

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

McLEOD COUNTY
GLENCOE, MINNESOTA

YEAR ENDED DECEMBER 31, 2015

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

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

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

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

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

Year Ended December 31, 2015



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

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		5
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	1	15
Statement of Activities	2	17
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	19
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position--Governmental Activities	4	23
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	5	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	6	26
Fiduciary Funds		
Statement of Fiduciary Net Position	7	27
Notes to the Financial Statements		28
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	A-1	84
Road and Bridge Special Revenue Fund	A-2	87
Human Services Special Revenue Fund	A-3	88
Solid Waste Special Revenue Fund	A-4	89
Schedule of Funding Progress - Other Postemployment Benefits	A-5	90
PERA General Employees Retirement Fund		
Schedule of Proportionate Share of Net Pension Liability	A-6	91
Schedule of Contributions	A-7	91

**McLEOD COUNTY
GLENCOE, MINNESOTA**

TABLE OF CONTENTS

	Exhibit	Page
Financial Section		
Required Supplementary Information (Continued)		
PERA Public Employees Police and Fire Fund		
Schedule of Proportionate Share of Net Pension Liability	A-8	92
Schedule of Contributions	A-9	92
PERA Public Employees Correctional Fund		
Schedule of Proportionate Share of Net Pension Liability	A-10	93
Schedule of Contributions	A-11	93
Notes to the Required Supplementary Information		94
Supplementary Information		
Nonmajor Governmental Funds		
Combining Balance Sheet	B-1	97
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	B-2	98
Budgetary Comparison Schedule - Debt Service Fund	B-3	99
Agency Funds		
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	C-1	100
Other Schedules		
Schedule of Intergovernmental Revenue	D-1	103
Schedule of Expenditures of Federal Awards	D-2	105
Notes to the Schedule of Expenditures of Federal Awards		107
Management and Compliance Section		
Schedule of Findings and Questioned Costs		109
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		121
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance		124

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

**ORGANIZATION
2015**

Office	Name	Term of Office	
		From	To
Commissioners			
1st District	Ron Shimanski	January 2014	January 2017
2nd District	Doug Krueger	January 2015	January 2019
3rd District	Paul Wright*	January 2009	January 2017
4th District	Sheldon Nies	January 1995	January 2017
5th District	Joe Nagel	January 2015	January 2019
Officers			
Elected			
Attorney	Michael K. Junge	May 1987	January 2019
Auditor-Treasurer	Cindy Schultz Ford	January 1995	January 2019
Recorder	Lynnette Schrupp	January 2003	January 2019
Sheriff	Scott Rehmann	January 2007	January 2019
District Judge	Michael Savre	May 2004	January 2019
District Judge	Terrence E. Conkel	August 1998	January 2019
Appointed			
Agriculture & Weed Inspector	Allan Koglin	January 1997	January 2016
Assessor	Sue Schulz	March 2005	January 2017
Coroner	Dr. Quinn Strobl	January 2011	December 2015
County Administrator	Pat Melvin	November 2008	Indefinite
Court Administrator	Karen Messner	January 2008	Indefinite
Environmentalist	Roger Berggren	October 1995	Indefinite
Highway Engineer	John Brunkhorst	November 2001	May 2018
Human Services Director	Gary Sprynczynatyk	August 1995	Indefinite
Information Systems Director	Vince Traver	November 2012	Indefinite
Park Superintendent	Allan Koglin	August 1979	Indefinite
Public Health Nurse Director	Jennifer Hauser	June 2015	Indefinite
Regional Extension Director	Sarah Chur	January 2006	Indefinite
Surveyor	Jeff Rausch	February 1996	January 2016
Solid Waste Director	Ed Homan	December 1973	Indefinite
Veterans Service Officer	James Lauer	November 2004	January 2016
Zoning Administrator	Larry Gasow	February 2000	January 2016

*Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
McLeod County
Glencoe, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of McLeod County, Minnesota, as of and for the year ended December 31, 2015, including the McLeod County Housing and Redevelopment Authority (HRA) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the McLeod County HRA, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinions

In our opinion, based on our report and the report of the 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, 2015, including the McLeod County HRA as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1.E. to the financial statements, in 2015 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise McLeod County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2016, on our consideration of McLeod County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McLeod County's internal control over financial reporting and compliance. It does not include the McLeod County HRA, which was audited by other auditors.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 15, 2016

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015
(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, 2015. 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 and deferred outflows of resources of McLeod County exceeded liabilities and deferred inflows of resources at the end of the current fiscal year by \$159,632,933 (net position). Of this amount, \$20,300,353 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position decreased by \$701,534 (0.4 percent). The decrease is because of the pension reporting requirements.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$13,866,116, or 84.3 percent, of total 2015 General Fund expenditures.
- Governmental funds' fund balances increased by \$200,121.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

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

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

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

- General Fund - used to account for all financial resources not required to be accounted for in another fund.
- Special Revenue Funds - used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The special revenue funds include Road and Bridge, Human Services, Solid Waste, Ditch, and Forfeited Tax.
- Capital Projects Fund - used to account for financial resources to be used for capital acquisition, construction, or improvement of capital facilities.
- Debt Service Fund - used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Fiduciary Funds

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

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

Notes to the Financial Statements

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

Other Information

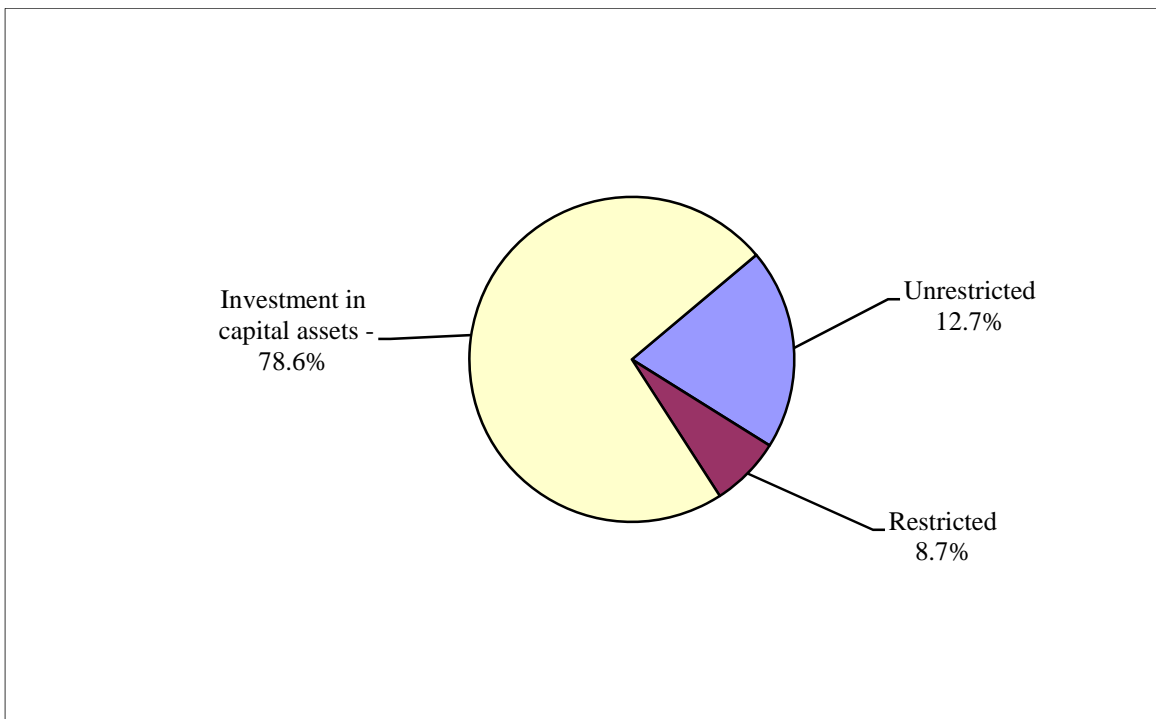
In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of McLeod County, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$159,632,933 as of December 31, 2015. The investment in capital assets is the largest portion of McLeod County's net position at 78.6 percent. These capital assets are used to provide services to citizens and are not available for future spending.

Approximately 8.7 percent of McLeod County's net position is subject to external restrictions on how they may be used and, therefore, are considered restricted. The remaining 12.7 percent, or \$20,300,353, is unrestricted and available to be used to meet the government's ongoing obligations to citizens and creditors.

Net Position



Net Position

	Governmental Activities		Discretely Presented Component Unit	
	2015	2014	2015	2014
Current and other assets	\$ 55,236,164	\$ 58,199,633	\$ 103,142	\$ 105,263
Capital assets	132,124,475	130,590,737	2,836,000	2,943,267
Total Assets	\$ 187,360,639	\$ 188,790,370	\$ 2,939,142	\$ 3,048,530
Deferred outflows of resources	\$ 1,949,194	\$ -	\$ -	\$ -
Current and other liabilities	\$ 3,239,991	\$ 4,591,338	\$ 96,106	\$ 93,860
Long-term liabilities - due within one year	2,074,544	1,007,244	157,898	150,114
Long-term liabilities - due in more than one year	23,297,431	12,345,220	2,980,593	3,139,724
Total Liabilities	\$ 28,611,966	\$ 17,943,802	\$ 3,234,597	\$ 3,383,698
Deferred inflows of resources	\$ 1,064,934	\$ -	\$ -	\$ -
Net Position				
Investment in capital assets	\$ 125,486,101	\$ 127,185,882	\$ (302,491)	\$ (346,571)
Restricted	13,846,479	19,642,149	1,575	29,592
Unrestricted	20,300,353	24,018,537	5,461	(18,189)
Total Net Position	\$ 159,632,933	\$ 170,846,568	\$ (295,455)	\$ (335,168)
Change in accounting principles*		(10,512,101)		
Total Net Position, as restated		\$ 160,334,467		

*This is the first year the County implemented the new pension accounting and financial reporting standards in GASB Statements 68, 71, and 82. The County had to make a prior year change in accounting principles to record the County's net pension liability and related deferred outflows of resources

GOVERNMENTAL ACTIVITIES

McLeod County's governmental activities decreased net position by \$701,534 during the current fiscal year. This decrease is primarily due to the implementation of GASB Statements 68, 71, and 82.

The McLeod County HRA is a discretely presented component unit of McLeod County. As of June 30, 2015, liabilities exceeded assets by \$295,455, and there was an increase in net position of \$39,713 from the prior year. The increase is primarily due to revenues in excess of expenses.

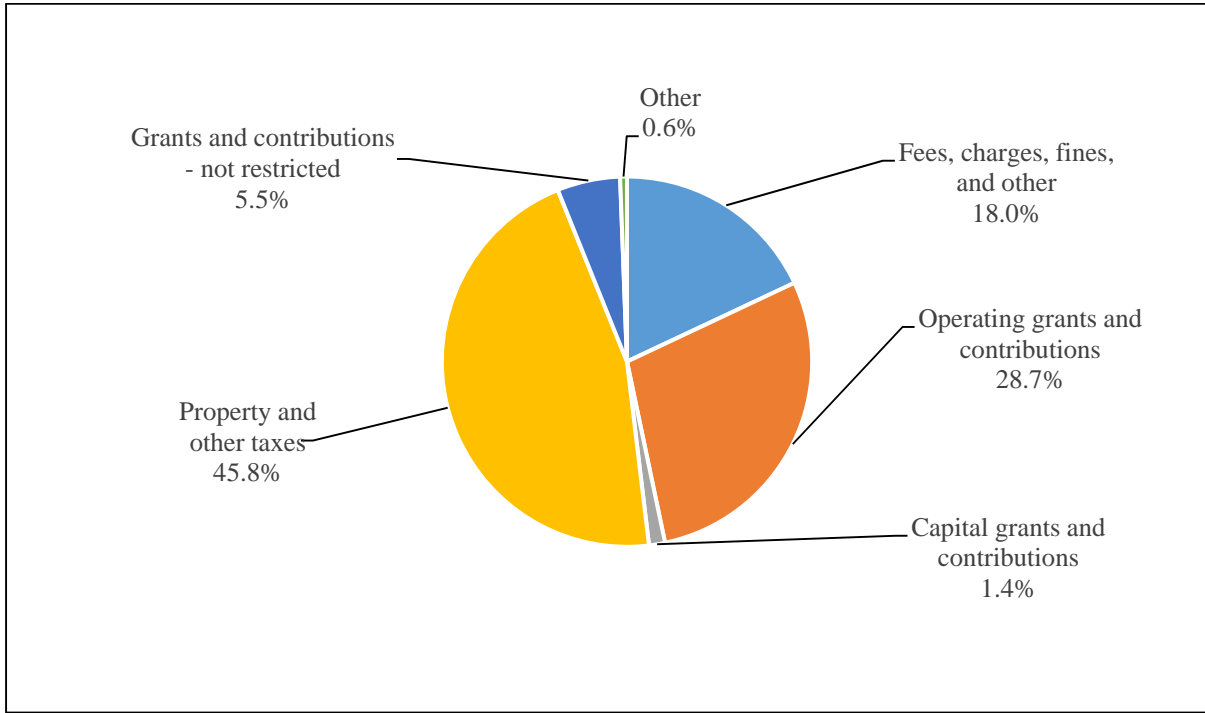
Changes in Net Position

	Governmental Activities		Discretely Presented Component Unit	
	2015	2014	2015	2014
Revenues				
Program revenues				
Fees, charges, fines, and other	\$ 7,250,718	\$ 7,895,324	\$ 503,402	\$ 468,978
Operating grants and contributions	11,529,152	11,217,567	386,911	421,922
Capital grants and contributions	551,963	1,153,378	-	-
General revenues				
Property taxes	17,959,194	18,122,387	-	-
Other taxes	456,979	453,580	-	-
Grants and contributions not restricted to specific programs	2,193,620	2,013,223	-	-
Investment income	159,017	672,803	145	145
Gain on disposal of assets	-	84,204	-	-
Other	119,095	110,380	-	-
Total Revenues	\$ 40,219,738	\$ 41,722,846	\$ 890,458	\$ 891,045
Expenses				
General government	\$ 6,972,748	\$ 6,833,419	\$ -	\$ -
Public safety	6,194,917	6,103,156	-	-
Highways and streets	7,956,516	7,926,744	-	-
Sanitation	3,760,543	2,859,051	-	-
Human services	10,386,221	9,418,769	-	-
Health	2,656,747	2,518,848	-	-
Culture and recreation	670,590	650,173	-	-
Conservation of natural resources	2,171,652	1,511,881	-	-
Economic development	1,895	13,747	-	-
Interest	149,443	74,791	-	-
HRA	-	-	850,745	912,659
Total Expenses	\$ 40,921,272	\$ 37,910,579	\$ 850,745	\$ 912,659
Increase (Decrease) in Net Position	\$ (701,534)	\$ 3,812,267	\$ 39,713	\$ (21,614)
Net Position - January 1, as restated*	160,334,467	167,034,031	(335,168)	(313,554)
Net Position - December 31, as reported	\$ 159,632,933	\$ 170,846,568	\$ (295,455)	\$ (335,168)

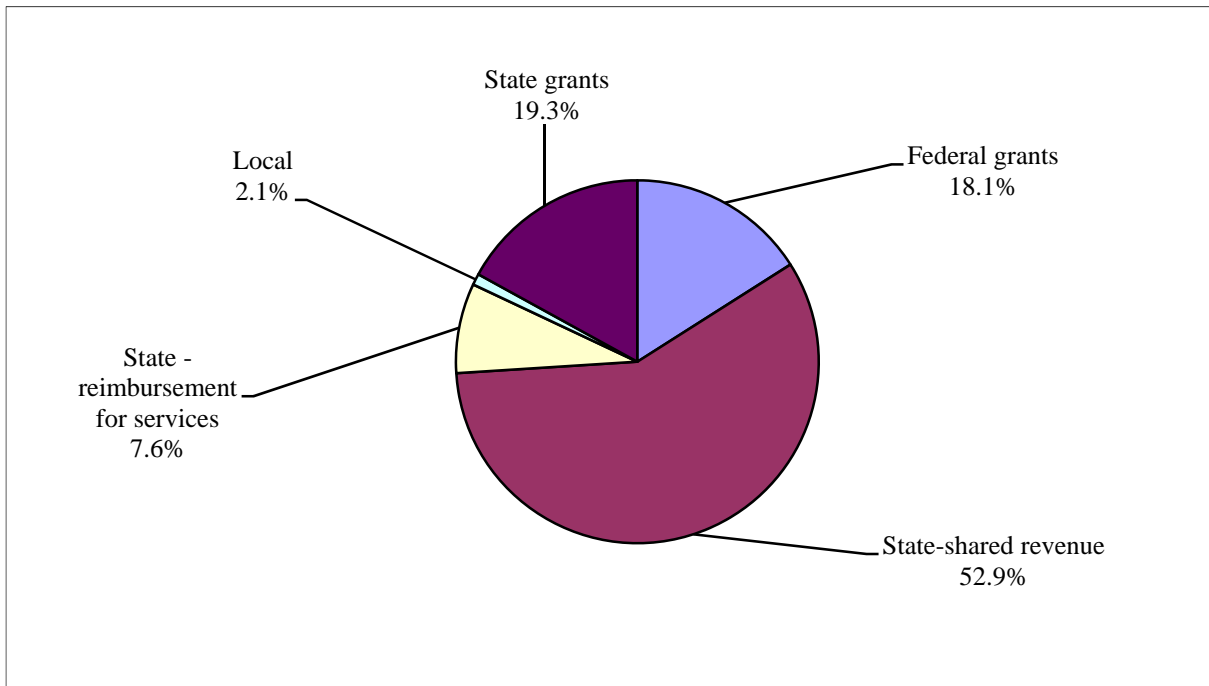
*See note on restated January 1 net position on prior page of this report.

The following charts show additional information on the revenues of McLeod County for the year ended December 31, 2015.

Revenues by Source - Governmental Activities



Intergovernmental Revenue



(Unaudited)

FINANCIAL ANALYSIS

Governmental Funds

At the end of 2015, McLeod County's governmental funds reported a combined fund balance of \$47,231,004. This is an increase of \$200,121 from the prior year. The fund balance in the General Fund increased by \$524,666 due to decreased expenditures. The fund balance in the Road and Bridge Special Revenue Fund increased by \$2,967,493 due to a transfer in from the Capital Projects Fund and increased revenues. The fund balance in the Human Services Special Revenue Fund increased by \$417,878 due to increased revenues. The fund balance in the Solid Waste Special Revenue Fund decreased by \$809,178 due to increased expenses from the MRF retrofit project. The fund balance in the Ditch Special Revenue Fund decreased by \$505,288 due to an increase in expenditures. There was also a decrease in the nonmajor governmental funds of \$2,395,450 due to transfers made to the Road and Bridge and Solid Waste Special Revenue Funds.

General Fund Budgetary Highlights

In total, General Fund revenues for 2015 exceeded the amounts budgeted by \$532,393. Special assessments, licenses and permits, intergovernmental, and charges for services came in higher than anticipated. Total General Fund expenditures were \$4,698,914 less than the final budget. This variance is primarily attributed to the areas of general government and public safety.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

At the end of 2015, McLeod County had \$132,124,475 invested in capital assets, including land; construction in progress; right-of-way; infrastructure; buildings; machinery, furniture, and equipment; and improvements other than buildings. The table below shows a summary of McLeod County's capital assets as of December 31.

	Capital Assets (Net of Depreciation)	
	2015	2014
Land	\$ 3,956,141	\$ 3,956,141
Construction in progress	100,942	4,708,515
Right-of-way	3,173,372	3,173,372
Buildings	15,470,770	11,828,597
Machinery, furniture, and equipment	4,854,616	5,174,278
Improvements other than buildings	704,877	616,649
Infrastructure	103,863,757	101,133,185
Total	<u>\$ 132,124,435</u>	<u>\$ 130,590,737</u>

Major capital asset events during the year included the following:

- Fiber project in 2015.
- Infrastructure construction continued in 2015.
- Health and Human Service building upgrades in 2015.

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

Long-Term Debt

At the end of current fiscal year, McLeod County had bonded debt outstanding of \$9,785,000. At the end of the current fiscal year, McLeod County had loans outstanding of \$1,285,777. This is an increase in loans payable of \$64,362 from the beginning of the year. The increase was from additional septic loans.

Current and future County tax levies are used to finance the County's debt obligations. State statutes limit the amount of general obligation debt a county can incur to no more than three percent of the market value of taxable property in the county. The current debt limitation for McLeod County is \$116,924,259.

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 4.5 percent. McLeod County's unemployment rate is more than the state unemployment rate of 3.8 percent, and less than the United States unemployment rate of 4.9 percent.
- The property tax levy has not increased in 2016, but could in the future to cover rising costs. 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 2016 fiscal year.

REQUESTS FOR INFORMATION

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

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	Primary Government Governmental Activities	Housing and Redevelopment Authority Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 44,722,895	\$ 39,224
Petty cash and change funds	15,055	-
Departmental cash	6,834	-
Cash with fiscal agent	1,254,956	-
Taxes receivable		
Delinquent	346,357	-
Special assessments receivable		
Delinquent	14,082	-
Noncurrent	1,428,098	-
Accounts receivable	527,723	9,129
Accrued interest receivable	9,305	-
Due from other governments	6,327,004	-
Inventories	583,855	-
Prepaid items	-	12,112
Restricted assets		
Cash and pooled investments	-	42,677
Capital assets		
Non-depreciable	7,230,455	-
Depreciable - net of accumulated depreciation	124,894,020	2,836,000
Total Assets	\$ 187,360,639	\$ 2,939,142
<u>Deferred Outflows of Resources</u>		
Deferred pension outflows	\$ 1,949,194	\$ -

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	Primary Government Governmental Activities	Housing and Redevelopment Authority Component Unit
<u>Liabilities</u>		
Accounts payable	\$ 1,191,662	\$ 6,371
Salaries payable	838,370	-
Accrued payroll taxes	61,595	-
Accrued interest payable	2,565	-
Other accrued expenses	277,843	36,266
Retainage payable	8,377	-
Due to other governments	252,603	-
Unearned revenue	342,539	8,414
Claims payable	264,437	-
Long-term liabilities		
Due within one year	2,074,544	157,898
Due in more than one year	10,502,920	2,980,593
Net pension obligation	11,830,726	-
Other postemployment benefits obligations	963,785	-
Liabilities payable from restricted assets (security deposits)	-	45,055
	\$ 28,611,966	\$ 3,234,597
<u>Deferred Inflows of Resources</u>		
Deferred pension inflows	\$ 1,064,934	\$ -
<u>Net Position</u>		
Net investment in capital assets	\$ 125,486,101	\$ (302,491)
Restricted for		
General government	772,207	-
Public safety	4,140,399	-
Highways and streets	166,678	-
Sanitation	4,196,954	-
Conservation of natural resources	523,014	-
Economic development	-	1,575
Capital projects	3,341,384	-
Debt service	705,843	-
Unrestricted	20,300,353	5,461
	\$ 159,632,933	\$ (295,455)

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 6,972,748	\$ 1,147,411
Public safety	6,194,917	214,808
Highways and streets	7,956,516	327,132
Sanitation	3,760,543	2,390,363
Human services	10,386,221	1,471,338
Health	2,656,747	910,386
Culture and recreation	670,590	97,572
Conservation of natural resources	2,171,652	691,708
Economic development	1,895	-
Interest	149,443	-
	\$ 40,921,272	\$ 7,250,718
Total Primary Government	\$ 40,921,272	\$ 7,250,718
 Component unit		
Housing and Redevelopment Authority	\$ 850,745	\$ 503,402

General Revenues

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

Total general revenues

Change in net position

Net Position - Beginning, as restated (Note 1.E.)

Net Position - Ending

EXHIBIT 2

<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>	
<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>	<u>Discretely Presented Component Unit</u>
\$ 274,862	\$ -	\$ (5,550,475)	
344,953	-	(5,635,156)	
4,903,379	551,963	(2,174,042)	
-	-	(1,370,180)	
4,761,885	-	(4,152,998)	
956,003	-	(790,358)	
-	-	(573,018)	
288,070	-	(1,191,874)	
-	-	(1,895)	
-	-	(149,443)	
<u>\$ 11,529,152</u>	<u>\$ 551,963</u>	<u>\$ (21,589,439)</u>	
<u>\$ 386,911</u>	<u>\$ -</u>		<u>\$ 39,568</u>
		\$ 17,959,194	\$ -
		25,542	-
		386,441	-
		44,996	-
		2,193,620	-
		159,017	145
		119,095	-
		<u>\$ 20,887,905</u>	<u>\$ 145</u>
		\$ (701,534)	\$ 39,713
		<u>160,334,467</u>	<u>(335,168)</u>
		<u>\$ 159,632,933</u>	<u>\$ (295,455)</u>

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 24,486,946	\$ 5,427,788
Petty cash and change funds	4,630	100
Departmental cash	6,834	-
Cash with fiscal agent	1,254,956	-
Taxes receivable		
Delinquent	211,069	61,865
Special assessments receivable		
Delinquent	12,486	-
Noncurrent	774,233	-
Accounts receivable	75,348	13,092
Accrued interest receivable	9,305	-
Due from other governments	421,581	4,881,372
Inventories	6,311	577,544
Advances to other funds	1,323,500	-
	\$ 28,587,199	\$ 10,961,761
Total Assets	\$ 28,587,199	\$ 10,961,761
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 183,436	\$ 410,696
Salaries payable	472,171	72,080
Accrued payroll taxes	33,841	5,514
Accrued interest payable	-	-
Accrued expenses	221,051	10,537
Advances from other funds	-	-
Retainage payable	-	8,377
Due to other governments	177,086	6,376
Unearned revenue	342,539	-
Claims payable	264,437	-
	\$ 1,694,561	\$ 513,580
Total Liabilities	\$ 1,694,561	\$ 513,580
Deferred Inflows of Resources		
Unavailable revenue	\$ 1,056,532	\$ 2,738,998

EXHIBIT 3

<u>Human Services</u>	<u>Solid Waste</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 6,385,212	\$ 4,112,789	\$ 245,775	\$ 4,064,385	\$ 44,722,895
-	10,325	-	-	15,055
-	-	-	-	6,834
-	-	-	-	1,254,956
73,423	-	-	-	346,357
-	-	1,596	-	14,082
-	-	653,865	-	1,428,098
143,312	295,971	-	-	527,723
-	-	-	-	9,305
966,737	-	57,314	-	6,327,004
-	-	-	-	583,855
-	-	-	-	1,323,500
<u>\$ 7,568,684</u>	<u>\$ 4,419,085</u>	<u>\$ 958,550</u>	<u>\$ 4,064,385</u>	<u>\$ 56,559,664</u>
\$ 400,620	\$ 156,533	\$ 40,377	\$ -	\$ 1,191,662
266,856	27,263	-	-	838,370
20,155	2,085	-	-	61,595
-	-	2,565	-	2,565
42,103	4,152	-	-	277,843
-	-	1,323,500	-	1,323,500
-	-	-	-	8,377
1,022	20,400	47,715	4	252,603
-	-	-	-	342,539
-	-	-	-	264,437
<u>\$ 730,756</u>	<u>\$ 210,433</u>	<u>\$ 1,414,157</u>	<u>\$ 4</u>	<u>\$ 4,563,491</u>
<u>\$ 255,491</u>	<u>\$ 1,373</u>	<u>\$ 712,775</u>	<u>\$ -</u>	<u>\$ 4,765,169</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	General	Road and Bridge
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
(Continued)		
Fund Balances		
Nonspendable		
Inventories	\$ 6,311	\$ 577,544
Advances to other funds	1,323,500	-
Restricted		
Restricted for E-911	238,927	-
Restricted for law library	37,004	-
Restricted for capital projects	-	-
Restricted for recorder's equipment purchases	210,617	-
Restricted for new jail construction	3,894,456	-
Restricted for land records technology	61,239	-
Restricted for drug enforcement	7,016	-
Restricted for conservation	464,215	-
Restricted for debt service	-	-
Restricted for records compliance	386,200	-
Restricted for road and bridge	-	166,678
Restricted for solid waste abatement	-	-
Restricted for aquatic invasive species	78,734	-
Restricted for forfeited tax	-	-
Restricted for escrow	59,993	-
Restricted for ditch maintenance and construction	-	-
Committed		
Committed for petty cash and change funds	4,630	100
Assigned		
Assigned for capital projects	4,759,437	-
Assigned for 4H after school program	708	-
Assigned for lidar and orthophotography	27,310	-
Assigned for aerial photos	14,800	-
Assigned for veterans van	77,367	-
Assigned for new canine	7,951	-
Assigned for ag programing	1,544	-
Assigned for ARMER radio enhancements	10,000	-
Assigned for record preservation	44,590	-
Assigned for snowmobile enforcement	251	-
Assigned for law enforcement	141,781	-
Assigned for court services	111,409	-
Assigned for contracted projects	-	137,645
Assigned for highways and streets	-	6,827,216
Assigned for human services	-	-
Unassigned	13,866,116	-
Total Fund Balances	\$ 25,836,106	\$ 7,709,183
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 28,587,199	\$ 10,961,761

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>Solid Waste</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 583,855
-	-	-	-	1,323,500
-	-	-	-	238,927
-	-	-	-	37,004
-	-	-	3,341,384	3,341,384
-	-	-	-	210,617
-	-	-	-	3,894,456
-	-	-	-	61,239
-	-	-	-	7,016
-	-	-	-	464,215
-	-	-	705,843	705,843
-	-	-	-	386,200
-	-	-	-	166,678
-	4,196,954	-	-	4,196,954
-	-	-	-	78,734
-	-	-	17,154	17,154
-	-	-	-	59,993
-	-	119,969	-	119,969
-	10,325	-	-	15,055
-	-	-	-	4,759,437
-	-	-	-	708
-	-	-	-	27,310
-	-	-	-	14,800
-	-	-	-	77,367
-	-	-	-	7,951
-	-	-	-	1,544
-	-	-	-	10,000
-	-	-	-	44,590
-	-	-	-	251
-	-	-	-	141,781
-	-	-	-	111,409
-	-	-	-	137,645
-	-	-	-	6,827,216
6,582,437	-	-	-	6,582,437
-	-	(1,288,351)	-	12,577,765
<u>\$ 6,582,437</u>	<u>\$ 4,207,279</u>	<u>\$ (1,168,382)</u>	<u>\$ 4,064,381</u>	<u>\$ 47,231,004</u>
<u>\$ 7,568,684</u>	<u>\$ 4,419,085</u>	<u>\$ 958,550</u>	<u>\$ 4,064,385</u>	<u>\$ 56,559,664</u>

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015**

Fund balance - total governmental funds (Exhibit 3)	\$	47,231,004
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		132,124,475
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Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		4,765,169
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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	\$ (9,785,000)	
Unamortized premium on bonds	(194,758)	
Loans payable	(1,285,777)	
Compensated absences	(1,311,929)	
OPEB obligation	(963,785)	
Net pension obligation	<u>(11,830,726)</u>	<u>(25,371,975)</u>

Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.

Deferred outflows related to pensions	\$ 1,949,194	
Deferred inflows related to pensions	<u>(1,064,934)</u>	<u>884,260</u>

Net Position of Governmental Activities (Exhibit 1)	\$	<u>159,632,933</u>
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**McLEOD COUNTY
GLENCOE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General	Road and Bridge
Revenues		
Taxes	\$ 10,086,293	\$ 3,582,100
Special assessments	158,527	-
Licenses and permits	93,710	12,000
Intergovernmental	3,642,340	6,544,553
Charges for services	2,141,056	344,480
Fines and forfeits	25,257	-
Gifts and contributions	35,196	-
Investment earnings	157,318	-
Miscellaneous	440,069	14,887
	\$ 16,779,766	\$ 10,498,020
Expenditures		
Current		
General government	\$ 6,502,347	\$ -
Public safety	5,753,097	-
Highways and streets	-	8,493,176
Sanitation	-	-
Human services	-	-
Health	2,577,333	-
Culture and recreation	628,611	-
Conservation of natural resources	844,007	-
Economic development	1,895	-
Capital outlay	-	-
Intergovernmental	-	258,778
Debt service		
Principal	127,494	-
Interest	18,328	-
	\$ 16,453,112	\$ 8,751,954
Excess of Revenues Over (Under) Expenditures	\$ 326,654	\$ 1,746,066
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ 1,200,000
Transfers out	-	-
Loan issued	191,856	-
Proceeds from the sale of capital assets	8,490	6,984
	\$ 200,346	\$ 1,206,984
Net Change in Fund Balance	\$ 527,000	\$ 2,953,050
Fund Balance - January 1	25,311,440	4,741,690
Increase (decrease) in inventories	(2,334)	14,443
	\$ 25,836,106	\$ 7,709,183
Fund Balance - December 31	\$ 25,836,106	\$ 7,709,183

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

EXHIBIT 5

Human Services	Solid Waste	Ditch	Other Governmental Funds	Total Governmental Funds
\$ 4,019,892	\$ -	\$ -	\$ 754,651	\$ 18,442,936
-	-	154,817	-	313,344
-	7,440	-	-	113,150
4,909,517	107,539	71,289	17,910	15,293,148
532,481	2,315,427	-	-	5,333,444
-	-	-	24,001	49,258
-	-	-	-	35,196
-	-	1,699	-	159,017
1,084,993	70,894	-	-	1,610,843
\$ 10,546,883	\$ 2,501,300	\$ 227,805	\$ 796,562	\$ 41,350,336
\$ -	\$ -	\$ -	\$ 18,846	\$ 6,521,193
-	-	-	-	5,753,097
-	-	-	-	8,493,176
-	5,009,327	-	-	5,009,327
10,129,005	-	-	-	10,129,005
-	-	-	-	2,577,333
-	-	-	-	628,611
-	-	725,119	-	1,569,126
-	-	-	-	1,895
-	-	-	131,700	131,700
-	-	-	-	258,778
-	-	-	-	127,494
-	-	7,974	142,617	168,919
\$ 10,129,005	\$ 5,009,327	\$ 733,093	\$ 293,163	\$ 41,369,654
\$ 417,878	\$ (2,508,027)	\$ (505,288)	\$ 503,399	\$ (19,318)
\$ -	\$ 1,774,748	\$ -	\$ 75,899	\$ 3,050,647
-	(75,899)	-	(2,974,748)	(3,050,647)
-	-	-	-	191,856
-	-	-	-	15,474
\$ -	\$ 1,698,849	\$ -	\$ (2,898,849)	\$ 207,330
\$ 417,878	\$ (809,178)	\$ (505,288)	\$ (2,395,450)	\$ 188,012
6,164,559	5,016,457	(663,094)	6,459,831	47,030,883
-	-	-	-	12,109
\$ 6,582,437	\$ 4,207,279	\$ (1,168,382)	\$ 4,064,381	\$ 47,231,004

**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, 2015**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 188,012

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

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

Unavailable revenue - December 31	\$ 4,765,169	
Unavailable revenue - January 1	(6,577,412)	(1,812,243)

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

Expenditures for general capital assets and infrastructure	\$ 6,507,572	
Net book value of disposed assets	(24,717)	
Current year depreciation	(4,949,117)	1,533,738

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

Loan issued	\$ (191,856)	
Principal repayments - Minnesota Pollution Control Agency loans	127,494	(64,362)

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.

Amortization premiums on bonds	\$ 19,476	
Change in compensated absences	(14,363)	
Change in OPEB liability	(129,536)	
Change in pension obligation, as restated	(762,064)	
Change in deferred pension outflows, as restated	1,392,633	
Change in deferred pension inflows	(1,064,934)	
Change in inventories	12,109	(546,679)

Change in Net Position of Governmental Activities (Exhibit 2) \$ (701,534)

FIDUCIARY FUNDS

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McLEOD COUNTY
GLENCOE, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2015

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ 949,100
Departmental cash	12,661
Accounts receivable	82,063
Due from other governments	<u>566,810</u>
Total Assets	<u>\$ 1,610,634</u>
<u>Liabilities</u>	
Accounts payable	\$ 11,526
Salaries payable	46,056
Accrued payroll taxes	3,426
Accrued expenses	3,233
Due to other governments	<u>1,546,393</u>
Total Liabilities	<u>\$ 1,610,634</u>

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2015. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Discretely Presented Component Unit

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures and Jointly-Governed Organizations

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

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

The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principle and interest.

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.

C. Measurement Focus and Basis of Accounting

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor-Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2015, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. In 2015, the County reported pooled investment earnings of \$157,318.

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 investment in the pool is measured at the net asset value per share provided by the pool.

2. Receivables and Payables

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables (Continued)

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

No allowance for uncollectible receivables has been provided because such amounts are not expected to be material.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable. No provision has been made for an estimated uncollectible amount.

Special assessments receivable consist of delinquent special assessments payable in the years 2008 to 2015 and noncurrent special assessments payable in 2015 and after. No provision has been made for an estimated uncollectible amount.

3. Inventories

Inventories in the General Fund are valued at cost using the first in/first out method. Inventories in the Road and Bridge Special Revenue Fund are valued at cost 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, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

4. Capital Assets

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

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

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

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

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid accumulated, vacation, comp time, vested sick leave balances, and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Compensated Absences (Continued)

The government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion is based on percentages predetermined by management based on historical information. The noncurrent portion consists of the remaining amount of vacation and vested sick leave.

6. Long-Term Obligations

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

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

7. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value. The pension liability is liquidated through the General Fund and other governmental funds that have personal services.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the County has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date and also the differences between projected and actual earnings on pension plan investments and, accordingly, are reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has two such items that qualify for reporting in this category. Unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. The County also has deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

9. Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received but not yet earned.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Classification of Net Position

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

Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

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

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

11. Classification of Fund Balance

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balance (Continued)

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

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

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

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

12. Use of Estimates

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Change in Accounting Principles

During the year ended December 31, 2015, the County adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, requires governments providing defined benefit pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, modifies the measure of payroll that is presented in the required supplementary information schedules.

GASB Statements 68 and 71 require the County to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the County's net pension liability and related deferred outflows of resources.

	<u>Governmental Activities</u>
Net Position, January 1, 2015, as previously reported	\$ 170,846,568
Change in accounting principles	<u>(10,512,101)</u>
Net Position, January 1, 2015, as restated	<u>\$ 160,334,467</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

F. Revenues

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

Imposed Nonexchange Transactions

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

Intergovernmental

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

1. Summary of Significant Accounting Policies

F. Revenues (Continued)

Exchange Transactions

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

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The Ditch Special Revenue Fund had a negative fund balance of \$1,168,382 as of December 31, 2015. Ditch system deficits will be eliminated in future years with special assessment levies against benefited properties. Following is a summary of the individual ditch systems:

15 ditches with positive balances	\$ 119,969
41 ditches with deficit balances	<u>(1,288,351)</u>
Net Fund Balance	<u>\$ (1,168,382)</u>

B. Component Unit Deficit

The McLeod County HRA, at June 30, 2015, had deficit net position of \$295,455, an increase from the previous year's deficit balance of \$335,168. The increase in net position is due, in part, to revenues in excess of expenses.

C. New Jail Construction

The fund balance restricted for new jail construction, and a portion of the net position restricted for public safety, was donated to McLeod County by the estate of Annamarie Tudhope. In 2009, the County received \$1,170,500 in donations and \$41,024 in interest. In 2010, the County received \$2,264,482 in donations and \$24,445 in interest. In 2011, the County received \$150,000 in donations and \$39,997 in interest. In 2012, the County received \$130,432 in donations and \$26,760 in interest. In 2013, the County received \$22,196 in interest. In 2014, the County received \$13,222 in interest. In 2015, the County received \$11,398 in interest. As of December 31, 2015, \$3,894,456 was restricted. This money can be used only for new construction of a jail.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Governmental funds		
Cash and pooled investments	\$	44,722,895
Petty cash and change funds		15,055
Departmental cash		6,834
Cash with fiscal agent		1,254,956
Agency fund		
Cash and pooled investments		949,100
Departmental cash		12,661
		46,961,501
Total Cash and Investments	\$	46,961,501
Deposits	\$	36,570,202
Petty cash and change funds		15,055
Departmental cash		19,495
Cash with fiscal agent		1,254,956
Investments		9,101,793
		46,961,501
Total Deposits, Cash on Hand, and Investments	\$	46,961,501

a. Deposits

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a financial institution failure, the County’s deposits may not be returned to it. The County does not have a policy on custodial credit risk for deposits. As of December 31, 2015, McLeod County’s deposits were not exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Credit Risk (Continued)

the ratings requirements set by state statute. Currently, the County's federal home loan bank securities are all rated AA+ by Standard and Poor's, and the money market account with Wells Fargo is rated AA+ by Standard and Poor's and Aaa by Moody's.

Custodial Credit Risk

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

Concentration of Credit Risk

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

The following table presents the County's investment balances at December 31, 2015, and information relating to potential investment risks:

<u>Investment - Issuer</u>	<u>Concentration Risk Percent (%)</u>	<u>Interest Rate Risk Maturity Date</u>	<u>Carrying (Fair) Value</u>
Mutual fund - Public Financial Management Cash Management Fund (MAGIC Fund)	58.62		\$ 5,335,344

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

<u>Investment - Issuer</u>	<u>Concentration Risk Percent (%)</u>	<u>Interest Rate Risk Maturity Date</u>	<u>Carrying (Fair) Value</u>
Negotiable Certificates of Deposit - Wells Fargo Advisors			
GE Capital Bank		07/27/2018	\$ 247,528
GE Capital Bank		07/27/2018	<u>247,528</u>
Total Negotiable Certificates of Deposit	5.44		<u>\$ 495,056</u>
Money Market Accounts - Wells Fargo Advisors			
Treasury Money Market	30.14	N/A	<u>\$ 2,743,393</u>
HH Bonds - U.S. Treasury	5.80	Various	<u>\$ 528,000</u>
Total Investments			<u>\$ 9,101,793</u>

2. Receivables

Receivables as of December 31, 2015, are as follows:

	<u>Governmental Activities</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Taxes	\$ 346,357	\$ -
Special assessments	1,442,180	1,428,098
Accounts	527,723	-
Accrued interest	9,305	-
Due from other governments	<u>6,327,004</u>	<u>-</u>
Total Receivables	<u>\$ 8,652,569</u>	<u>\$ 1,428,098</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 3,956,141	\$ -	\$ -	\$ 3,956,141
Construction in progress	4,708,515	-	4,607,573	100,942
Infrastructure - right-of-way	3,173,372	-	-	3,173,372
Total capital assets not depreciated	<u>\$ 11,838,028</u>	<u>\$ -</u>	<u>\$ 4,607,573</u>	<u>\$ 7,230,455</u>
Capital assets depreciated				
Buildings	\$ 23,142,121	\$ 4,480,306	\$ -	\$ 27,622,427
Machinery, furniture, and equipment	14,707,903	1,034,899	323,943	15,418,859
Improvements other than buildings	1,308,625	153,430	-	1,462,055
Infrastructure	141,551,654	5,446,510	-	146,998,164
Total capital assets depreciated	<u>\$ 180,710,303</u>	<u>\$ 11,115,145</u>	<u>\$ 323,943</u>	<u>\$ 191,501,505</u>
Less: accumulated depreciation for				
Buildings	\$ 11,313,524	\$ 838,133	\$ -	\$ 12,151,657
Machinery, furniture, and equipment	9,533,625	1,329,844	299,226	10,564,243
Improvements other than buildings	691,976	65,202	-	757,178
Infrastructure	40,418,469	2,715,938	-	43,134,407
Total accumulated depreciation	<u>\$ 61,957,594</u>	<u>\$ 4,949,117</u>	<u>\$ 299,226</u>	<u>\$ 66,607,485</u>
Total capital assets depreciated, net	<u>\$ 118,752,709</u>	<u>\$ 6,166,028</u>	<u>\$ 24,717</u>	<u>\$ 124,894,020</u>
Governmental Activities Capital Assets, Net	<u>\$ 130,590,737</u>	<u>\$ 6,166,028</u>	<u>\$ 4,632,290</u>	<u>\$ 132,124,475</u>

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

Governmental Activities	
General government	\$ 755,437
Public safety	485,369
Highways and streets, including depreciation of infrastructure assets	3,293,704
Sanitation	270,372
Human services	92,479
Health	15,678
Culture and recreation	34,232
Conservation of natural resources	1,846
Total Depreciation Expense - Governmental Activities	<u>\$ 4,949,117</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. The composition of interfund balances as of December 31, 2015, is as follows:

Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch	\$ 1,323,500

Advances from/to other funds are for cash flow purposes.

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2015, consisted of the following:

Transfer to Solid Waste Fund from Capital Projects Fund	\$ 1,774,748	MRF retrofit project
Transfer to Road and Bridge Fund from Capital Projects Fund	1,200,000	County road construction projects
Transfer to Debt Service Fund from Solid Waste Fund	75,899	Debt repayment
Total	\$ 3,050,647	

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2015, were as follows:

	Governmental Activities
Accounts	\$ 1,191,662
Salaries	838,370
Accrued payroll taxes	61,595
Accrued interest	2,565
Other accrued expenses	277,843
Retainage	8,377
Due to other governments	252,603
Claims	264,437
Total Payables	\$ 2,897,452

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

2. Construction Commitments

The County has active construction projects as of December 31, 2015. The projects include the following:

	Spent-to-Date	Remaining Commitment
Xerox Tax/Cama Project	\$ 56,427	\$ 371,073
Roads and bridges	44,515	118,840

3. Unearned Revenue/Deferred Inflows of Resources

Unearned revenue and deferred inflows of resources consist of state grants and other receivables received but not yet earned, and special assessments, taxes, state grants, and other receivables not collected soon enough after year-end to pay liabilities of the current period. Unearned revenue and deferred inflows of resources at December 31, 2015, are summarized below by fund:

	Special Assessments	Taxes	Grants	Other	Total
Major governmental funds					
General	\$ 786,719	\$ 211,069	\$ 344,139	\$ 57,144	\$ 1,399,071
Road and Bridge	-	61,865	2,628,134	48,999	2,738,998
Human Services	-	73,423	103,400	78,668	255,491
Solid Waste	-	-	-	1,373	1,373
Ditch	655,461	-	-	57,314	712,775
Total	\$ 1,442,180	\$ 346,357	\$ 3,075,673	\$ 243,498	\$ 5,107,708
Liability					
Unearned revenue	\$ -	\$ -	\$ 327,470	\$ 15,069	\$ 342,539
Deferred inflows of resources					
Unavailable revenue	1,442,180	346,357	2,748,203	228,429	4,765,169
Total	\$ 1,442,180	\$ 346,357	\$ 3,075,673	\$ 243,498	\$ 5,107,708

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

4. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2015
2015 General Obligation Bonds	2025	\$900,000 - \$1,055,000	2.000 - 2.125	\$ 9,785,000	\$ 9,785,000
Minnesota Pollution Control Agency (MnPCA) loans	2024	N/A	2.000	1,780,890	<u>1,285,777</u>
Total					<u>\$ 11,070,777</u>

In 2004, the County entered into a loan agreement with the Minnesota Pollution Control Agency for High Island Creek Watershed septic system loans. According to the agreement, the County could borrow as much as \$191,000. The total amount disbursed through December 31, 2015, was \$103,643, which was the principal of the loan; accumulated interest is \$1,700. Principal payments of \$11,054 were made in 2015.

In 2008, the County entered into a loan agreement with the Minnesota Pollution Control Agency for High Island Creek Watershed septic system loans. According to the agreement, the County could borrow as much as \$115,000. The total amount disbursed through December 31, 2015, was \$115,000; accumulated interest is \$2,352. Principal payments of \$11,600 were made in 2015.

In 2008, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Buffalo Creek Watershed septic system loans. According to the agreement, the County can borrow as much as \$215,000. In 2010, the loan amount was amended by an additional \$4,502. The total amount disbursed through December 31, 2015, was \$219,502; accumulated interest is \$10,429. Principal payments of \$23,185 were made in 2015.

In 2008, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Crow River Watershed septic system loans. According to the agreement, the County can borrow as much as \$248,000. In 2010, the loan amount was amended by an additional \$50,000. The total amount disbursed through December 31, 2015, was \$298,000; accumulated interest is \$13,017. Principal payments of \$30,439 were made in 2015.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Long-Term Debt (Continued)

In 2009, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Crow River Watershed septic system loans. According to the agreement, the County can borrow as much as \$300,000. In 2013, the loan amount was amended by an additional \$27,589. The total amount disbursed through December 31, 2015, was \$327,589; accumulated interest is \$15,476. Principal payments of \$31,946 were made in 2015.

In 2011, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Buffalo Creek Watershed septic system loans. According to the agreement, the County can borrow as much as \$200,000. The total amount disbursed through December 31, 2015, was \$199,494; accumulated interest is \$9,514. Principal payments of \$19,270 were made in 2015.

In 2012, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Crow River Watershed septic system loans. According to the agreement, the County can borrow as much as \$300,000. The total amount disbursed through December 31, 2015, was \$300,000. Repayment is estimated to begin in 2016.

In 2013, the County entered into a loan agreement with the Minnesota Pollution Control Agency for the High Island Creek Watershed septic system loans. According to the agreement, the County can borrow as much as \$120,000. The total amount disbursed through December 31, 2015, was \$13,100. Repayment is estimated to begin in 2016.

In 2015, the County entered into a loan agreement with the Minnesota Pollution Control Agency for Crow River Basin septic system loans. According to the agreement, the County can borrow as much as \$350,000. Repayment is estimated to begin in 2016.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Long-Term Debt (Continued)

In 2015, the County issued \$9,785,000 of General Obligation Bonds. Repayment begins in 2016 with scheduled repayments ranging from \$900,000 to \$1,055,000, and interest rates ranging from 2.000 percent to 2.125 percent. Final repayment is scheduled for 2025.

5. Debt Service Requirements

Debt service requirements at December 31, 2015, were as follows:

Year Ending December 31	High Island Creek Watershed Septic System Loans (2004)		High Island Creek Watershed Septic System Loans (2008)	
	Principal	Interest	Principal	Interest
2016	\$ 11,276	\$ 399	\$ 11,833	\$ 1,173
2017	11,502	173	12,071	935
2018	-	-	12,314	693
2019	-	-	12,561	445
2020	-	-	12,814	193
Total	<u>\$ 22,778</u>	<u>\$ 572</u>	<u>\$ 61,593</u>	<u>\$ 3,439</u>

Year Ending December 31	Buffalo Creek Watershed Septic System Loans (2008)		Crow River Watershed Septic System Loans (2008)	
	Principal	Interest	Principal	Interest
2016	\$ 23,651	\$ 1,832	\$ 31,051	\$ 3,419
2017	24,126	1,357	31,675	2,795
2018	24,611	872	32,312	2,158
2019	25,107	377	32,961	1,509
2020	-	-	33,624	846
2021 - 2025	-	-	17,064	171
Total	<u>\$ 97,495</u>	<u>\$ 4,438</u>	<u>\$ 178,687</u>	<u>\$ 10,898</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

5. Debt Service Requirements (Continued)

Year Ending December 31	Crow River Watershed Septic System Loans (2009)		Buffalo Creek Watershed Septic System Loans (2011)	
	Principal	Interest	Principal	Interest
2016	\$ 32,588	\$ 5,434	\$ 19,657	\$ 3,507
2017	33,243	4,779	20,053	3,112
2018	33,911	4,111	20,455	2,709
2019	34,593	3,429	20,867	2,297
2020	35,288	2,734	21,286	1,878
2021 - 2025	110,178	3,888	77,928	3,149
Total	\$ 279,801	\$ 24,375	\$ 180,246	\$ 16,652

Year Ending December 31	General Obligation Bonds (2015)		Total	
	Principal	Interest	Principal	Interest
2016	\$ 1,055,000	\$ 188,450	\$ 1,185,056	\$ 204,214
2017	1,095,000	166,950	1,227,670	180,101
2018	1,095,000	145,050	1,218,603	155,593
2019	1,105,000	123,050	1,231,089	131,107
2020	1,120,000	100,800	1,223,012	106,451
2021 - 2025	4,315,000	230,850	4,520,170	238,058
Total	\$ 9,785,000	\$ 955,150	\$ 10,605,600	\$ 1,015,524

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

The 2013 High Island Watershed Septic Loans that were approved in 2013 are not included in the debt service requirements because a fixed repayment schedule is not available.

The 2015 Crow River Basin Septic Loans that were approved in 2015 are not included in the debt service requirements because a fixed repayment schedule is not available.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
MnPCA loans	\$ 1,221,415	\$ 191,856	\$ 127,494	\$ 1,285,777	\$ 130,056
General obligation bonds	9,785,000	-	-	9,785,000	1,055,000
Bond premium	214,234	-	19,476	194,758	-
Compensated absences	1,297,566	837,776	823,413	1,311,929	889,488
Long-Term Liabilities	<u>\$ 12,518,215</u>	<u>\$ 1,029,632</u>	<u>\$ 970,383</u>	<u>\$ 12,577,464</u>	<u>\$ 2,074,544</u>

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

4. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$490,000 per claim in 2015 and \$500,000 in 2016. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

4. Risk Management (Continued)

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

In 2000, the County entered into an agreement with Sibley County to provide a mechanism for utilizing a pooled, self-funded health insurance program under the authority granted to counties in Minn. Stat. § 471.59. Premiums are paid to MCIT, which provides bookkeeping services to the counties, including the payment of claims. For 2015, the County has retained risk up to a \$125,000 stop-loss per covered person per year (\$1,000,000 aggregate) for the health plan.

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

Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended December 31	
	2015	2014
Unpaid claims, beginning of fiscal year	\$ 102,554	\$ 71,381
Incurred claims (including IBNRs)	2,041,414	1,981,078
Claims payments	(1,879,531)	(1,949,905)
Unpaid Claims, End of Fiscal Year	\$ 264,437	\$ 102,554

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description

All full-time and certain part-time employees of McLeod County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after 10 years and increasing 5 percent for each year of service until fully vested after 20 years.

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Public Employees Correctional Fund. For members hired after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans (Continued)

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

The benefit provisions stated in the following paragraph 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 their public service.

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

For General Employees Retirement Fund members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. For Public Employees Police and Fire Fund and Public Employees Correctional Fund members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 55. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015. Public Employees Police and Fire Fund members were required to contribute 10.80 percent of their annual covered salary in 2015. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary in 2015.

In 2015, the County was required to contribute the following percentages of annual covered salary:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.50
Public Employees Police and Fire Fund	16.20
Public Employees Correctional Fund	8.75

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

3. Contributions (Continued)

The General Employees Retirement Fund Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014. The Public Employees Police and Fire Fund member and employer contribution rates increased 0.60 percent and 0.90 percent, respectively, from 2014.

The County contributions for the year ended December 31, 2015, to the pension plans were:

General Employees Retirement Fund	\$	874,063
Public Employees Police and Fire Fund		241,151
Public Employees Correctional Fund		75,862

The contributions are equal to the contractually required contributions as set by state statute.

4. Pension Costs

General Employees Retirement Fund

At December 31, 2015, the County reported a liability of \$9,925,635 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.1915 percent. It was 0.1983 percent measured as of June 30, 2014. The County recognized pension expense of \$1,243,446 for its proportionate share of the General Employees Retirement Fund's pension expense.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Fund (Continued)

The County reported its proportionate share of the General Employees Retirement Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 500,421
Difference between projected and actual investment earnings	939,614	-
Changes in proportion	-	238,851
Contributions paid to PERA subsequent to the measurement date	444,189	-
Total	\$ 1,383,803	\$ 739,272

The \$444,189 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	\$ (11,521)
2017	(11,521)
2018	(11,521)
2019	234,905

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Police and Fire Fund

At December 31, 2015, the County reported a liability of \$1,829,337 for its proportionate share of the Public Employees Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.161 percent. It was 0.159 percent measured as of June 30, 2014. The County recognized pension expense of \$318,838 for its proportionate share of the Public Employees Police and Fire Fund's pension expense.

The County also recognized \$14,490 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Fund. Legislation requires the State of Minnesota to contribute \$9 million to the Public Employees Police and Fire Fund each year, starting in fiscal year 2014, until the plan is 90 percent funded.

The County reported its proportionate share of the Public Employees Police and Fire Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 296,659
Difference between projected and actual investment earnings	318,732	-
Changes in proportion	18,001	-
Contributions paid to PERA subsequent to the measurement date	126,181	-
Total	\$ 462,914	\$ 296,659

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Fund (Continued)

The total of \$126,181 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2016	\$ 23,951
2017	23,951
2018	23,951
2019	23,951
2020	(55,730)

Public Employees Correctional Fund

At December 31, 2015, the County reported a liability of \$75,754 for its proportionate share of the Public Employees Correctional Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.49 percent. It was 0.48 percent measured as of June 30, 2014. The County recognized pension expense of \$81,355 for its proportionate share of the Public Employees Correctional Fund's pension expense.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Fund (Continued)

The County reported its proportionate share of the Public Employees Correctional Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 29,003
Difference between projected and actual investment earnings	63,146	-
Changes in proportion	566	-
Contributions paid to PERA subsequent to the measurement date	38,765	-
Total	\$ 102,477	\$ 29,003

The total of \$38,765 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	\$ 6,308
2017	6,308
2018	6,308
2019	15,785

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2015, was \$1,643,639.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans (Continued)

5. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.75 percent per year
Active member payroll growth	3.50 percent per year
Investment rate of return	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Fund and the Public Employees Police and Fire Fund, cost of living benefit increases for retirees are assumed to be 1.0 percent effective every January 1 through 2035 and 2037, respectively, and 2.5 percent thereafter. Cost of living benefit increases for retirees are assumed to be 2.5 percent for all years for the Public Employees Correctional Fund.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for the Public Employees Police and Fire Fund was for the period July 1, 2004, through June 30, 2009. The experience study for the Public Employees Correctional Fund was for the period July 1, 2006, through June 30, 2011.

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

6. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans (Continued)

7. Pension Liability Sensitivity

The following presents the County’s proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the County’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the General Employees Retirement Fund net pension liability	\$ 15,606,626	\$ 9,925,635	\$ 5,234,009
Public Employees Police and Fire Fund net pension liability	3,565,397	1,829,337	395,049
Public Employees Correctional Fund net pension liability	527,563	75,754	(285,876)

8. Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

B. Defined Contribution Plan

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

5. Pension Plans

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2015, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 8,206	\$ 8,206
Percentage of covered payroll	5%	5%

6. Other Postemployment Benefits (OPEB)

A. Plan Description

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

6. Other Postemployment Benefits (OPEB) (Continued)

B. Funding Policy

Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the County based on contract terms with Medica, Midwest Dental, and Minnesota Life. The required contributions are based on projected pay-as-you-go financing requirements. For fiscal year 2015, the County contributed \$59,955 to the plan. As of January 1, 2015, there were two retirees receiving health benefits from the County's health plan.

The OPEB liability is liquidated through the General Fund and the Road and Bridge, Human Services, and Solid Waste Special Revenue Funds.

C. Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$	225,964
Interest on net OPEB obligation		33,370
Adjustment to ARC		<u>(69,843)</u>
Annual OPEB cost	\$	189,491
Contributions made		<u>(59,955)</u>
Increase in net OPEB obligation	\$	129,536
Net OPEB Obligation - Beginning of Year		<u>834,249</u>
Net OPEB Obligation - End of Year	\$	<u><u>963,785</u></u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

6. Other Postemployment Benefits (OPEB)

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for 2013, 2014, and 2015, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2013	\$ 170,821	29.82%	\$ 657,408
December 31, 2014	213,373	17.12	834,249
December 31, 2015	189,491	31.64	963,785

D. Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the County had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$1,517,852, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,517,852. The covered payroll (annual payroll of active employees covered by the plan) was \$12,292,932, and the ratio of the UAAL to the covered payroll was 12.3 percent.

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

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The

**McLEOD COUNTY
GLENCOE, MINNESOTA**

6. Other Postemployment Benefits (OPEB)

E. Actuarial Methods and Assumptions (Continued)

actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For January 1, 2014, the actuarial valuation date, the projected unit credit cost method was used. The actuarial assumptions included a 4.0 percent discount rate, which is based on the investment yield expected to finance benefits. The County currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 7.5 percent initially, reduced incrementally to an ultimate rate of 5.0 percent. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at January 1, 2014, was 24 years.

7. Summary of Significant Contingencies and Other Items

A. Secondary Liability for Bonds

The Essential Function Housing Development Revenue Bond of 1996 was issued by the Housing and Redevelopment Authority of McLeod County (HRA) for \$1,200,000. McLeod County is secondarily liable for up to \$120,000 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 if the HRA would fail to pay.

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

B. Contingent Liabilities

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

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

C. Conduit Debt Obligation

The County has issued Commercial Development Revenue Bonds (Southwest Initiative Foundation) for the purpose of financing all or a portion of the costs of acquisition of land and the construction of an administration building. The bonds are secured by the financed property and are payable solely from the revenue of the project. The bonds do not constitute a charge, lien, or encumbrance, legal or equitable, upon any property or funds of the County, nor is the County subject to any liability thereon. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The amount of outstanding principal was \$2,731,831 as of June 30, 2015.

D. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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

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

Meeker-McLeod-Sibley Community Health Services Board

The Meeker-McLeod-Sibley Community Health Services Board was established pursuant to Minn. Stat. §§ 145A.09 to 145A.16, Minn. Stat. § 471.59, and a joint powers agreement, effective April 19, 1990. The Community Health Services Board consists of 15 members, 5 each from Meeker, McLeod, and Sibley Counties. 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. McLeod County is the fiscal agent.

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

Pioneerland Regional Library System

McLeod County, along with 32 cities and 9 other counties, participates in the Pioneerland Library System in order to provide efficient and improved regional library service. The Pioneerland Library System is governed by the Pioneerland Library System Board composed of 35 members appointed by member cities and counties. During the year McLeod County contributed \$187,513 to the System.

Separate financial information can be obtained from Pioneerland Regional Library System, 410 - 5th Street Southwest, Willmar, Minnesota 56201.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. 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 Chanhassen, Chaska, Hutchinson, Minnetrista, Mound, Shakopee, South Lake Minnetonka, and West Hennepin. 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 eight cities. In the event of dissolution of the Drug Task Force, the remaining net position will be distributed among the agencies based on their level of participation. However, if only one agency terminates the agreement and the Drug Task Force continues, all equipment will remain with the Drug Task Force.

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

PrimeWest Health System

In December 1998, McLeod County became a member of the PrimeWest Central County-Based Purchasing Initiative Joint Powers Board (since renamed PrimeWest Health System) with Big Stone, Douglas, Grant, Meeker, Pipestone, Pope, Renville, Stevens, and Traverse Counties, under the authority of Minn. Stat. § 471.59. Beltrami, Clearwater, and Hubbard Counties were later added to the PrimeWest Health System. McLeod County, in partnership with these 12 counties, is organized to directly purchase health care services for county residents who are eligible for Medical Assistance and General Assistance Medical Care as authorized by Minn. Stat. § 256B.692. County-based purchasing is the local control alternative favored for improved coordination of services to prepaid Medical Assistance programs in complying with Minnesota Department of Health requirements as set forth in Minn. Stat. chs. 62D and 62N.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

PrimeWest Health System (Continued)

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

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

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

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

Crow River Joint Powers Agreement

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Crow River Joint Powers Agreement (Continued)

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

Putting All Communities Together for Families Collaborative

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

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Trailblazer Transit Board

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

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

Financing is primarily provided from state and federal grants. Member counties are committed to providing the local match necessary to meet the requirements for state and federal funding. For 2015, McLeod County contributed \$43,475.

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

Supporting Hands Nurse Family Partnership Board

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

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2015, McLeod County made \$90,147 in contributions to the Partnership.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Supporting Hands Nurse Family Partnership Board (Continued)

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

Central Minnesota Jobs and Training Services, Inc.

Central Minnesota Jobs and Training Services, Inc. (CMJTS) is a nonprofit employment and training agency and a partner in the Minnesota WorkForce Center System. CMJTS is a joint venture established pursuant to Minn. Stat. ch. 268 and § 471.59, consisting of 11 counties in Central Minnesota, including Chisago, Isanti, Kanabec, Kandiyohi, McLeod, Meeker, Mille Lacs, Pine, Renville, Sherburne, and Wright Counties and is also a partner of Workforce Service Area 5.

CMJTS's mission is to match job seekers, youth, businesses, and those seeking training with the resources available to them. Funding is to be provided through block grants from the U.S. Department of Labor. One County Commissioner from each participating county is appointed to the CMJTS.

Minnesota Counties Computer Cooperative

Under Minnesota Joint Powers Law, Minn. Stat. § 471.59, Minnesota counties have created Minnesota Counties Computer Cooperative (MCCC) to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During the year, McLeod County expended \$158,103 to the MCCC.

E. Jointly-Governed Organizations

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Aitkin, Beltrami, Clay, Clearwater, Cook, Douglas, Grant, Itasca, Kittson, Koochiching, Lake of the Woods, Mahnomon, Marshall, McLeod, Mille Lacs, Norman, Otter Tail,

**McLEOD COUNTY
GLENCOE, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations

Minnesota Rural Counties Caucus (Continued)

Pennington, Polk, Pope, Red Lake, Roseau, Stevens, Todd, and Traverse Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, which is composed of ten directors, each with an alternate, who are appointed annually by each respective County Board. The County's responsibility does not extend beyond making this appointment.

South Central Minnesota Emergency Communications Board

The South Central Emergency Communications Board, formerly the South Central Minnesota Regional Radio Board, was established pursuant to Minn. Stat. §§ 471.59 and 403.39 and a joint powers agreement effective May 27, 2008. It is comprised of Blue Earth, Brown, Faribault, Le Sueur, Martin, McLeod, Nicollet, Sibley, Waseca, and Watonwan Counties, and the Cities of Hutchinson and Mankato. The primary function of the joint venture is to provide regional administration of enhancements to the Statewide Public Safety Radio and Communication System for the Allied Radio Matrix for Emergency Response (ARMER) owned and operated by the State of Minnesota and to enhance and improve interoperable public safety communications.

The Board consists of one County Commissioner from each county included in the agreement, one City Council member from each city included in the agreement, a member of the South Central Minnesota Regional Advisory Committee, a member of the South Central Minnesota Regional Radio System User Committee, and a member of the Owners and Operators Committee.

Blue Earth County acts as the fiscal agent for the Radio Board. During 2015, McLeod County did not contribute to the Radio Board. The Chair of the Board is Kip Bruender, and the address is P. O. Box 8608, Mankato, Minnesota 56002-8608.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

A. Summary of Significant Accounting Policies

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

The accounting policies of the HRA conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

Property and Equipment

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

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, 2015, are summarized as follows:

Cash on deposit	
Restricted	\$ 9,317
Unrestricted	35,271
	<hr/>
Total cash on deposit	\$ 44,588
Certificates of deposit, due within one year	
Restricted	37,313
	<hr/>
Total Cash and Investments	\$ 81,901
	<hr/>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

B. Cash and Investments (Continued)

Deposits

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

The carrying amount of the HRA's deposits with financial institutions was \$83,476 as of June 30, 2015. The bank balance was \$97,969 as of June 30, 2015, which was insured by the FDIC.

Minnesota statutes require that all HRA deposits be protected by insurance, surety bond, or collateral and that securities pledged as collateral be legal instruments and be held in safekeeping in a restricted account at the Federal Reserve Bank or in a financial institution other than that furnishing the collateral. The market value of collateral pledged must generally exceed deposits not covered by insurance or bonds by at least ten percent. The HRA was in compliance with these Minnesota statutes at all times during the year ended June 30, 2015.

Investments

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

B. Cash and Investments

Investments (Continued)

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

C. Property and Equipment

The following is a summary of property and equipment transactions:

	June 30, 2014	Additions	Disposals	June 30, 2015
Land	\$ 197,000	\$ -	\$ -	\$ 197,000
Site improvements	209,772	-	-	209,772
Buildings	4,343,003	-	-	4,343,003
Appliances	117,433	9,897	-	127,330
Total	\$ 4,867,208	\$ 9,897	\$ -	\$ 4,877,105
Accumulated depreciation	(1,923,941)	(117,164)	-	(2,041,105)
Totals	\$ 2,943,267	\$ (107,267)	\$ -	\$ 2,836,000

D. Long-Term Debt Payable

The following is a summary of long-term debt transactions for the year ended June 30, 2015:

	2014	Issued	Payments	2015
Essential Function Housing Development Bond of 1996	\$ 761,038	\$ -	\$ 41,555	\$ 719,483
Essential Function Housing Development Bond of 1997	786,731	-	40,486	746,245
Essential Function Housing Development Bond of 1999	797,357	-	33,642	763,715
Essential Function Housing Development Bond of 2001	938,791	-	34,950	903,841
Assessments payable	5,921	-	714	5,207
Totals	\$ 3,289,838	\$ -	\$ 151,347	\$ 3,138,491

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

D. Long-Term Debt Payable (Continued)

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

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

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

**McLEOD COUNTY
GLENCOE, MINNESOTA**

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

D. Long-Term Debt Payable (Continued)

The Essential Function Housing Development Revenue Bond of 2001 matures on June 1, 2031. The bond bears an interest rate of 5.0 percent per annum payable monthly; the interest rate shall be adjusted periodically over the life of the bond. The bond is secured by all real and personal property as well as by all revenues of the housing project. If the net revenues from operations are insufficient to meet the bond obligations, the HRA may request funds from the McLeod County General Fund by ordering a County-wide tax levy not to exceed \$75,000 each calendar year. The HRA agrees to repay the funds to McLeod County after bond obligations have been fulfilled.

The assessment is payable to the City of Brownton for street upgrades. The debt matures October 15, 2026, and bears interest at the rate of 7.5 percent. Payments of \$360, including principal and interest, are payable semi-annually beginning May 15, 2007.

The estimated debt service requirements as of June 30, 2015, are as follows:

<u>Years Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 157,898	\$ 156,013	\$ 313,911
2017	166,085	147,824	313,909
2018	174,698	139,212	313,910
2019	183,758	130,153	313,911
2020 - 2024	1,072,003	495,770	1,567,773
2024 - 2029	1,139,982	197,666	1,337,648
2030 - 2032	244,067	13,428	257,495
Totals	<u>\$ 3,138,491</u>	<u>\$ 1,280,066</u>	<u>\$ 4,418,557</u>

E. Risk Management

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

REQUIRED SUPPLEMENTARY INFORMATION

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 10,408,942	\$ 10,371,810	\$ 10,086,293	\$ (285,517)
Special assessments	145,710	145,710	158,527	12,817
Licenses and permits	69,675	69,675	93,710	24,035
Intergovernmental	3,060,351	3,060,351	3,642,340	581,989
Charges for services	1,954,578	1,954,577	2,141,056	186,479
Fines and forfeits	21,200	21,200	25,257	4,057
Gifts and contributions	17,000	17,000	35,196	18,196
Investment earnings	170,625	170,625	157,318	(13,307)
Miscellaneous	436,425	436,425	440,069	3,644
Total Revenues	\$ 16,284,506	\$ 16,247,373	\$ 16,779,766	\$ 532,393
Expenditures				
Current				
General government				
Commissioners	\$ 304,066	\$ 304,066	\$ 273,520	\$ 30,546
County-wide	562,363	562,363	411,549	150,814
Courts	144,500	144,500	133,805	10,695
Law library	42,000	42,000	48,290	(6,290)
County administrator	363,725	363,725	434,672	(70,947)
County auditor-treasurer	668,803	668,803	685,926	(17,123)
County assessor	414,950	414,950	350,075	64,875
Elections	100,042	100,042	40,065	59,977
Data processing	960,580	960,580	786,306	174,274
Central services	239,100	239,100	181,432	57,668
Attorney	633,212	633,212	590,174	43,038
Recorder	668,647	668,647	601,023	67,624
Planning and zoning	242,334	242,334	248,598	(6,264)
Buildings	1,231,100	1,231,100	637,056	594,044
County insurance	234,885	234,885	104,031	130,854
Veterans service officer	163,743	163,743	155,582	8,161
Fairgrounds	269,972	269,972	276,274	(6,302)
Safety	5,150	5,150	6,266	(1,116)
Other general government	3,437,385	3,437,385	537,703	2,899,682
Total general government	\$ 10,686,557	\$ 10,686,557	\$ 6,502,347	\$ 4,184,210

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 3,880,935	\$ 3,880,935	\$ 3,485,913	\$ 395,022
Inmate account	8,500	8,500	10,290	(1,790)
Probation officer	375,250	375,250	409,684	(34,434)
County jail	1,977,508	1,977,508	1,688,403	289,105
Juvenile detention	2,500	2,500	2,121	379
Sheriff posse	35,000	35,000	35,151	(151)
Mounted posse	1,500	1,500	745	755
Emergency services	134,811	134,811	120,790	14,021
Total public safety	\$ 6,416,004	\$ 6,416,004	\$ 5,753,097	\$ 662,907
Health				
Nursing service	\$ 2,479,430	\$ 2,479,430	\$ 2,577,333	\$ (97,903)
Culture and recreation				
Historical society	\$ 50,500	\$ 50,500	\$ 50,672	\$ (172)
Regional library	187,513	187,513	187,513	-
Other	33,080	33,080	32,480	600
Parks	349,568	349,568	312,727	36,841
Snowmobile trail grant	44,640	44,640	45,219	(579)
Total culture and recreation	\$ 665,301	\$ 665,301	\$ 628,611	\$ 36,690
Conservation of natural resources				
Soil and water conservation	\$ 60,000	\$ 60,000	\$ 60,000	\$ -
County extension	259,032	259,032	255,387	3,645
Agriculture ditch inspector	19,899	19,899	14,131	5,768
Water planning	20,746	20,746	20,390	356
Wetland	27,894	27,894	26,541	1,353
Shoreland	5,976	5,976	5,972	4
Feedlot	54,547	54,547	55,495	(948)
Environmental services	144,152	144,152	132,128	12,024
Other	18,600	18,600	32,502	(13,902)
Ag programming	4,000	4,000	4,790	(790)
Septic loans	60,000	60,000	214,918	(154,918)
Aquatic invasive species	75,701	75,701	21,753	53,948
Total conservation of natural resources	\$ 750,547	\$ 750,547	\$ 844,007	\$ (93,460)

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Housing and Redevelopment Authority	\$ 8,476	\$ 8,476	\$ 1,895	\$ 6,581
Debt service				
Principal	\$ 127,401	\$ 127,401	\$ 127,494	\$ (93)
Interest	18,309	18,309	18,328	(19)
Total debt service	<u>\$ 145,710</u>	<u>\$ 145,710</u>	<u>\$ 145,822</u>	<u>\$ (112)</u>
Total Expenditures	<u>\$ 21,152,025</u>	<u>\$ 21,152,025</u>	<u>\$ 16,453,112</u>	<u>\$ 4,698,913</u>
Excess of Revenues Over (Under)				
Expenditures	<u>\$ (4,867,519)</u>	<u>\$ (4,904,652)</u>	<u>\$ 326,654</u>	<u>\$ 5,231,306</u>
Other Financing Sources (Uses)				
Transfers in	\$ 520,000	\$ 520,000	\$ -	\$ (520,000)
Loan issued	-	-	191,856	191,856
Proceeds from the sale of capital assets	5,000	5,000	8,490	3,490
Total Other Financing Sources (Uses)	<u>\$ 525,000</u>	<u>\$ 525,000</u>	<u>\$ 200,346</u>	<u>\$ (324,654)</u>
Net Change in Fund Balance	<u>\$ (4,342,519)</u>	<u>\$ (4,379,652)</u>	<u>\$ 527,000</u>	<u>\$ 4,906,652</u>
Fund Balance - January 1	25,311,440	25,311,440	25,311,440	-
Increase (decrease) in inventories	<u>-</u>	<u>-</u>	<u>(2,334)</u>	<u>(2,334)</u>
Fund Balance - December 31	<u>\$ 20,968,921</u>	<u>\$ 20,931,788</u>	<u>\$ 25,836,106</u>	<u>\$ 4,904,318</u>

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,639,597	\$ 3,639,597	\$ 3,582,100	\$ (57,497)
Licenses and permits	10,000	10,000	12,000	2,000
Intergovernmental	4,391,482	4,391,482	6,544,553	2,153,071
Charges for services	183,500	183,500	344,480	160,980
Miscellaneous	4,000	4,000	14,887	10,887
Total Revenues	\$ 8,228,579	\$ 8,228,579	\$ 10,498,020	\$ 2,269,441
Expenditures				
Current				
Highways and streets				
Administration	\$ 750,185	\$ 750,185	\$ 765,190	\$ (15,005)
GIS	154,104	154,104	151,430	2,674
Maintenance	1,593,487	1,593,487	1,458,679	134,808
Engineering/construction	5,755,834	5,755,834	5,217,693	538,141
Equipment, maintenance, and shop	1,019,755	1,019,755	900,184	119,571
Total highways and streets	\$ 9,273,365	\$ 9,273,365	\$ 8,493,176	\$ 780,189
Intergovernmental				
Highways and streets	236,000	236,000	258,778	(22,778)
Total Expenditures	\$ 9,509,365	\$ 9,509,365	\$ 8,751,954	\$ 757,411
Excess of Revenues Over (Under)				
Expenditures	\$ (1,280,786)	\$ (1,280,786)	\$ 1,746,066	\$ 3,026,852
Other Financing Sources (Uses)				
Transfers in	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ -
Proceeds from the sale of capital assets	85,000	85,000	6,984	(78,016)
Total Other Financing Sources (Uses)	\$ 1,285,000	\$ 1,285,000	\$ 1,206,984	\$ (78,016)
Net Change in Fund Balance	\$ 4,214	\$ 4,214	\$ 2,953,050	\$ 2,948,836
Fund Balance - January 1	4,741,690	4,741,690	4,741,690	-
Increase (decrease) in inventories	-	-	14,443	14,443
Fund Balance - December 31	\$ 4,745,904	\$ 4,745,904	\$ 7,709,183	\$ 2,963,279

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

Page 87

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 4,129,311	\$ 4,129,311	\$ 4,019,892	\$ (109,419)
Intergovernmental	4,014,274	4,014,274	4,909,517	895,243
Charges for services	881,514	881,514	532,481	(349,033)
Miscellaneous	417,164	417,164	1,084,993	667,829
Total Revenues	\$ 9,442,263	\$ 9,442,263	\$ 10,546,883	\$ 1,104,620
Expenditures				
Current				
Human services				
Income maintenance	\$ 2,606,286	\$ 2,606,286	\$ 2,699,180	\$ (92,894)
Social services	6,827,169	6,827,169	7,386,350	(559,181)
Transit authority	511,000	511,000	43,475	467,525
Total Expenditures	\$ 9,944,455	\$ 9,944,455	\$ 10,129,005	\$ (184,550)
Net Change in Fund Balance	\$ (502,192)	\$ (502,192)	\$ 417,878	\$ 920,070
Fund Balance - January 1	6,164,559	6,164,559	6,164,559	-
Fund Balance - December 31	\$ 5,662,367	\$ 5,662,367	\$ 6,582,437	\$ 920,070

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 5,500	\$ 5,500	\$ 7,440	\$ 1,940
Intergovernmental	88,570	88,570	107,539	18,969
Charges for services	2,342,100	2,342,100	2,315,427	(26,673)
Miscellaneous	49,002	49,002	70,894	21,892
Total Revenues	\$ 2,485,172	\$ 2,485,172	\$ 2,501,300	\$ 16,128
Expenditures				
Current				
Sanitation				
Recycling	2,314,286	2,314,286	5,009,327	(2,695,041)
Excess of Revenues Over (Under)				
Expenditures	\$ 170,886	\$ 170,886	\$ (2,508,027)	\$ (2,678,913)
Other Financing Sources (Uses)				
Transfers in	\$ 54,627	\$ 54,627	\$ 1,774,748	\$ 1,720,121
Transfers out	(126,912)	(130,526)	(75,899)	54,627
Total Other Financing Sources (Uses)	\$ (72,285)	\$ (75,899)	\$ 1,698,849	\$ 1,774,748
Net Change in Fund Balance	\$ 98,601	\$ 94,987	\$ (809,178)	\$ (904,165)
Fund Balance - January 1	5,016,457	5,016,457	5,016,457	-
Fund Balance - December 31	\$ 5,115,058	\$ 5,111,444	\$ 4,207,279	\$ (904,165)

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2015**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2010	\$ -	\$ 1,052,835	\$ 1,052,835	0.00%	\$ 11,923,225	8.8%
January 1, 2012	-	1,168,991	1,168,991	0.00	11,730,484	10.0
January 1, 2014	-	1,517,852	1,517,852	0.00	12,292,932	12.3

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-6

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.1915%	\$ 9,925,635	\$ 11,250,920	88.22%	78.19%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-7

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 874,063	\$ 874,063	\$ -	\$ 11,654,176	7.50%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-8

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE FUND
DECEMBER 31, 2015**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.161%	\$ 1,829,337	\$ 1,474,333	124.08%	86.61%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-9

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE FUND
DECEMBER 31, 2015**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 241,151	\$ 241,151	\$ -	\$ 1,488,585	16.20%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-10

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES CORRECTIONAL FUND
DECEMBER 31, 2015**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.49%	\$ 75,754	\$ 874,521	8.66%	96.95%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**MCLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT A-11

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES CORRECTIONAL FUND
DECEMBER 31, 2015**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 75,862	\$ 75,862	\$ -	\$ 866,990	8.75%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, certain special revenue funds, and the Debt Service Fund. The County Board can amend budgets during the year.

On December 16, 2014, the Board approved the budgets for the General Fund, the Road and Bridge Special Revenue Fund, the Human Services Special Revenue Fund, the Solid Waste Special Revenue Fund, and the Debt Service Fund. A budget is not adopted for the Ditch Special Revenue Fund because it is based on special assessments which cannot be determined. Similarly, the Forfeited Tax Special Revenue Fund is not budgeted due to the fact that financing is based on tax-forfeited properties; therefore, expenditures cannot be determined.

The appropriated budget is prepared by fund, function, and department. The County's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the department level. During the year, supplementary budgetary revisions were not significant.

2. Excess of Expenditures Over Appropriations

The following funds and departments had expenditures exceeding appropriations for the year ended December 31, 2015:

	Expenditures	Budget	Excess
Major governmental funds			
General Fund			
Current			
General government			
Law library	\$ 48,290	\$ 42,000	\$ 6,290
County administrator	434,672	363,725	70,947
County auditor-treasurer	685,926	668,803	17,123
Planning and zoning	248,598	242,334	6,264
Fairgrounds	276,274	269,972	6,302
Safety	6,266	5,150	1,116

**McLEOD COUNTY
GLENCOE, MINNESOTA**

2. Excess of Expenditures Over Appropriations (Continued)

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Major governmental funds			
General Fund			
Current (Continued)			
Public safety			
Inmate account	10,290	8,500	1,790
Probation officer	409,684	375,250	34,434
Sheriff posse	35,151	35,000	151
Health			
Nursing service	2,577,333	2,479,430	97,903
Culture and recreation			
Historical society	50,672	50,500	172
Snowmobile trail grant	45,219	44,640	579
Conservation of natural resources			
Feedlot	55,495	54,547	948
Other	32,502	18,600	13,902
Ag programming	4,790	4,000	790
Septic loans	214,918	60,000	154,918
Debt service			
Principal	127,494	127,401	93
Interest	18,328	18,309	19
Road and Bridge Special Revenue Fund			
Current			
Highways and streets			
Administration	765,190	750,185	15,005
Intergovernmental			
Highways and streets	258,778	236,000	22,778
Human Services Special Revenue Fund			
Current			
Human services			
Income maintenance	2,699,180	2,606,286	92,894
Social services	7,386,350	6,827,169	559,181
Solid Waste Special Revenue Fund			
Current			
Sanitation			
Recycling	5,009,327	2,314,286	2,695,041

SUPPLEMENTARY INFORMATION

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

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

CAPITAL PROJECTS FUND

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

DEBT SERVICE FUND

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

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	Forfeited Tax Special Revenue	Capital Projects	Debt Service	Total
<u>Assets</u>				
Cash and pooled investments	\$ 17,158	\$ 3,341,384	\$ 705,843	\$ 4,064,385
<u>Liabilities and Fund Balances</u>				
Liabilities				
Due to other governments	\$ 4	\$ -	\$ -	\$ 4
Fund Balances				
Restricted				
Restricted for forfeited tax	\$ 17,154	\$ -	\$ -	\$ 17,154
Restricted for debt service	-	-	705,843	705,843
Restricted for capital projects	-	3,341,384	-	3,341,384
Total Fund Balances	\$ 17,154	\$ 3,341,384	\$ 705,843	\$ 4,064,381
Total Liabilities and Fund Balances	\$ 17,158	\$ 3,341,384	\$ 705,843	\$ 4,064,385

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Forfeited Tax Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
Revenues				
Taxes	\$ -	\$ -	\$ 754,651	\$ 754,651
Intergovernmental	-	-	17,910	17,910
Fines and forfeits	24,001	-	-	24,001
Total Revenues	\$ 24,001	\$ -	\$ 772,561	\$ 796,562
Expenditures				
Current				
General government	\$ 18,846	\$ -	\$ -	\$ 18,846
Capital Outlay				
Conservation of natural resources	-	131,700	-	131,700
Debt service				
Interest	-	-	142,617	142,617
Total Expenditures	\$ 18,846	\$ 131,700	\$ 142,617	\$ 293,163
Excess of Revenues Over (Under) Expenditures	\$ 5,155	\$ (131,700)	\$ 629,944	\$ 503,399
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 75,899	\$ 75,899
Transfers out	-	(2,974,748)	-	(2,974,748)
Total Other Financing Sources (Uses)	\$ -	\$ (2,974,748)	\$ 75,899	\$ (2,898,849)
Net Change in Fund Balance	\$ 5,155	\$ (3,106,448)	\$ 705,843	\$ (2,395,450)
Fund Balance - January 1	11,999	6,447,832	-	6,459,831
Fund Balance - December 31	\$ 17,154	\$ 3,341,384	\$ 705,843	\$ 4,064,381

**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 742,670	\$ 779,802	\$ 754,651	\$ (25,151)
Intergovernmental	-	-	17,910	17,910
Total Revenues	\$ 742,670	\$ 779,802	\$ 772,561	\$ (7,241)
Expenditures				
Debt service				
Interest	142,617	142,617	142,617	-
Excess of Revenues Over (Under) Expenditures	\$ 600,053	\$ 637,185	\$ 629,944	\$ (7,241)
Other Financing Sources (Uses)				
Transfers in	72,285	75,899	75,899	-
Net Change in Fund Balance	\$ 672,338	\$ 713,084	\$ 705,843	\$ (7,241)
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	\$ 672,338	\$ 713,084	\$ 705,843	\$ (7,241)

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AGENCY FUNDS

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 6,282	\$ 1,919,370	\$ 1,777,312	\$ 148,340
Due from other governments	710,815	498,241	710,815	498,241
Total Assets	\$ 717,097	\$ 2,417,611	\$ 2,488,127	\$ 646,581
<u>Liabilities</u>				
Accounts payable	\$ 31,268	\$ 2,882	\$ 31,268	\$ 2,882
Salaries payable	5,409	6,139	5,409	6,139
Accrued payroll taxes	414	455	414	455
Accrued expenses	1,712	524	1,712	524
Due to other governments	678,294	636,581	678,294	636,581
Total Liabilities	\$ 717,097	\$ 646,581	\$ 717,097	\$ 646,581
<u>SUPPORTING HANDS NURSE FAMILY PARTNERSHIP FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 232,566	\$ 1,425,460	\$ 1,296,336	\$ 361,690
Accounts receivable	90,067	80,551	90,067	80,551
Due from other governments	49,256	68,548	49,256	68,548
Total Assets	\$ 371,889	\$ 1,574,559	\$ 1,435,659	\$ 510,789
<u>Liabilities</u>				
Accounts payable	\$ 8,708	\$ 8,644	\$ 8,708	\$ 8,644
Salaries payable	32,783	39,917	32,783	39,917
Accrued payroll taxes	2,457	2,971	2,457	2,971
Accrued expenses	11,454	2,709	11,454	2,709
Due to other governments	316,487	456,548	316,487	456,548
Total Liabilities	\$ 371,889	\$ 510,789	\$ 371,889	\$ 510,789

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT C-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 409,170	\$ 46,554,155	\$ 46,647,012	\$ 316,313
<u>Liabilities</u>				
Accounts payable	\$ 2,737	\$ -	\$ 2,737	\$ -
Due to other governments	406,433	316,313	406,433	316,313
Total Liabilities	\$ 409,170	\$ 316,313	\$ 409,170	\$ 316,313
 <u>STATE AGENCY FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 113,744	\$ 1,187,504	\$ 1,178,491	\$ 122,757
Departmental cash	2,518	12,661	2,518	12,661
Accounts receivable	1,075	1,512	1,075	1,512
Due from other governments	243	21	243	21
Total Assets	\$ 117,580	\$ 1,201,698	\$ 1,182,327	\$ 136,951
<u>Liabilities</u>				
Due to other governments	\$ 117,580	\$ 136,951	\$ 117,580	\$ 136,951

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT C-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 761,762	\$ 51,086,489	\$ 50,899,151	\$ 949,100
Departmental cash	2,518	12,661	2,518	12,661
Accounts receivable	91,142	82,063	91,142	82,063
Due from other governments	760,314	566,810	760,314	566,810
Total Assets	<u>\$ 1,615,736</u>	<u>\$ 51,748,023</u>	<u>\$ 51,753,125</u>	<u>\$ 1,610,634</u>
<u>Liabilities</u>				
Accounts payable	\$ 42,713	\$ 11,526	\$ 42,713	\$ 11,526
Salaries payable	38,192	46,056	38,192	46,056
Accrued payroll taxes	2,871	3,426	2,871	3,426
Accrued expenses	13,166	3,233	13,166	3,233
Due to other governments	1,518,794	1,546,393	1,518,794	1,546,393
Total Liabilities	<u>\$ 1,615,736</u>	<u>\$ 1,610,634</u>	<u>\$ 1,615,736</u>	<u>\$ 1,610,634</u>

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OTHER SCHEDULES

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2015**

Shared Revenue

State

Highway users tax	\$ 5,583,991
Market value credit	422,004
PERA rate reimbursement	36,152
Disparity reduction aid	60,750
County program aid	1,659,351
Police aid	181,445
E-911	70,839
Aquatic invasive species	78,401
	8,092,933

Total shared revenue **\$ 8,092,933**

Reimbursement for Services

State

Minnesota Department of Human Services	\$ 1,169,328
	1,169,328

Payments

Local

Payments in lieu of taxes	\$ 44,996
	44,996

Grants

Local

City contribution	\$ 873
Health	59,693
Highway	214,313
	215,279

Total local **\$ 274,879**

State

Minnesota Department/Board of	
Corrections	\$ 83,250
Information Technology	250,000
Public Safety	46,595
Transportation	434,864
Health	241,783
Natural Resources	46,762
Human Services	1,631,190
Water and Soil Resources	96,449
Veterans Affairs	10,000
Pollution Control Agency	107,539
	2,948,432

Total state **\$ 2,948,432**

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT D-1
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2015**

Grants (Continued)

Federal

Department of	
Agriculture	\$ 396,733
Education	2,492
Justice	3,937
Transportation	186,838
Health and Human Services	2,022,780
Homeland Security	149,800
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Total federal	\$ 2,762,580
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Total local, state, and federal grants	\$ 5,985,891
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Total Intergovernmental Revenue	\$ 15,293,148
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**McLEOD COUNTY
GLENCOE, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Agriculture			
Passed Through Meeker-McLeod-Sibley Community Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	Not Provided	\$ 149,133
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	15152MN10152514	<u>260,463</u>
Total U.S. Department of Agriculture			<u>\$ 409,596</u>
U.S. Department of Justice			
Direct State Criminal Alien Assistance Program	16.606	N/A	<u>\$ 3,937</u>
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	Not Provided	\$ 195,315
Passed Through City of Hutchinson State and Community Highway Safety	20.600	F-ENFRC15-2015- HTCHSNPO-0903	<u>1,289</u>
Total U.S. Department of Transportation			<u>\$ 196,604</u>
U.S. Department of Education			
Passed Through Meeker-McLeod-Sibley Community Health Services Special Education - Grants for Infants and Families	84.181	Not Provided	<u>\$ 2,492</u>
U.S. Department of Health and Human Services			
Passed Through National Association of County and City Health Officials Medical Reserve Corps Small Grant Program	93.008	MRC-15-1973	\$ 3,500
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	1401MNFPS	12,940
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families CFDA 93.558 \$249,586)	93.558	1502MNTANF	218,278
Child Support Enforcement	93.563	1504MN4005	517,444
Refugee and Entrant Assistance - State-Administered Programs	93.566	1501MNRMA	258
Child Care and Development Block Grant	93.575	G1501MNCDF	9,444
Community-Based Child Abuse Prevention Grants	93.590	1302MNFPRG	7,360
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1401MNCWSS	8,528
Foster Care - Title IV-E	93.658	1501MNFOST	105,546
Social Services Block Grant	93.667	1501MNSOSR	189,892
Children's Health Insurance Program	93.767	1405MN5021	97
Medical Assistance Program	93.778	1505MN5ADM	805,473

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Page 105

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Health and Human Services (Continued)			
Passed Through Meeker-McLeod-Sibley Community Health Services			
Public Health Emergency Preparedness	93.069	Not Provided	33,476
Universal Newborn Hearing Screening	93.251	Not Provided	400
Immunization Cooperative Agreements	93.268	Not Provided	440
Temporary Assistance for Needy Families	93.558	Not Provided	31,308
(Total Temporary Assistance for Needy Families CFDA 93.558 \$249,586)			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Not Provided	41,723
Maternal and Child Health Services Block Grant to the States	93.994	Not Provided	<u>24,555</u>
Total U.S. Department of Health and Human Services			<u>\$ 2,010,662</u>
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4182 085-99085-03	\$ 63,270
Hazard Mitigation Grant	97.039	DR 4069	415
Emergency Management Performance Grants	97.042	F-EMPG-2015- MCLEOD-1075	<u>23,860</u>
Total U.S. Department of Homeland Security			<u>\$ 87,545</u>
Total Federal Awards			<u><u>\$ 2,710,836</u></u>

McLeod County did not pass any federal awards through to subrecipients during the year ended December 31, 2015.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by McLeod County. The County's reporting entity is defined in Note 1 to the financial statements. McLeod County's financial statements include the operations of the McLeod County Housing and Redevelopment Authority component unit, which expended \$386,911 in federal awards during the year ended June 30, 2015, which are not included in the Schedule of Expenditures of Federal Awards because it was audited by other auditors.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of McLeod County under programs of the federal government for the year ended December 31, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of McLeod County, it is not intended to and does not present the financial position, or changes in net position of McLeod County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. McLeod County has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**McLEOD COUNTY
GLENCOE, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 2,762,580
Grants received more than 60 days after year-end, unavailable in 2015	
Immunization Cooperative Agreements	440
Temporary Assistance for Needy Families	6,400
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	24,219
Block Grants for Prevention and Treatment of Substance Abuse	9,829
Highway Planning and Construction	9,766
Child Support Enforcement	26,400
Unavailable in 2014, recognized as revenue in 2015	
Refugee and Entrant Assistance - State Administered Programs	(586)
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	(36,955)
Child Care and Development Block Grant	(427)
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	(11,356)
Medical Assistance Program	(54,174)
Emergency Management Performance Grants	(25,300)
	<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 2,710,836</u>

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**McLEOD COUNTY
GLENCOE, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **Unmodified**

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **No**

The major federal programs are:

Temporary Assistance for Needy Families	CFDA No. 93.558
Child Support Enforcement	CFDA No. 93.563

The threshold for distinguishing between Types A and B programs was \$750,000.

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1999-001

Accounting Policies and Procedures

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

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

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

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

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

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

Client's Response:

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

Finding 2007-001

Monitoring Internal Controls

Criteria: Management is responsible for developing and monitoring its internal controls over the various accounting cycles. The monitoring process includes performing an annual risk assessment of existing controls over significant functions of its accounting system used

to produce financial information, documenting the significant internal controls for each transaction cycle/account balance, monitoring those controls on a regular basis, and documenting the monitoring activity performed.

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

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

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

Cause: Limited time and resources.

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

Client's Response:

McLeod County recognized the importance for developing and monitoring the internal controls over the various accounting functions. The McLeod County Auditor-Treasurer continues to assess and monitor the internal controls periodically throughout the year with limited time and resources.

ITEMS ARISING THIS YEAR

Finding 2015-001

Audit Adjustment

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit, we proposed a material audit adjustment which was reviewed and approved by the appropriate staff and is reflected in the financial statements.

Context: The inability to make appropriate accrual adjustments or detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. This adjustment was found in the audit, however, independent external auditors cannot be considered part of the County's internal controls.

Effect: Due from other governments and related deferred inflows of resources unavailable revenue were reduced by \$2,247,584 in the Road and Bridge Special Revenue Fund.

Cause: Due from other governments and unavailable revenue were recorded based on the year-end State Aid Accounting System (SAAS) report and again based on subsequent receipts in the general ledger, causing a double booking of a portion of receivables and unavailable revenue.

Recommendation: We recommend County staff review financial statement closing procedures, trial balances, and journal entries in detail to ensure that all significant adjustments considered necessary to fairly present the County's financial statements in accordance with generally accepted accounting principles have been made appropriately.

Client's Response:

McLeod County recognizes the importance of having internal controls in place to catch any misstatements to the financial statements. All future receivables on the State Aid Accounting System (SAAS) report will be reviewed by the highway accountant to ensure they are accrued appropriately. Additionally, a new procedure has been implemented between the Highway Accountant and the Auditor-Treasurer Accountant, a process of comparing the Highway Cost Accounting Financial Statement to the McLeod County Financial Statement for accuracy.

Finding 2015-002

General Ledger Reconciliation to the Treasurer's Cash Trial Balance

Criteria: Reconciliations are control activities designed to provide reasonable assurance that material errors will be prevented and detected in a timely manner and involves the comparison of records or balances from different sources. Effective reconciliations properly account for any differences between the records or balances. This includes investigating why the differences exist and resolving them in a timely manner.

Condition: At the time of the auditor's review of the County's reconciliation of the general ledger to the Treasurer's Cash Trial Balance, it was determined that of the 11 months through November 30, 2015, reconciliations had not been performed for 5 of the months.

Context: Reconciling the Treasurer's Cash Trial Balance with the general ledger is a tool to ensure that, among other things, all journal entries have been properly posted and are accounted for.

Effect: When accounting records are not reconciled on a regular basis, there is an increased risk that errors or irregularities will not be detected in a timely manner.

Cause: Timely reconciliations were not performed due to turnover in staffing in the County Auditor-Treasurer's Office.

Recommendation: We recommend the reconciliation between the general ledger and the Treasurer's Cash Trial Balance be performed timely.

Client's Response:

McLeod County recognizes the importance of balancing between the Integrated Financial System (IFS) General Ledger and the Treasurer's Cash Trial Balance to ensure the checks and balances according to procedures. The Auditor-Treasurer Accountant and the Deputy Auditor-Treasurer will re-implement the balancing on a monthly basis.

Finding 2015-003

Journal Entry Approval

Criteria: Management is responsible for establishing and maintaining internal controls. The County's procedure for journal entries indicates the McLeod County Auditor-Treasurer will approve each and every journal entry with an original signature before journal entries are posted to the Integrated Financial System.

Condition: Two of nine journal entries tested did not have evidence of review and approval of the County Auditor-Treasurer. In addition, one of these two journal entries was not signed by the Human Services Collections and Accounting Supervisor.

Context: Human Services' journal entries are posted by the Collections and Accounting Supervisor and then the supporting documentation is sent to the County Auditor-Treasurer's Office to be reviewed and approved by the County Auditor-Treasurer. Since the Human Services' journal entries are approved after being posted, the approval is not a high priority.

Effect: When established internal control procedures are not followed, there is an increased risk that errors or irregularities will not be detected in a timely manner.

Cause: The implementation of this control has changed to allow a more timely approach of entries being posted to the general ledger.

Recommendation: We recommend all journal entries be reviewed and approved by the County Auditor-Treasurer before being posted to the general ledger.

Client's Response:

McLeod County recognizes the importance of following the McLeod County Journal Entry Policy. A new procedure has been implemented with the Human Services Accountant sending the journal entry documents to the Auditor-Treasurer for approval prior to posting in the Integrated Financial System (IFS). Once the entry is approved by the Auditor-Treasurer, the Human Services Accountant will be notified by email that the entry can be posted to the General Ledger.

Finding 2015-004

Departmental Internal Controls - Solid Waste Receipting

Criteria: Management is responsible for establishing and maintaining internal control. McLeod County's receipts policy indicates one purpose of cash management is to maximize accountability for all monies received. In addition, this policy states that all monies at a minimum must be deposited with the Auditor-Treasurer once a week .

Condition: At the time of our review of the Solid Waste Department, several internal control deficiencies were noted:

- Cash and checks collected did not agree with the supporting documentation. For one Materials Recovery Facility deposit reviewed, the cash and checks collected did not agree with the supporting spreadsheet. The spreadsheet was initialed as reviewed by a supervisor despite the error. In addition, the reviewed spreadsheet sent to the Auditor-Treasurer for deposit was different than the original viewed on site. For one Household Hazardous Waste deposit reviewed, it was noted that the cash and checks collected did not agree with the report from the system, however, was signed off on as reviewed.
- Deposits with the Auditor-Treasurer were not performed timely. For the Household Hazardous Waste deposit noted above, the August 1, 2016, deposit included deposits dating back to April 2016. For another Material Recovery Facility deposit reviewed, the deposit was not made at the end of the week, but rather a week later. This deposit contained receipts from the prior week as well.
- Bank reconciliations could not be re-performed at a later date. For the redemption checking account, the two bank statement reconciliations reviewed could not be fully supported, and the book balance did not agree with the check register due to changes made in the check register after the balancing date.

Context: The establishment and oversight of departmental control procedures is particularly important due to the increased risks of the loss of assets and the improper recording of transactions when cash is collected at a decentralized location.

Effect: Lack of controls over cash receipts and bank accounts puts the County at risk for a loss of revenue.

Cause: Lack of policies and procedures designed and implemented to provide oversight and safeguards for revenues.

Recommendation: We recommend that the County implement policies and procedures to ensure the proper handling of cash receipts and deposits. We also recommend that proper reviews are done to ensure that policies and procedures have been followed.

Client's Response:

McLeod County Solid Waste Department recognizes the importance of balancing the Materials Recovery Facility and the Household Hazardous Waste cash drawers on a daily basis. A new procedure has been implemented that balances the cash sales in the drawer daily to the Detailed Payment Report out of the Interact Software System. In addition, the manual spreadsheets have been eliminated.

McLeod County Solid Waste Department recognizes the importance of following the McLeod County Receipt Policy. All deposits with documentation will be initialed, verified, and secured by supervisors to ensure accuracy. Weekly deposits will be made to the Auditor-Treasurer's Office.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM RESOLVED

Eligibility Testing (Temporary Assistance for Needy Families, CFDA No. 93.558) (2013-002)

During our previous audit, we noted instances of missing documentation in case files and were unable to determine a complete population of individuals receiving benefits.

Resolution

During eligibility case file testing in 2015, there were no noted instances where documentation was missing in case files and the population of individuals receiving benefits was verified as complete.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2014-001

Publication of Board Minutes

Criteria: Board of County Commissioner meeting minutes are required by Minn. Stat. § 375.12 to be published within 30 days of the meeting.

Condition: During testing of compliance with this statute, we noted four Board of County Commissioners meetings did not have affidavits of publications showing the summary of the minutes published in the County's official newspaper, and three others were not published within the 30-day requirement.

Context: In the prior year, we were informed that most of the meeting minutes were not published within the 30-day requirement.

Effect: Noncompliance with Minn. Stat. § 375.12.

Cause: The County could not locate the affidavits of publication for the four missing meetings. The minutes for the three meetings that were published over the 30-day requirement were given to the newspaper on time; however, the newspaper mistakenly did not publish them until later.

Recommendation: We recommend the County publish its summaries of the Board of County Commissioner meeting minutes in compliance with Minn. Stat. § 375.12.

Client's Response:

McLeod County recognizes the importance of timely reporting of the summary of the Board of County Commissioner meeting minutes that are required by Minn. Stat. § 375.12. Administration did supply the official newspaper with the Board minutes on time; however, the official newspaper did not publish them within the 30-day requirement. A new procedure has been implemented between Administration and the official newspaper to ensure that they receive the minutes and publish them within the 30-day requirement as stated in the Minn. Stat. § 375.12.

ITEMS ARISING THIS YEAR

Finding 2015-005

Prompt Payment of Invoices

Criteria: As stated in Minn. Stat. § 471.425, the County is required to make payment on vendor invoices according to the terms of the contract, or within 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later.

Condition: Eight of the 25 Human Services Department invoices tested for compliance with this statute in conjunction with our testing of internal controls over financial reporting were not paid within 35 days.

Context: The approval process is lengthy in the Human Services Department, and payments are only made once a month. The invoices were paid not long after the 35 day requirement.

Effect: Noncompliance with Minn. Stat. § 471.425.

Cause: The invoices were received right after the payment processing cut-off date and had to wait for the next payment processing cycle.

Recommendation: We recommend the County develop a process so that Human Services Department invoices are paid in accordance with Minn. Stat. § 471.425.

Client's Response:

McLeod County Human Services Department recognizes the importance of prompt payment on vendor invoices to stay in compliance with Minn. Stat. § 471.425. The Human Services Accountant will ensure that bills are paid promptly as they are received in the accounting office after appropriate approval. If necessary, bills will be sent to the Auditor-Treasurer's Office for payment.

Finding 2015-006

Contract Compliance - Solid Waste

Criteria: Minnesota statutes contain requirements for the contracting processes used by local governments.

Condition: During our testing of compliance with the State of Minnesota contracting and bid laws, we noted noncompliance with the following requirements:

- Responsible bidder certification. Minn. Stat. § 16C.285 states that for each construction contract in excess of \$50,000, awarded pursuant to a lowest responsible bidder or best value process, the successful contractor must submit verification of compliance signed under oath by an owner or officer verifying compliance with the minimum criteria set forth in Minn. Stat. § 16C.285, subd. 3. For one of the three construction contracts tested, the County was unable to provide the signed responsible bidder certification form.
- Withholding Affidavit for Contractors (IC-134). Referring to the withholding of income taxes by the contractor or subcontractor, Minn. Stat. § 270C.66 states that, “No . . . political or governmental subdivision of the state shall make final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor and by subcontractors until satisfactory showing is made that said contractor or subcontractor has complied with the provisions of section 290.92.” For two of the four contracts tested that included the employment of individuals for wages by the contractor and where final payment had been made, the final payment was issued prior to receiving a Minnesota Department of Revenue approved Form IC-134, which requires the reporting of employee withholdings, from the contractor.
- Contractor’s Performance and Payment Bond. Minn. Stat. § 574.26 requires contractors doing public work to give both a performance bond and a payment bond in an amount not less than the contract price if the contract is more than \$100,000. For one of the three construction contracts tested, the County did not receive a performance bond or a payment bond related to a contract totaling \$166,904.

Context: The Central Services Department oversees the contracting process for most County departments; however, the Solid Waste Department oversees the contracting process for its own projects. The withholding affidavit for contractors and performance and payment bonds are not new requirements; however, the responsible bidder certification statute is new for 2015.

Effect: Noncompliance with Minn. Stat. §§ 16C.285, 270C.66; and 574.26.

Cause: Staff from the Solid Waste Department were not aware of all of the construction contract requirements.

Recommendation: We recommend County staff involved in the contracting process be informed of the statutory requirements to ensure compliance with applicable statutes for all future contracts.

Client's Response:

McLeod County Solid Waste Department recognizes the importance of following contracting processes set by Minn. Stat. §§ 16C.285, 270C.66, and 574.26. A new procedure has been implemented. Solid Waste will work with the Central Services Department to procure the required bids, bonds, and certificates.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2009-002

Ditch Fund Balance Deficits

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

Condition: As of December 31, 2015, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balances.

Context: Thirty of the 57 individual ditch systems have deficit unassigned fund balances as of December 31, 2015, totaling \$1,288,351, the largest being \$309,834. These 30 ditches combined with the remaining ditch systems leave the Ditch Special Revenue Fund with a deficit unassigned fund balance of \$1,168,382.

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

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

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

Client's Response:

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

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



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

Independent Auditor's Report

Board of County Commissioners
McLeod County
Glencoe, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of McLeod County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 15, 2016. Our report includes a reference to other auditors who audited the financial statements of the McLeod County Housing and Redevelopment Authority, the discretely presented component unit, for the year ended June 30, 2015, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other items that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 1999-001, 2007-001, 2015-002, 2015-003, and 2015-004 to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that McLeod County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*, except as described in the Schedule of Findings and Questioned Costs as items 2014-001, 2015-005, and 2015-006. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

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

McLeod County's Response to Findings

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 15, 2016

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

Independent Auditor's Report

Board of County Commissioners
McLeod County
Glencoe, Minnesota

Report on Compliance for Each Major Federal Program

We have audited McLeod County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2015. McLeod County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

McLeod County's basic financial statements include the operations of the McLeod County Housing and Redevelopment Authority (HRA) component unit, which expended \$386,911 in federal awards during the year ended June 30, 2015, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the McLeod County HRA because the McLeod County HRA was audited by other auditors.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about McLeod County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, McLeod County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

Report on Internal Control Over Compliance

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

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

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 15, 2016