 2,001,582	\$ 2,137,189	\$ (135,607)
Excess of Revenues Over (Under) Expenditures	\$ 170,292	\$ 170,292	\$ 25,355	\$ (144,937)
Fund Balance - January 1	2,162,560	2,162,560	2,162,560	-
Fund Balance - December 31	\$ 2,332,852	\$ 2,332,852	\$ 2,187,915	\$ (144,937)

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MEEKER-MCLEOD-SIBLEY</u>				
<u>COMMUNITY HEALTH SERVICES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 92,858	\$ 1,594,358	\$ 1,463,577	\$ 223,639
Accounts receivable	3,681	1,361	3,681	1,361
Due from other governments	109,903	159,161	109,903	159,161
Total Assets	<u>\$ 206,442</u>	<u>\$ 1,754,880</u>	<u>\$ 1,577,161</u>	<u>\$ 384,161</u>
<u>Liabilities</u>				
Accounts payable	\$ 3,360	\$ 14,431	\$ 3,360	\$ 14,431
Due to other governments	203,082	369,730	203,082	369,730
Total Liabilities	<u>\$ 206,442</u>	<u>\$ 384,161</u>	<u>\$ 206,442</u>	<u>\$ 384,161</u>
<u>MCLEOD FAMILY CONNECTION</u>				
<u>COLLABORATIVE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 573,418	\$ 313,045	\$ 274,198	\$ 612,265
Accounts receivable	-	1,148	-	1,148
Due from other governments	1,753	574	1,753	574
Total Assets	<u>\$ 575,171</u>	<u>\$ 314,767</u>	<u>\$ 275,951</u>	<u>\$ 613,987</u>
<u>Liabilities</u>				
Accounts payable	\$ 4,397	\$ 3,433	\$ 4,397	\$ 3,433
Due to other governments	570,774	610,554	570,774	610,554
Total Liabilities	<u>\$ 575,171</u>	<u>\$ 613,987</u>	<u>\$ 575,171</u>	<u>\$ 613,987</u>

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

Statement 3
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>STATE AGENCY FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 148,027	\$ 4,946,058	\$ 4,955,267	\$ 138,818
Departmental cash	82,685	-	82,685	-
Accounts receivable	70	31	70	31
Due from other governments	43	167	43	167
Total Assets	<u>\$ 230,825</u>	<u>\$ 4,946,256</u>	<u>\$ 5,038,065</u>	<u>\$ 139,016</u>
<u>Liabilities</u>				
Accounts payable	\$ 1,953	\$ -	\$ 1,953	\$ -
Due to other governments	228,872	139,016	228,872	139,016
Total Liabilities	<u>\$ 230,825</u>	<u>\$ 139,016</u>	<u>\$ 230,825</u>	<u>\$ 139,016</u>
<u>TAX AND PENALTY FUND</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 165,866</u>	<u>\$ 31,319,317</u>	<u>\$ 31,248,957</u>	<u>\$ 236,226</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 165,866</u>	<u>\$ 236,226</u>	<u>\$ 165,866</u>	<u>\$ 236,226</u>

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

***Statement 3
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 980,169	\$ 38,172,778	\$ 37,941,999	\$ 1,210,948
Departmental cash	82,685	-	82,685	-
Accounts receivable	3,751	2,540	3,751	2,540
Due from other governments	111,699	159,902	111,699	159,902
Total Assets	<u>\$ 1,178,304</u>	<u>\$ 38,335,220</u>	<u>\$ 38,140,134</u>	<u>\$ 1,373,390</u>
<u>Liabilities</u>				
Accounts payable	\$ 9,710	\$ 17,864	\$ 9,710	\$ 17,864
Due to other governments	1,168,594	1,355,526	1,168,594	1,355,526
Total Liabilities	<u>\$ 1,178,304</u>	<u>\$ 1,373,390</u>	<u>\$ 1,178,304</u>	<u>\$ 1,373,390</u>

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 6

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2004**

Shared Revenue

State

Highway users tax	\$ 3,891,090
Market value credit	1,643,491
PERA rate reimbursement	36,151
Disparity reduction aid	60,910
Police aid	94,261
County Program Aid	1,149,807
2004 Temporary Court Aid	74,096
	74,096

Total Shared Revenue **\$ 6,949,806**

Reimbursement for Services

State

Minnesota Department of Human Services	\$ 2,197,467
--	--------------

Payments

Local

Local contributions	\$ 411,693
Payments in lieu of taxes	41,034
	41,034

Total Payments **\$ 452,727**

Grants

State

Minnesota Department/Board of	
Corrections	\$ 84,018
Crime Victim Services	1,000
Public Safety	101,456
Health	207,427
Human Services	944,238
Labor and Industry	6,250
Soil and Water Resources	54,181
Office of Environmental Assistance	81,628
	81,628

Total State **\$ 1,480,198**

Federal

Department of	
Agriculture	\$ 133,602
Justice	61,403
Transportation	338,789
Human Services	7,598
Health and Human Services	788,482
Homeland Security	117,455
	117,455

Total Federal **\$ 1,447,329**

Total State and Federal Grants **\$ 2,927,527**

Total Intergovernmental Revenue **\$ 12,527,527**

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 6
(Continued)

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

Federal revenue, as reported in the financial statements		\$	<u>1,447,329</u>
Matching Grants for Food Stamp Program	CFDA #10.561	\$	2,013
Juvenile Accountability Incentive Block Grant	CFDA #16.523		1,055
Special Program for the Aging Title III Part B Grants	CFDA #93.044		594
Promoting Safe and Stable Families	CFDA #93.556		1,260
Temporary Assistance for Needy Families	CFDA #93.558		(9,135)
Foster Care Title IV-E	CFDA #93.658		(37,677)
Medical Assistance	CFDA #93.778		(3,341)
Public Assistance Grants	CFDA #97.036		<u>(73,106)</u>
Adjustments		\$	<u>(118,337)</u>
Expenditures of Federal Awards		\$	<u><u>1,328,992</u></u>

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**MCLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 7

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2004

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of McLeod County.
- B. A reportable condition 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*." It 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

A formal policies and procedures manual does not exist for purchasing, journal entries, cash disbursements, or budget adjustments. The absence of this manual causes difficulty in assessing what controls are in place and functioning. A formal written policy that establishes required procedures enables management to determine if adequate controls exist and ensures that consistent policies and procedures will be passed on to new employees.

We recommend that the County develop and implement formal policies and procedures for purchasing, journal entries, cash disbursements, and budget adjustments.

Client's Response:

McLeod County recognizes the importance and the need for a formal policy and procedures manual for purchasing, journal entries, cash disbursements and budget adjustments for management to have adequate controls in place. This manual would establish policies and procedures to ensure that consistency and adequate controls exist in McLeod County.

McLeod County is currently working towards the completion of this manual by June 1, 2006.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

04-1 Contracts - Compliance with Bidding Requirements

Starting in August 2004, Minn Stat. § 331A.03 provides political subdivisions alternative methods to disseminate solicitations of bids, requests for information or requests for proposals by using a website or a recognized industry trade journal. For the first six months after designating the alternative method, the solicitations are required to be published in the official newspaper of the County while at the same time published in the alternative format.

The County approved the new method of dissemination for Highway Department contracts on January 6, 2004, before the statute allowing the alternative methods became effective. Once the new method of dissemination was approved, only the County website was used to publish the solicitations. The solicitations were not published simultaneously in the official newspaper of the County for the first six months as required by the statute.

We recommend that the County review the requirements of Minn. Stat. § 331A.03 to ensure compliance with the statute.

Client's Response:

We have reviewed Minn. Stat. § 331A.03. In the future, should we decide to use the County website to publish solicitations, we will simultaneously also publish in the official County newspaper for six months as required by statute.

04-2 Contracts - Courthouse Tuckpointing Contract

In 2004, the County awarded a contract to ACME Tuckpointing Company for work to be performed on the County Courthouse and Law Enforcement Center for \$103,330. Upon awarding the contract, the County sent a letter to ACME Tuckpointing Company stating that they were awarded the contract. The County did not prepare or obtain a signed contract with ACME Tuckpointing Company as required by Minn. Stat. § 375.21. In addition, performance and payment bonds required by Minn. Stat. § 574.26 were not obtained.

We recommend the County obtain signed contracts when awarding projects after formal bidding pursuant to Minn. Stat § 375.21. In addition, we recommend that the County obtain performance and payment bonds as required by Minn. Stat. § 574.26.

Client Response:

Several steps have been taken by the Central Services Coordinator to ensure correct procedures are followed in the future.

- *Prepared a checklist for contracting/bid laws that the Central Services Department will follow when working through the various steps of bids, quotations, and proposals, ensuring that all Minnesota Statutes are followed as required.*
- *Met with Mike Junge, County Attorney, to review the Minnesota Statutes and McLeod County's contracting/bid laws checklist.*
- *Requested MCIT to review McLeod County's contracting/bid laws checklist and the insurance portion of the boiler plate attached to RFPs and RFBs to make sure that insurance requirements meet MCIT's guidelines.*
- *Made commitment to attend continuing education classes each year sponsored by the National Institute of Government Purchasing.*

PREVIOUSLY REPORTED ITEM RESOLVED

Annual Budget (03-1)

The County did not publish its annual budget as required by Minn. Stat. § 375.169, and the County did not report a summary of its budget information to the Office of the State Auditor as required by Minn. Stat. § 6.745.

Resolution

The County published its budget as required by Minn. Stat. § 375.169, and the County reported a summary of its budget information to the Office of the State Auditor as required by Minn. Stat. § 6.745.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

00-6 Credit Card Policy

The County makes purchases using credit cards but does not have a credit card policy in place. A credit card policy should, at a minimum, identify who may use a County credit card, identify the types of purchases that can be made with the card, and require Board authorization prior to application/use of a County credit card. The absence of a policy causes difficulty in assessing what controls are in place and functioning over credit cards.

We recommend that the County develop and implement formal policies and procedures concerning credit cards.

Client's Response:

McLeod County recognizes the importance and the need for a formal policy and procedure concerning credit cards for management to have adequate controls in place. This policy would establish policies and procedures to ensure that consistency and adequate controls exist in McLeod County.

McLeod County will work towards the completion of this policy by June 1, 2006.

00-7 Outdated Cooperative Agreement and No Business Continuity Plan

The County's cooperative agreement with Carver County that requires one gigabyte of memory to be set aside for the other County in the event of a disaster is outdated. Furthermore, the County has not developed a business continuity plan to ensure continued County operation if a disaster or major computer breakdown were to occur.

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

Client's Response:

The Information Systems Department continues to work on the components/tasks of Phase 2 in developing a Business Continuation Plan. Other agencies' plans have been acquired and are being modified for McLeod County use. Work continues towards creating a Business Continuation Plan document. Public Health Department staff has volunteered to assist the Information Systems Department with the document. The intent is to have vendors assist the McLeod County Information Systems Department to develop a business continuity plan.



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OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
McLeod County

We have audited the 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, 2004, which collectively comprise McLeod County's basic financial statements, and have issued our report thereon dated September 19, 2005. We did not audit the financial statements of the McLeod County Housing and Redevelopment Authority, a component unit of McLeod County. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated 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, except as described in the Schedule of Findings and Questioned Costs as items 04-1 and 04-2.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: September 19, 2005



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PATRICIA ANDERSON
STATE AUDITOR

**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 for the year ended December 31, 2004. McLeod County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

McLeod County's financial statements include the operations of the Housing and Redevelopment Authority (HRA) component unit, which expended \$303,680 in federal awards during the year ended June 30, 2004, 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 that are applicable to its major federal program for the year ended December 31, 2004.

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of McLeod County as of and for the year ended December 31, 2004, and have issued our report thereon dated September 19, 2005. 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 the McLeod County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Pat Anderson

/s/Greg Hierlinger

PATRICIA ANDERSON
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: September 19, 2005

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 8

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture			
Passed Through Meeker-McLeod-Sibley Community Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 113,199	\$ -
Passed Through Minnesota Department of Human Services Matching Grants for Food Stamp Program	10.561	<u>22,416</u>	<u>-</u>
Total U.S. Department of Agriculture		<u>\$ 135,615</u>	<u>\$ -</u>
U.S. Department of Justice			
Passed Through Minnesota Department of Public Safety Juvenile Accountability Incentive Block Grant	16.523	\$ 7,913	\$ -
Direct Alien Assistance Program	16.606	13,187	-
Passed Through Meeker-McLeod-Sibley Community Health Services Drug Free Communities Support Program	16.729	<u>41,358</u>	<u>-</u>
Total U.S. Department of Justice		<u>\$ 62,458</u>	<u>\$ -</u>
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 337,089	\$ -
Passed Through Minnesota Department of Public Safety Interagency Hazardous Materials Public Sector Training and Planning Grant	20.703	<u>1,700</u>	<u>-</u>
Total U.S. Department of Transportation		<u>\$ 338,789</u>	<u>\$ -</u>
Environmental Protection Agency			
Passed Through Minnesota Department of Health State Indoor Radon Grant	66.032	<u>\$ 7,598</u>	<u>\$ -</u>
U.S. Department of Health and Human Services			
Passed Through Mid-Minnesota Area Agency on Aging, Inc. Special Program for the Aging Title III Part B Grants	93.044	\$ 4,374	\$ -
Passed Through Minnesota Department of Health Center for Disease Control and Prevention - Investigations and Technical Assistance	93.283	44,150	-

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

Schedule 8
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services (Continued)			
Passed Through Minnesota Department of Human Services			
Temporary Assistance for Needy Families	93.558	147,885	147,885
Promoting Safe and Stable Families	93.556	36,769	-
Child Care Mandatory and Matching Funds	93.596	8,078	-
Foster Care Title IV-E	93.658	166,965	-
Social Services Block Grant Title XX	93.667	212,919	-
Chafee Foster Care Independent Living	93.674	6,867	-
Children's Health Insurance Program (MCHP)	93.767	24	-
Passed Through Meeker-McLeod-Sibley Community Health Services			
Medical Assistance	93.778	49,736	-
Block Grant - Prevention/Treatment of Substance Abuse	93.959	30,169	-
Maternal and Child Health Services Block Grant	93.994	32,247	-
Total U.S. Department of Health and Human Services		\$ 740,183	\$ 147,885
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
State Domestic Preparedness Equipment Support Program	97.004	\$ 26,785	\$ -
Emergency Management Performance	97.042	17,564	-
Total U.S. Department of Homeland Security		\$ 44,349	\$ -
Total Federal Awards		\$ 1,328,992	\$ 147,885

Notes to Schedule of Expenditures of Federal Awards

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