

**MOWER COUNTY  
AUSTIN, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2016**





**MOWER COUNTY  
AUSTIN, MINNESOTA  
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YEAR ENDED DECEMBER 31, 2016**

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## **INTRODUCTORY SECTION**



**MOWER COUNTY  
AUSTIN, MINNESOTA  
ORGANIZATION  
DECEMBER 31, 2016**

<b>Elected</b>			<u>Term Expires</u>
<b>Commissioners</b>			
Chair	Polly Glynn	District 2	January 2017
Board Member	Tim Gabrielson	District 1	January 2017
Board Member	Jerry Reinartz	District 3	January 2019
Board Member	Anthony Bennett	District 4	January 2019
Board Member	Mike Ankeny	District 5	January 2019
County Attorney	Kristen Nelsen		January 2019
County Auditor-Treasurer	Steven Reinartz		January 2019
County Recorder	Jill Cordes		January 2019
County Sheriff	Terese Amazi		January 2019
<b>Appointed</b>			
Assessor	Joy Kanne		December 2016
Coroner	R.Ross Reichard, MD		December 2018
Coordinator	Craig Oscarson		Indefinite
Engineer	Michal Hanson		May 2019
Finance Director	Donna Welsh		Indefinite
Health & Human Services Director	Lisa Kocer		Indefinite
Veterans Service Officer	Wayne Madson		Indefinite

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## **FINANCIAL SECTION**



## INDEPENDENT AUDITORS' REPORT

Board of County Commissioners  
Mower County  
Austin, 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 Mower County (the County), as of and for the year ended December 31, 2016, 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.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. 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 auditors' 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, 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 Mower County as of December 31, 2016, 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 a Matter**

As described in Note 10 to the financial statements, the beginning fund balance of the Capital Projects Fund and beginning net position of governmental activities have been restated to correct a misstatement. Our opinion is not modified with respect to these matters.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress for other postemployment benefit plans, budgetary comparison schedule – general fund, budgetary comparison schedule – road and bridge fund, budgetary comparison schedule – social services fund, schedule of the County's proportionate share of the net pension liability, and the schedule of the County's contributions as listed in the table contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mower County's basic financial statements. The supplementary information consisting of the combining and individual nonmajor fund financial statements, the combining statement of changes in assets and liabilities – all agency funds, and the schedule of intergovernmental revenues are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards, as required Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

***Other Matters (Continued)***

*Other Information (Continued)*

The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 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 supplementary information and the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2017, on our consideration of Mower 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 result of that testing, and not to provide an opinion on 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 Mower County's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
September 27, 2017

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## **REQUIRED SUPPLEMENTARY INFORMATION**



**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

This section of Mower County's (County) annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended on December 31, 2016. The management's discussion and analysis (MD&A) is required supplementary information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain comparative information between the current year (2016) and the prior year (2015) is required to be presented in the MD&A.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2015-2016 fiscal years include the following:

- ◆ County-wide net position increased 3.0 percent over the prior year.
- ◆ Overall fund-level revenues totaled \$45,479,204 and were \$535,254 more than expenditures; this is primarily due to increased grants and contributions.
- ◆ The General Fund's fund balance increased by \$159,431 from the prior year; this is primarily due to increased taxes revenues offset by increased capital outlay expenses during 2016.
- ◆ The Road and Bridge Fund's fund balance increased \$239,524 from the prior year before the impact of the change in inventories due to a decrease in construction expenditures.
- ◆ The Social Services Fund's fund balance increased by \$66,128 primarily due to increased intergovernmental and charges for services revenue which was offset by an increase in expenses.
- ◆ The Capital Projects Fund reflects an increase of \$91,526 in fund balance. The increase in this fund is primarily due to less capital outlay expenditures related to open projects.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

- ◆ The financial section of the annual report consists of four parts – independent auditors' report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the County:

**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

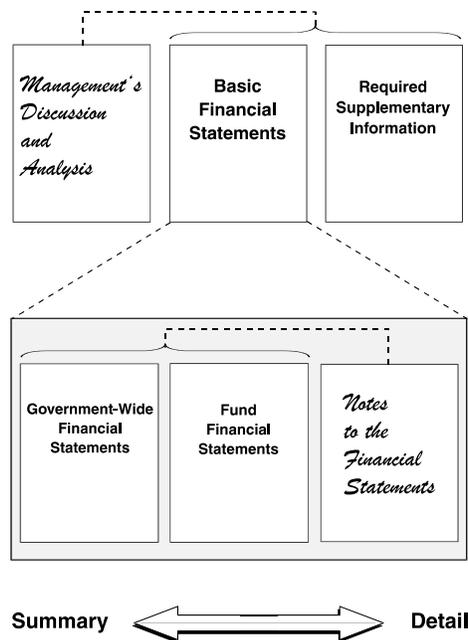
**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

- The first two statements are County-wide financial statements which provide both short-term and long-term information about the County's overall financial status.
- The remaining statements are fund financial statements which focus on individual parts of the County, reporting the County's operations in more detail than the County-wide statements.
- ◆ The governmental funds' statements tell how basic services such as general government, social services, and highways and streets were financed in the short term as well as what remains for future spending.
- ◆ Fiduciary funds' statements provide information about the financial relationships in which the County acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1  
Annual Report Format**



**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

Figure A-2 summarizes the major features of the County's financial statements, including the portion of the County's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

<b>Figure A-2. Major Features of the County's Government-Wide and Fund Financial Statements</b>			
<b>Type of Statements</b>	<b>Government-Wide</b>	<b>Governmental Funds</b>	<b>Fiduciary Funds</b>
<b>Scope</b>	Entire County's government (except fiduciary funds).	The activities of the County that are not proprietary or fiduciary.	Instances in which the County is the trustee or agent for someone else's resources.
<b>Required Financial Statements</b>	Statement of net position.	Balance sheet.	Statement of fiduciary net position.
	Statement of activities.	Statement of revenues, expenditures and changes in fund balance.	
<b>Accounting Basis and Measurement Focus</b>	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.
<b>Type of Asset/Liability Information</b>	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, short-term and long-term.	Only assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due during the year or soon thereafter, no capital assets included.	All assets, deferred outflows of resources, liabilities, deferred inflows of resources, both short-term and long-term. Agency's funds do not currently contain capital assets, although they can.
<b>Type of Inflow/Outflow Information</b>	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year for trust funds, regardless of when cash is received or paid. Agency Funds do not report revenues or expenditures.

**COUNTY-WIDE STATEMENTS**

The County-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the County's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two County-wide statements report the County's net position and how they have changed. Net position – the difference between the County's assets, deferred outflows of resources, liabilities, and deferred inflows of resources – is one way to measure the County's financial health or position.

- ◆ Over time, increases or decreases in the County's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

**COUNTY-WIDE STATEMENTS (CONTINUED)**

- ◆ To assess the overall health of the County, you need to consider additional non-financial factors such as changes in the County's property tax base and the condition of County buildings and other facilities.

In the County-wide financial statements, the County's activities are shown in one category:

- ◆ Governmental activities – The County's basic services are included here. Property taxes and intergovernmental revenues finance most of these activities.

**FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the County's funds – focusing on its most significant or "major" funds – not the County as a whole. Funds are accounting devices the County uses to keep track of specific sources of funding and spending on particular programs:

- ◆ Some funds are required by state law and by bond covenants.
- ◆ The County establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

**THE COUNTY HAS TWO KINDS OF FUNDS:**

- ◆ Governmental funds – The County's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds' statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the County-wide statements, we provide additional information following the governmental funds' statements that explain the relationship (or differences) between them.
- ◆ Fiduciary funds – The County is the fiscal agent, or fiduciary, for assets that belong to others. The County is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the County's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the County-wide financial statements because the County cannot use these assets to finance its operations.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

**FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE**

**NET POSITION**

The County's net position was \$135,383,354 on December 31, 2016. (See Table A-1).

**Table A-1  
The County's Net Position**

	Governmental Activities		Percentage Change
	2016	2015	
Current and Other Assets	\$ 51,924,131	\$ 48,163,920	7.8 %
Capital Assets	127,668,793	125,618,699	1.6
Total Assets	<u>179,592,924</u>	<u>173,782,619</u>	3.3
Deferred Outflows of Resources	<u>13,694,332</u>	<u>3,071,602</u>	345.8
Current Liabilities	27,908,965	14,578,488	91.4
Long-Term Liabilities, Due in More Than One Year	<u>27,726,286</u>	<u>29,126,282</u>	(4.8)
Total Liabilities	<u>55,635,251</u>	<u>43,704,770</u>	27.3
Deferred Inflows of Resources	<u>2,268,651</u>	<u>1,680,193</u>	35.0
Net Position			
Net Investment in Capital Assets	110,972,387	108,384,513	2.4
Restricted	5,543,867	3,136,322	76.8
Unrestricted	<u>18,867,100</u>	<u>19,948,423</u>	(5.4)
Total Net Position	<u>\$ 135,383,354</u>	<u>\$ 131,469,258</u>	3.0

**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

**FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)**

**CHANGES IN NET POSITION**

The County-wide total revenues were \$47,827,193 for the year ended December 31, 2016. Property and other taxes and intergovernmental revenues accounted for 87 percent of total revenues for the year. (See Table A-2).

**CHANGE IN NET POSITION  
Table A-2**

	Governmental Activities for the Fiscal Year Ended December 31,		Percentage Change
	2016	2015	
<b>REVENUES</b>			
Program Revenues			
Charges for Services	\$ 5,468,341	\$ 5,225,382	4.6 %
Operating Grants and Contributions	9,852,900	8,905,395	10.6
Capital Grants and Contributions	5,966,963	5,008,674	19.1
General Revenues			
Property Taxes	18,892,396	18,100,057	4.4
Other Taxes	1,977,215	1,799,616	9.9
Unrestricted Grants and Contributions	5,071,946	3,938,370	28.8
Unrestricted Investment Earnings	373,599	1,931,806	(80.7)
Miscellaneous	223,792	122,604	82.5
Gain on Sale of Capital Assets	41	7,460	(99.5)
Total Revenues	<u>47,827,193</u>	<u>45,039,364</u>	6.2
<b>EXPENSES</b>			
General Government	6,949,989	7,153,277	(2.8)
Public Safety	12,200,596	10,206,783	19.5
Highways and Streets	7,577,173	8,499,225	(10.8)
Sanitation	865,029	712,556	21.4
Human Services	12,649,598	10,506,270	20.4
Health	1,837,002	2,129,325	(13.7)
Culture and Recreation	504,216	335,602	50.2
Conservation of Natural Resources	833,451	695,712	19.8
Interest	670,247	736,794	(9.0)
Total Expenses	<u>44,087,301</u>	<u>40,975,544</u>	7.6
<b>CHANGE IN NET POSITION</b>	3,739,892	4,063,820	(8.0)
Net Position - Beginning of Year	131,469,258	127,405,438	3.2
Prior Period Adjustment	174,204	-	100.0
Net Position - Beginning of Year, As Restated	<u>131,643,462</u>	<u>127,405,438</u>	
<b>NET POSITION - END OF YEAR</b>	<u>\$ 135,383,354</u>	<u>\$ 131,469,258</u>	3.0

Total revenues surpassed expenses, increasing net position \$3,739,892 over last year.

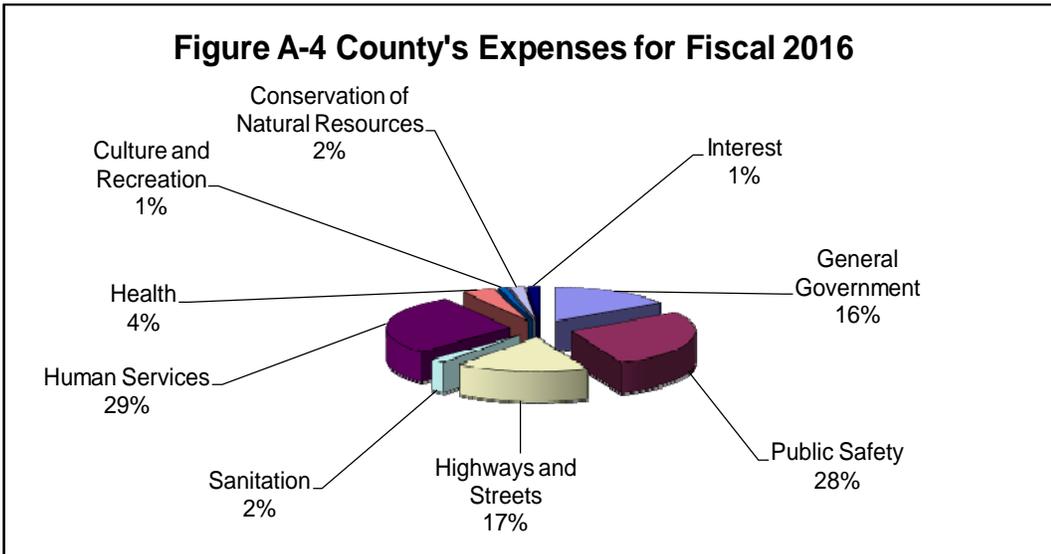
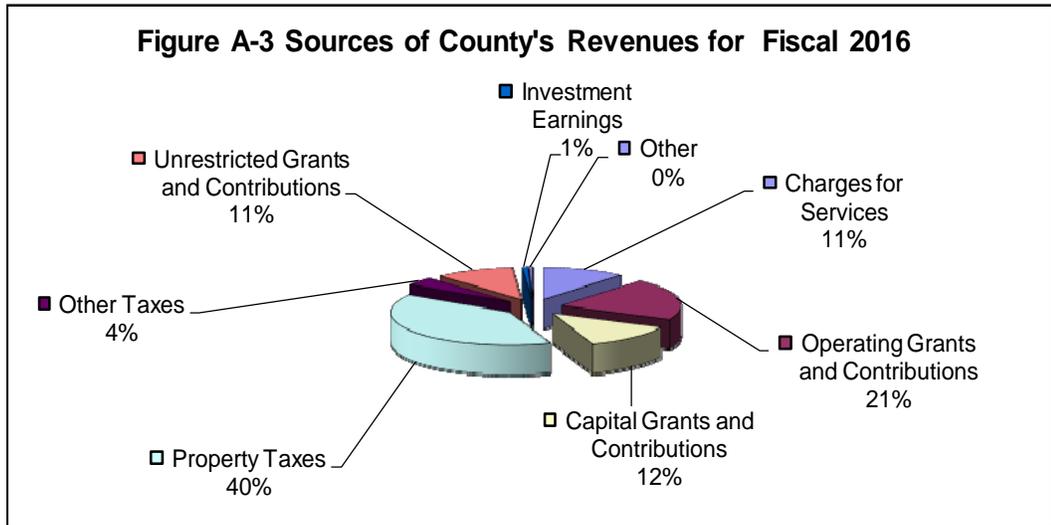
**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

**FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)**

**CHANGES IN NET POSITION (CONTINUED)**

The County-wide cost of all governmental activities this year was \$44,087,301.

- ◆ Some of the cost was paid by the users of the County's programs (\$5,468,341).
- ◆ Federal, state, and local governments subsidized certain programs with grants and contributions (\$15,819,863).
- ◆ Most of the County's remaining costs (\$22,799,097), however, were paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$18,892,396 in property taxes, \$1,977,215 of other taxes, \$5,071,946 of unrestricted grants and contributions, and with \$597,432 of investment earnings and other general revenues.



**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

**FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)**

**CHANGES IN NET POSITION (CONTINUED)**

**Table A-3  
Total and Net Cost of Services**

	Total Cost of Services			Net Revenue (Cost) of Services		
	2016	2015	Change	2016	2015	Change
General Government	\$ 6,949,989	\$ 7,153,277	(2.8)%	\$ (5,387,585)	\$ (5,294,499)	(1.8)%
Public Safety	12,200,596	10,206,783	19.5	(10,114,783)	(7,923,363)	(27.7)
Highways and Streets	7,577,173	8,499,225	(10.8)	(1,019,751)	(3,079,659)	66.9
Sanitation	865,029	712,556	21.4	(111,694)	(449,669)	75.2
Human Services	12,649,598	10,506,270	20.4	(5,014,085)	(3,403,082)	(47.3)
Health	1,837,002	2,129,325	(13.7)	113,522	(363,883)	131.2
Culture and Recreation	504,216	335,602	50.2	(504,216)	(335,602)	(50.2)
Conservation of Natural Resources	833,451	695,712	19.8	(228,991)	(406,069)	43.6
Interest	670,247	736,794	(9.0)	(531,514)	(580,267)	8.4
<b>Total Expenses</b>	<b>\$ 44,087,301</b>	<b>\$ 40,975,544</b>	<b>7.6</b>	<b>\$ (22,799,097)</b>	<b>\$ (21,836,093)</b>	<b>(4.4)</b>

**FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL**

The financial performance of the County as a whole is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported a combined fund balance of \$45,803,309.

Revenues for the County's governmental funds were \$45,479,204, while total expenditures were \$44,943,950.

**GENERAL FUND**

The General Fund includes the primary operations of the County in providing services to citizens and some capital outlay projects.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

**FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL (CONTINUED)**

**GENERAL FUND (CONTINUED)**

The following schedule presents a summary of General Fund revenues:

**Table A-4  
General Fund Revenues**

	Year Ended		Change	
	December 31, 2016	December 31, 2015	Increase (Decrease)	Percent
Taxes	\$ 11,111,080	\$ 10,763,890	\$ 347,190	3.2 %
Special Assessments	519,182	351,106	168,076	47.9
Intergovernmental	2,915,438	2,655,962	259,476	9.8
Charges for Services	1,506,571	1,561,708	(55,137)	(3.5)
Investment Earnings	309,149	1,796,214	(1,487,065)	(82.8)
Miscellaneous and Other	1,588,606	1,479,558	109,048	7.4
Total General Fund Revenue	<u>\$ 17,950,026</u>	<u>\$ 18,608,438</u>	<u>\$ (658,412)</u>	<u>(3.5)</u>

Total General Fund revenue decreased by \$658,412 or 3.5 percent, from the previous year. Investment earnings primarily accounted for the decrease in revenues.

The following schedule presents a summary of General Fund expenditures:

**Table A-5  
General Fund Expenditures**

	Year Ended		Change	
	December 31, 2016	December 31, 2015	Increase (Decrease)	Percent
General Government	\$ 5,567,236	\$ 5,414,673	\$ 152,563	2.8 %
Public Safety	9,732,973	9,523,279	209,694	2.2
Sanitation	823,923	673,046	150,877	22.4
Culture and Recreation	412,300	384,103	28,197	7.3
Conservation of Natural Resources	350,449	340,549	9,900	2.9
Capital Outlay	904,025	282,856	621,169	219.6
Debt Service	-	46	(46)	(100.0)
Total General Fund Expenditures	<u>\$ 17,790,906</u>	<u>\$ 16,618,552</u>	<u>\$ 1,172,354</u>	<u>7.1</u>

The General Fund had total fund balance of \$27,621,767 at the end of the current fiscal year. The fund balance of the General Fund increased \$159,431 during the current fiscal year primarily due to increased taxes revenue offset by increased public safety expenditures.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

**FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL (CONTINUED)**

**OTHER MAJOR FUNDS ANALYSIS**

The Road and Bridge Fund had total fund balance of \$8,717,191 at the end of the current fiscal year. The fund balance of the Road and Bridge Fund increased \$239,524 (excluding the change in inventory) during the current fiscal year primarily due to a decrease in construction expenditures.

The Social Services Fund had total fund balance of \$3,359,460 at the end of the current fiscal year. The fund balance of the Social Services Fund increased \$66,128; this is primarily due to increased intergovernmental and charges for services revenue.

The Capital Projects Fund had a total fund balance of \$3,010,951 at the end of the current fiscal year. The fund balance of the Capital Projects fund increased \$91,526 primarily due to less capital outlay expenditures on open projects.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

- ◆ Actual revenues were \$182,526 more than expected resulting primarily from increased intergovernmental revenues.
- ◆ The actual expenditures were \$346,078 less than budget and relate largely to less county administration expenses than budgeted.

**CONSTRUCTION PROJECTS AND DEBT SERVICE**

The Capital Projects Fund is currently being used to track the capital improvement projects approved by the board over the past years. The majority of construction expenditures are for construction and remodel of buildings needed to provide services that come with growth, particularly in health and public safety functions.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

**CONSTRUCTION PROJECTS AND DEBT SERVICE (CONTINUED)**

**CAPITAL ASSETS**

By the end of 2016, the County had invested approximately \$192,750,000 in a broad range of capital assets, including buildings, computers, equipment, and infrastructure. (See Table A-6). (More detailed information about capital assets can be found in Note 3.A.4 to the financial statements.) Total depreciation expense for the year was \$3,587,761.

**Capital Assets  
Table A-6  
The County's Capital Assets**

	Governmental Activities		Percentage Change
	2016	2015	
Land and Right of Way	\$ 16,532,063	\$ 16,521,752	0.1 %
Construction in Progress	444,121	263,298	68.7
Buildings	37,138,283	36,455,010	1.9
Improvements Other than Buildings	1,121,383	1,121,383	-
Machinery and Equipment	10,749,503	10,345,251	3.9
Software	246,679	246,679	-
Infrastructure	126,517,221	122,593,096	3.2
Accumulated Depreciation	(65,080,460)	(61,927,770)	5.1
Total	<u>\$ 127,668,793</u>	<u>\$ 125,618,699</u>	1.6

**LONG-TERM LIABILITIES**

At year-end, the County had \$29,998,748 in long-term liabilities outstanding.

- ◆ The County's total debt decreased \$1,303,281 due largely to scheduled bond payments.

**Governmental Activities Outstanding Long-Term Liabilities  
Table A-7  
The County's Long-term Liabilities**

	Governmental Activities		Percentage Change
	2016	2015	
Loans Payable	\$ 1,413,351	\$ 1,505,058	(6.1)%
Bonds Payable	15,385,000	17,285,000	(11.0)
Capital Lease Payable	9,013	11,045	(18.4)
Compensated Absences Payable	1,105,695	1,195,942	(7.5)
Other Postemployment Benefits Payable	12,085,689	11,304,984	6.9
Total	<u>\$ 29,998,748</u>	<u>\$ 31,302,029</u>	(4.2)

**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

**FACTORS BEARING ON THE COUNTY'S FUTURE AND 2017 BUDGET**

The County is dependent on the State of Minnesota for a significant portion of its revenue. Recent trends indicate the State of Minnesota will continue to decrease state aids in the future.

The County has set the 2017 expenditure budget at \$47,776,557, a decrease of about \$2,220,000 from the 2016 expenditure budget due to 2016 having health and human services expansions that are not budgeted for 2017. The revenue budget also decreased about \$2,220,000 as a result of the health and human services department expansions not being budgeted for

**CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the county's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Craig Oscarson, County Coordinator, or Donna Welsh, Finance Director at (507) 437-9549. Separate financial statements of the Mower County HRA can be obtained at 59039 220<sup>th</sup> Street, Austin, Minnesota 55912.

## **BASIC FINANCIAL STATEMENTS**

**MOWER COUNTY  
AUSTIN, MINNESOTA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016**

	Governmental Activities	September 30, 2016 Discretely Presented Component Unit
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>ASSETS</b>		
Cash and Pooled Investments	\$ 43,684,638	\$ 733,360
Petty Cash and Change Funds	2,160	-
Cash with Fiscal Agent	5,589	-
Tenant Deposit Cash	-	30,701
Taxes Receivable		
Delinquent	452,684	46,770
Special Assessments Receivable		
Delinquent	76,604	-
Noncurrent	181,783	-
Accounts Receivable - Net	137,193	7,000
Notes Receivable	55,400	-
Accrued Interest Receivable	171,282	330
Loans Receivable	839,695	-
Due from Other Governments	5,937,461	-
Inventories	349,917	-
Restricted Assets - Temporary	29,725	809,748
Prepaid Items	-	25,692
Non-Depreciable Capital Assets		
Land and Right of Way	16,532,063	42,304
Construction in Progress	444,121	-
Depreciable Capital Assets		
Buildings (Net)	28,766,664	1,291,102
Improvements Other Than Buildings (Net)	675,285	69,779
Machinery, Vehicles, Furniture, and Equipment (Net)	3,775,427	171,262
Software (Net)	27,554	-
Infrastructure (Net)	77,447,679	-
Total Assets	179,592,924	3,228,048
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Outflows of Resources - Loss on Refunding	1,137,843	-
Deferred Outflows of Resources - Pension Related	12,556,489	-
Total Deferred Outflows of Resources	13,694,332	-

See accompanying Notes to Financial Statements.

		September 30, 2016
	Governmental	Discretely
	Activities	Presented
		Component
		Unit
<b>LIABILITIES</b>		
Accounts Payable	\$ 949,183	\$ 11,857
Salaries Payable	319,599	7,704
Claims and Judgments Payable	6,991	-
Contracts Payable	1,112,108	-
Due to Other Governments	150,154	-
Accrued Expenses	-	12,906
Accrued Interest Payable	231,103	1,742
Unearned Revenue	-	2,500
Compensated Absences Payable - Due within One Year	96,684	15,000
General Obligation Bonds Payable - Due within One Year	1,950,000	-
Loans Payable - Due within One Year	206,702	52,046
Capital Lease Payable - Due within One Year	2,136	-
Tenant Deposits Payable	-	30,701
Compensated Absences Payable - Due in More Than One Year	1,009,011	23,051
Other Postemployment Benefits Plan Payable - Due in More than One Year	12,085,689	-
General Obligation Bonds Payable - Due in More Than One Year	13,418,060	-
Loans Payable - Due in More Than One Year	1,206,649	211,048
Capital Lease Payable - Due in More Than One Year	6,877	-
Net Pension Liability	22,884,305	-
Total Liabilities	<u>55,635,251</u>	<u>368,555</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Inflows of Resources - Pension Related	2,268,651	-
<b>NET POSITION</b>		
Net Investment in Capital Assets	110,972,387	1,311,353
Restricted for:		
General Government	690,672	-
Highways and Streets	2,422,531	-
Public Safety	215,878	-
HRA Housing	-	809,748
Conservation	1,332,361	-
Debt Service	882,425	-
Unrestricted	18,867,100	738,392
Total Net Position	<u>\$ 135,383,354</u>	<u>\$ 2,859,493</u>

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**MOWER COUNTY  
AUSTIN, MINNESOTA  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2016**

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Changes in Net Position Governmental Activities	Discretely Presented Component Unit
<b>PRIMARY GOVERNMENT</b>						
<b>GOVERNMENTAL ACTIVITIES</b>						
General Government	\$ 6,949,989	\$ 1,329,025	\$ 233,379	\$ -	\$ (5,387,585)	
Public Safety	12,200,596	956,107	1,129,706	-	(10,114,783)	
Highways and Streets	7,577,173	409,614	180,845	5,966,963	(1,019,751)	
Sanitation	865,029	634,649	118,686	-	(111,694)	
Human Services	12,649,598	757,157	6,878,356	-	(5,014,085)	
Health	1,837,002	874,491	1,076,033	-	113,522	
Culture and Recreation	504,216	-	-	-	(504,216)	
Conservation of Natural Resources	833,451	368,565	235,895	-	(228,991)	
Interest	670,247	138,733	-	-	(531,514)	
Total Governmental Activities	44,087,301	5,468,341	9,852,900	5,966,963	(22,799,097)	
<b>COMPONENT UNIT *</b>						
Housing and Redevelopment Authority	1,165,250	498,194	427,766	6,565	-	\$ (232,725)
Total Reporting Entity	<u>\$ 45,252,551</u>	<u>\$ 5,966,535</u>	<u>\$ 10,280,666</u>	<u>\$ 5,973,528</u>	(22,799,097)	(232,725)
<b>GENERAL REVENUES</b>						
Property Taxes					18,892,396	106,798
Wheelage Taxes					369,823	-
Wind Production Taxes					1,501,084	-
Mortgage Registry and Deed Tax					22,498	-
Payments in Lieu of Tax					83,810	-
Grants and Contributions not Restricted for a Particular Purpose					5,071,946	-
Unrestricted Investment Earnings					373,599	9,290
Miscellaneous					223,792	12,661
Gain on the Sale of Capital Assets					41	-
Total General Revenues					<u>26,538,989</u>	<u>128,749</u>
<b>CHANGE IN NET POSITION</b>						
					3,739,892	(103,976)
Net Position - Beginning of Year					131,469,258	2,963,469
Prior Period Adjustment (See Note 10)					174,204	-
Net Position - Beginning of Year, As Restated					<u>131,643,462</u>	<u>2,963,469</u>
<b>NET POSITION - END OF YEAR</b>						
					<u>\$ 135,383,354</u>	<u>\$ 2,859,493</u>

\* The statement of activities for the Component Unit is for the year ended September 30, 2016.

See accompanying Notes to Financial Statements.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2016**

<b>ASSETS</b>	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>
Cash and Pooled Investments	\$ 27,400,168	\$ 8,508,875	\$ 2,532,654
Petty Cash and Change Funds	1,530	30	600
Cash with Fiscal Agent	5,589	-	-
Taxes Receivable - Delinquent	234,072	60,813	90,814
Special Assessments Receivable - Current	-	-	-
Special Assessments Receivable - Delinquent	76,227	-	-
Special Assessments Receivable - Noncurrent	155,491	-	-
Accounts Receivable	42,981	985	93,227
Notes Receivable	55,400	-	-
Accrued Interest Receivable	171,282	-	-
Loans Receivable	-	-	-
Due from Other Governments	597,647	3,873,906	1,462,527
Inventories	-	349,917	-
Restricted Cash - Temporary	-	-	-
<b>Total Assets</b>	<b><u>\$ 28,740,387</u></b>	<b><u>\$ 12,794,526</u></b>	<b><u>\$ 4,179,822</u></b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ 280,571	\$ 139,533	\$ 505,383
Salaries Payable	169,631	34,357	115,611
Claims and Judgments Payable	6,991	-	-
Contracts Payable	-	1,112,108	-
Due to Other Governments	48,808	32,820	68,021
<b>Total Liabilities</b>	<b>506,001</b>	<b>1,318,818</b>	<b>689,015</b>

See accompanying Notes to Financial Statements.

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 3,031,825	\$ 2,211,116	\$ 43,684,638
-	-	2,160
-	-	5,589
9,890	57,095	452,684
-	1,292	1,292
-	377	76,604
-	25,000	180,491
-	-	137,193
-	-	55,400
-	-	171,282
-	839,695	839,695
-	3,381	5,937,461
-	-	349,917
-	29,725	29,725
<u>\$ 3,041,715</u>	<u>\$ 3,167,681</u>	<u>\$ 51,924,131</u>

\$ 22,618	\$ 1,078	\$ 949,183
-	-	319,599
-	-	6,991
-	-	1,112,108
-	505	150,154
22,618	1,583	2,538,035

**MOWER COUNTY  
AUSTIN, MINNESOTA  
BALANCE SHEET (CONTINUED)  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2016**

	General	Road and Bridge	Social Services
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Taxes	\$ 188,914	\$ 48,753	\$ 71,893
Unavailable Special Assessments	226,849	-	-
Unavailable Grants	196,856	-	59,454
Unavailable Receivables	-	287,233	-
Unavailable State Aid Allotments	-	2,422,531	-
Total Deferred Inflows of Resources	612,619	2,758,517	131,347
<b>FUND BALANCES</b>			
Nonspendable For			
Inventories	-	349,917	-
Notes Receivable	55,400	-	-
Restricted For			
Law Library	78,983	-	-
Recorder Equipment	166,249	-	-
Canteen	173,677	-	-
Debt Service	-	-	-
Attorney Forfeited Property	66,059	-	-
Sheriff's Conceal	36,789	-	-
Missing Heirs	18,152	-	-
DARE	5,412	-	-
Land Records	332,028	-	-
Sewer Improvements	-	-	-
Ditch Projects	-	-	-
Recorder's Security Deposit	2,404	-	-
Aquatic Invasive Species	13,274	-	-
Cafeteria Plan	2,584	888	10,051
Committed			
Wind Tower	3,000	-	-
Oakland Bridge	-	132,547	-
Capital Projects	-	-	-
Assigned For			
Veterans	8,791	-	-
Economic Development	1,643,027	-	-
Child Protection Program	-	-	26,149
GIS	61,695	-	-
Compensated Absences	565,210	172,195	126,770
Medical Insurance Claims	7,468,771	-	-
5 Year Capital Improvement Plan	-	2,000,000	-
Human Services Operations	-	-	3,196,490
Road and Bridge Operations	-	6,061,644	-
Sewer Improvements	-	-	-
Unassigned	16,920,262	-	-
Total Fund Balance	27,621,767	8,717,191	3,359,460
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 28,740,387	\$ 12,794,526	\$ 4,179,822

See accompanying Notes to Financial Statements.

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 8,146	\$ 46,750	\$ 364,456
-	25,408	252,257
-	-	256,310
-	-	287,233
-	-	2,422,531
8,146	72,158	3,582,787
-	-	349,917
-	-	55,400
-	-	78,983
-	-	166,249
-	-	173,677
-	1,066,778	1,066,778
-	-	66,059
-	-	36,789
-	-	18,152
-	-	5,412
-	-	332,028
-	709,375	709,375
-	597,578	597,578
-	-	2,404
-	-	13,274
-	-	13,523
-	-	3,000
-	-	132,547
3,010,951	-	3,010,951
-	-	8,791
-	-	1,643,027
-	-	26,149
-	-	61,695
-	-	864,175
-	-	7,468,771
-	-	2,000,000
-	-	3,196,490
-	-	6,061,644
-	720,209	720,209
-	-	16,920,262
3,010,951	3,093,940	45,803,309
\$ 3,041,715	\$ 3,167,681	\$ 51,924,131

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**MOWER COUNTY  
AUSTIN, MINNESOTA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
GOVERNMENT-WIDE STATEMENT OF NET POSITION  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2016**

**FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ 45,803,309

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. 127,668,793

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. 3,582,787

The County's net pension liability and related deferred inflows and outflows of resources are recorded on the statement of net position. Balances at year-end are:

Net Pension Liability	\$	(22,884,305)	
Deferred Outflows of Resources - Pension Related		12,556,489	
Deferred Inflows of Resources - Pension Related		<u>(2,268,651)</u>	(12,596,467)

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.

Loans Payable		(1,413,351)	
Deferred Outflows of Resources - Loss on Refunding		1,137,843	
General Obligation Bonds Payable		(15,385,000)	
Discount on Bonds and Notes Issued		67,303	
Premiums on Bonds and Notes Issued		(50,363)	
Capital Lease Payable		(9,013)	
Accrued Interest Payable		(231,103)	
Compensated Absences		(1,105,695)	
Other Postemployment Benefits Payable		<u>(12,085,689)</u>	<u>(29,075,068)</u>

**NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 135,383,354

**MOWER COUNTY  
AUSTIN, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2016**

	General	Road and Bridge	Social Services
<b>REVENUES</b>			
Taxes	\$ 11,111,080	\$ 2,924,261	\$ 3,989,753
Special Assessments	519,182	-	-
Licenses and Permits	80,650	68,752	-
Intergovernmental	2,915,438	6,855,856	8,005,024
Charges for Services	1,506,571	93,904	1,092,934
Fines and Forfeits	51,158	-	-
Gifts and Contributions	6,050	-	-
Interest on Investments	309,149	-	1,193
Miscellaneous	1,450,748	465,428	811,773
Total Revenues	<u>17,950,026</u>	<u>10,408,201</u>	<u>13,900,677</u>
<b>EXPENDITURES</b>			
<b>CURRENT</b>			
General Government	5,567,236	-	-
Public Safety	9,732,973	-	-
Highways and Streets	-	9,234,633	-
Sanitation	823,923	-	-
Human Services	-	-	11,922,506
Health	-	-	1,902,973
Culture and Recreation	412,300	-	-
Conservation	350,449	-	-
Total Current	<u>16,886,881</u>	<u>9,234,633</u>	<u>13,825,479</u>
<b>CAPITAL OUTLAY</b>			
General Government	260,410	-	-
Public Safety	307,924	-	-
Highways and Streets	-	685,845	-
Sanitation	335,673	-	-
Human Services	-	-	9,070
Culture and Recreation	18	-	-
Conservation	-	278,199	-
Total Capital Outlay	<u>904,025</u>	<u>964,044</u>	<u>9,070</u>
<b>DEBT SERVICE</b>			
Principal	-	-	-
Interest	-	-	-
Total Debt Service	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>17,790,906</u>	<u>10,198,677</u>	<u>13,834,549</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	159,120	209,524	66,128
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from Loan	-	-	-
Proceeds from the Sale of Capital Assets	311	30,000	-
Total Other Financing Sources (Uses)	<u>311</u>	<u>30,000</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	159,431	239,524	66,128
Fund Balance - Beginning of Year	27,462,336	8,497,591	3,293,332
Prior Period Adjustment	-	-	-
Fund Balance - Beginning of Year, as Restated	<u>27,462,336</u>	<u>8,497,591</u>	<u>3,293,332</u>
Change in Inventories	-	(19,924)	-
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 27,621,767</u>	<u>\$ 8,717,191</u>	<u>\$ 3,359,460</u>

See accompanying Notes to Financial Statements.

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 356,946	\$ 2,413,431	\$ 20,795,471
-	275,150	794,332
-	-	149,402
964	170,378	17,947,660
-	-	2,693,409
-	-	51,158
-	-	6,050
-	50	310,392
-	3,381	2,731,330
<u>357,910</u>	<u>2,862,390</u>	<u>45,479,204</u>
-	-	5,567,236
-	-	9,732,973
-	-	9,234,633
-	-	823,923
-	-	11,922,506
-	-	1,902,973
-	-	412,300
-	193,059	543,508
-	<u>193,059</u>	<u>40,140,052</u>
121,163	-	381,573
-	-	307,924
145,221	-	831,066
-	-	335,673
-	-	9,070
-	-	18
-	-	278,199
<u>266,384</u>	<u>-</u>	<u>2,143,523</u>
-	2,075,707	2,075,707
-	584,668	584,668
-	<u>2,660,375</u>	<u>2,660,375</u>
<u>266,384</u>	<u>2,853,434</u>	<u>44,943,950</u>
91,526	8,956	535,254
-	84,000	84,000
-	-	30,311
-	<u>84,000</u>	<u>114,311</u>
91,526	92,956	649,565
2,745,221	3,000,984	44,999,464
174,204	-	174,204
<u>2,919,425</u>	<u>3,000,984</u>	<u>45,173,668</u>
-	-	(19,924)
<u>\$ 3,010,951</u>	<u>\$ 3,093,940</u>	<u>\$ 45,803,309</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN THE FUND BALANCES OF THE GOVERNMENTAL FUNDS OF  
THE GOVERNMENT WIDE STATEMENT OF ACTIVITIES  
GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS** **\$ 649,565**

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

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.

Expenditures for General Capital Assets, Infrastructure, and Other Related Capital Assets Adjustments	\$ 5,687,644	
Net Book Value of Capital Assets Disposed	(49,789)	
Current Year Depreciation	<u>(3,587,761)</u>	2,050,094

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	2,340,563
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Pension expenditures on the governmental funds are measured by current year employer contributions. Pension expenses on the statement of activities are measured by the change in net pension liability and the related deferred inflows and outflows of resources.	(2,498,108)
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Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. The net proceeds for debt issuance are:

Capital Lease Proceeds	-	
Loan Proceeds	<u>(84,000)</u>	(84,000)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net position.

Principal Repayments		
Loans Payable	175,707	
Capital Lease	2,032	
General Obligation Bonds	<u>1,900,000</u>	2,077,739

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

Change in Accrued Interest Payable	26,557	
Amortization of Deferred Outflows of Resources	(103,440)	
Amortization of Premiums and Discounts	(8,696)	
Change in Accrued Compensated Absences	90,247	
Change in Other Postemployment Benefits Payable	(780,705)	
Change in Inventories	<u>(19,924)</u>	<u>(795,961)</u>

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** **\$ 3,739,892**

**MOWER COUNTY  
AUSTIN, MINNESOTA  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2016**

	Agency
<b>ASSETS</b>	
Cash and Pooled Investments	\$ 1,148,869
<b>LIABILITIES</b>	
Funds Held in Trust	\$ 515,674
Accounts Payable	547
Due to Other Governments	632,648
Total Liabilities	\$ 1,148,869

See accompanying Notes to Financial Statements.



**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Mower County's (County) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2016. 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**

Mower County was established February 20, 1855 and is an organized county having the powers, duties, and privileges granted counties by Minnesota Statutes ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Mower County (Primary Government) and its component units for which the County is financially accountable. There is financial accountability if the Primary Government appoints a voting majority of an organization's governing body and has the ability to impose its will on that governing body; or there is the potential for the organization to provide specific financial benefits or to impose specific financial burden on the Primary Government. Based on the criteria for determining component units, the County reports the Mower County Housing and Redevelopment Authority (HRA) as a discrete component unit. The HRA information is reported as of September 30, 2016. 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. The County Coordinator, appointed by the County Board, serves as the clerk of the Board of Commissioners but has no vote.

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 Mower County is discretely presented:

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Mower County Housing and Redevelopment Auth. (HRA) provide services pursuant to Minnesota Statutes §469.001-.047.	The County appoints members, and the HRA is a financial burden.	Mower County HRA 59039 – 200 <sup>th</sup> Street Austin, MN 55912

Joint Ventures

The County participates in several joint ventures which are described in Note 7.B. The County also participates in jointly-governed organizations which are described in Note 7.C.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the Primary Government. 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 column: (a) is presented on a consolidated basis by column; and (b) is 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 that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

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

The Social Services Special Revenue Fund is used to account for economic assistance, community social services, and public health programs, which are funded through restricted intergovernmental revenues.

The Capital Projects Fund is used to account for committed intergovernmental revenues and expenditures related to the maintenance and construction of County buildings.

Additionally, the County reports the following fund type:

Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets that the County holds for others in an agency 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. Mower County considers all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

1. Cash and Pooled Investments

The County has defined cash and pooled investments to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the County's investment pool is treated as a pooled investments because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2016, based on market prices, except for investment in MAGIC as discussed below. Pursuant to Minnesota Statutes §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.

The 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 Minnesota Statutes §471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission. The investment in the pool is measured at the amortized cost per share provided by the pool, which would closely approximate fair value. The term investment in the pool is measured at net asset value per share provided by the pool. More information including the most recent audited financial statement is available on their website [www.magicfund.org](http://www.magicfund.org).

3. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent maturities of interfund loans).

All receivables, including those of the discretely reported component units, are shown net of an allowance for uncollectible accounts.

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

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

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

4. Inventories

All inventories 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.

5. Restricted Assets

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., 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 government as assets with an initial, individual cost of more than \$1 for land, \$25,000 for improvements other than buildings, buildings, and building improvements, as well as \$5,000 for all other capital assets, and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. In the case of the initial capitalization of general infrastructure reported in governmental activities, the County chose to include all such items it was able to identify since 1927. Costs were estimated based upon a conversion from current construction converted to 2001 dollars.

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

Property, plant, and equipment of the Primary Government and the component unit are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Improvements Other than Buildings	5-20
Buildings	20-125
Building Improvements	20-50
Public Domain Infrastructure	50-75
Machinery, Furniture, Equipment, and Vehicles	2-20
Software	2-5

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

7. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual leave, paid time off (PTO), 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.

8. Deferred Outflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate section represents a consumption of net position that applies to a future period. The County will not recognize the related outflow until a future event occurs. More detailed information about pension related deferred outflows of resources can be found in Note 4 to the financial statements.

9. Deferred Inflows of Resources

The County's governmental fund and government-wide financial statements report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position or fund balance that applies to a future period. The County will not recognize the related revenue until a future event occurs. The County has two types of items which occur relating to revenue recognition: The deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 90 days after the end of the County's year) under the modified accrual basis of accounting. The second type relates to pension liabilities as described in Note 4 to the financial statements.

10. Long-Term Obligations

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

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

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

11. Pensions

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. Investments are reported at fair value.

12. Fund Balance

In the fund financial statements, governmental funds reported nonspendable portions of fund balance related to prepaids, inventories, long-term receivables and corpus on any permanent fund. Nonspendable portions of fund balance are related to prepaid items, loans receivable, and inventory. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Commissioners. Assigned fund balances are established and modified by the Board of Commissioners or their designee. The Board, as part of the adoption of this statement, has designated the Finance Director as the responsible party in determining assigned fund balance. Unassigned fund balances are considered the remaining amounts. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the County's policy to use restricted first, then, unrestricted fund balance. When an expenditure is incurred for which committed, assigned and unassigned amounts are available, it is the County's policy to use committed first, then assigned, and finally unassigned amounts.

Mower County receives a majority of its property tax payments based on the property tax calendar as discussed in Note 1.D.3. As a result of the unequal timing of the tax receipts, it is necessary for the County to maintain adequate fund balances to meet the operational expenditure needs of the County. It is the County's policy to maintain a minimum unassigned fund balance, equal to 50 percent of the subsequent year's tax levy for the General Fund and the Road and Bridge and Social Services Special Revenue Funds, plus an additional \$5,000,000, for cash flow purposes in the General Fund. The failure to maintain these fund balance levels could result in the need for short-term borrowing. As of December 31, 2016, the required minimum fund balance is \$13,572,254.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

13. Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the assets. Net position is reported as restricted in the government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The government-wide statement of net position reports \$5,518,459 of restricted net position, of which \$2,213,503 is restricted by enabling legislation.

14. 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.

**NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Excess of Expenditures Over Budget

The following fund had expenditures in excess of budget for the year ended December 31, 2016:

	Actual	Budget	Excess
Social Services	\$ 13,834,549	\$ 12,715,094	\$ 1,119,455

The excess of expenditures over budget was funded by greater than anticipated revenues.

**NOTE 3 DETAILED NOTES ON ALL FUNDS**

A. Assets

1. Deposits and Investments

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

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. Assets (Continued)

1. Deposits and Investments (Continued)

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

Custodial Credit Risk – Deposits

In the case of deposits, 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 for deposit custodial credit risk but rather follows Minnesota Statutes for deposits.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or corporate surety bonds. Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust departments of a commercial bank or other financial institution not owned or controlled by the depository.

As of December 31, 2016, the County's deposits in banks were entirely covered by federal deposit insurance or collateral held as described in the preceding paragraph.

Investments

The funds of the County shall be deposited or invested in accordance with Minnesota Statutes §118A, any other applicable laws, and the County investment policy. The objectives, in order of priority, will be to preserve principal, maintain liquidity, and earn the optimum rate of return.

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

- (a) 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 Minnesota Statutes §118A.04, subd. 6;
- (b) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investments (Continued)

- (c) 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;
- (d) bankers' acceptances of United States banks;
- (e) 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
- (f) 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. In accordance with the County's investment policy, investments will be sufficiently diverse to avoid risk and enhance return.

As of December 31, 2016, the County had the following investments:

Investment Type	Reported Amount	Maturity			
		Less Than 2 Years	2-5 Years	5-10 Years	10+ Years
Financing Corporation Stripped Issues OID	\$ 493,180	\$ -	\$ 493,180	\$ -	\$ -
Federal Home Loan Bank	325,479	-	-	325,479	-
Federal National Mortgage Association	300,222	-	300,222	-	-
Fannie Mae	724,940	-	498,832	-	226,108
Municipal Bonds	19,871,800	10,147,169	5,057,478	3,321,490	1,345,663
Money Markets	2,066,309	2,066,309	-	-	-
MAGIC Fund (Term Investment)	3,000,000	3,000,000	-	-	-
MAGIC Fund	4,715,159	4,715,159	-	-	-
Negotiable Certificates of Deposit	12,238,249	7,438,131	4,557,224	242,894	-
<b>Total</b>	<b>\$ 43,735,338</b>	<b>\$ 27,366,768</b>	<b>\$ 10,906,936</b>	<b>\$ 3,889,863</b>	<b>\$ 1,571,771</b>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. Assets (Continued)

1. Deposits and Investments (Continued)

Credit Risk

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

Following is a summary of the credit risk and reported amounts as of December 31, 2016:

Investment Type	S&P/Moody's Rating	Reported Amount
Money Markets	NR	\$ 2,066,309
Municipal Bonds	AAA - Aaa	5,290,180
Municipal Bonds	Aa3 - AA	13,351,382
Municipal Bonds	A+ - A-	438,636
Municipal Bonds	BBB	551,670
Municipal Bonds	NR	239,932
Negotiable Certificates of Deposit	NR	12,238,249
Fannie Mae	AA+	724,940
MN Association of Governments Investing for Counties (MAGIC) Fund (Term Investment)	NR	3,000,000
MN Association of Governments Investing for Counties (MAGIC) Fund	NR	4,715,159
Federal Home Loan Bank	NR	325,479
Financing Corporation Stipped Issues OID	NR	493,180
Federal National Mortgage Association	AA+	300,222
Totals		<u>\$ 43,735,338</u>

At December 31, 2016, the County was holding one investment that no longer meets the requirements of Minnesota Statutes §118A. The municipal bond with a par value of \$500,000 and a market value of \$5, declined from an original credit rating of AA- to NR as of year-end.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At December 31, 2016, none of the County's investments were subject to custodial credit risk.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. Assets (Continued)

1. Deposits and Investments (Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. It is the County's policy that U.S. Treasury securities, U.S. Agency Securities, obligations backed by U.S. Treasury and/or U.S. Agency securities, and investments held by Trustees, may be held without limit.

Investments in any category that represent five percent or more of the County's investments are:

Issuer	Reported Amount	Percentage
Municipal Bonds	\$ 19,871,800	45.4 %
Negotiable Certificates of Deposit	12,238,249	28.0
Federal Home Loan Bank	325,479	0.7
Federal National Mortgage Association	300,222	0.7
Financing Corporation Stripped Issues OID	493,180	1.1
MN Association of Governments Investing for Counties (MAGIC) Fund (Term Investment)	3,000,000	6.9
MN Association of Governments Investing for Counties (MAGIC) Fund	4,715,159	10.8
Fannie Mae	724,940	1.7
Total	<u>\$ 41,669,029</u>	

It should be noted that investments in municipal bonds and negotiable certificates of deposits did not exceed 5% of total investments with any one issuer.

Balance Sheet Presentation

Total County cash and investments at December 31, 2016 consisted of:

Deposits	\$ 1,133,483
Petty Cash and Change Funds	2,160
Investments	43,735,338
Total	<u>\$ 44,870,981</u>

Deposits and investments are reported in the County's financial statements as follows:

Cash and Pooled Investments	\$ 43,684,638
Petty Cash and Change Funds	2,160
Restricted Cash	29,725
Cash with Fiscal Agent	5,589
Agency Fund Cash and Investments	1,148,869
Total	<u>\$ 44,870,981</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. Assets (Continued)

1. Deposits and Investments (Continued)

Fair Market Value

The County uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures.

The County follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the County has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

- Level 1 – Financial assets are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.
- Level 2 – Financial assets are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.
- Level 3 – Financial assets are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use in pricing the asset.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. Assets (Continued)

1. Deposits and Investments (Continued)

Fair Market Value (Continued)

Assets measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
<b>Investments by Fair Value Level</b>				
U.S. Agencies	\$ -	\$ 1,843,821	\$ -	\$ 1,843,821
Municipal Bonds	-	19,871,800	-	19,871,800
Money Market	2,066,309	-	-	2,066,309
Negotiable Certificates of Deposit	-	12,238,249	-	12,238,249
Total investments by fair value level	<u>\$ 2,066,309</u>	<u>\$ 33,953,870</u>	<u>\$ -</u>	<u>36,020,179</u>
<b>Investments Measured at Amortized Cost</b>				
MAGIC portfolio external investment pool				\$ 4,715,159
<b>Investments Measured at Net Asset Value (NAV)</b>				
MAGIC term investment external investment pool				<u>3,000,000</u>
Total Investments				43,735,338
Deposits, Petty Cash, and Cash on Hand				<u>1,135,643</u>
				<u><u>\$ 44,870,981</u></u>

The MAGIC portfolio is valued using amortized cost. Shares of the MAGIC portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as the County has a sufficient number of shares to meet their redemption request. The MAGIC fund's Board of Trustees can suspend the right to withdrawal or postpone the date of payment if the Trustees determine that there is an emergency that makes the sale of a portfolio's securities or determination of its net asset value not reasonable practical. The MAGIC term investment pool is valued at net asset value (NAV) as it does not meet the liquidity criteria to be valued at amortized cost. The County would face penalties if early redemption were made from the term investment pool. There are no unfunded commitments relating to this investment. The County reports its investments in the term investment pool at NAV per share, the fair value established by the pool.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2016, for the County governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

Governmental Activities	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes	\$ 452,684	\$ -
Special Assessments	258,387	180,491
Accounts	137,193	-
Notes	55,400	36,900
Interest	171,282	-
Loans	839,695	679,650
Due from Other Governments	5,937,461	-
Total Governmental Activities, Net	\$ 7,852,102	\$ 897,041

3. Loans and Notes Receivable

The County has made various loans to businesses and other governmental entities under a variety of repayment terms. In addition, the County has made loans to individuals under a sewer improvement loan program. Repayment of these loans is over ten years, with interest at three percent. Delinquent sewer improvement loans are added to the special assessment tax rolls. The funds for the sewer improvement revolving loan program were originally received from the State of Minnesota in the form of a loan to the County.

Activity in these loans and notes receivable is as follows for the year ended December 31, 2016:

	Beginning Balance	Additional Loans Made	Collections	Ending Balance
Sewer Improvement Loans	\$ 839,682	\$ 207,000	\$ 206,987	\$ 839,695
Notes Receivable	70,800	-	15,400	55,400
Total	\$ 910,482	\$ 207,000	\$ 222,387	\$ 895,095

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental Activities</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 5,982,209	\$ -	\$ -	\$ 5,982,209
Right of Way	10,539,543	10,311	-	10,549,854
Construction in Progress	263,298	4,154,737	3,973,914	444,121
Total Capital Assets, Not Depreciated	16,785,050	4,165,048	3,973,914	16,976,184
Capital Assets Being Depreciated				
Buildings	32,754,485	238,416	-	32,992,901
Buildings Improvements	3,700,525	444,857	-	4,145,382
Improvements Other Than Building	1,121,383	-	-	1,121,383
Machinery, Furniture, Equipment, and Vehicles	10,345,251	839,323	435,071	10,749,503
Software	246,679	-	-	246,679
Infrastructure	122,593,096	3,973,914	49,789	126,517,221
Total Capital Assets Being Depreciated	170,761,419	5,496,510	484,860	175,773,069
Less: Accumulated Depreciation for				
Buildings	7,153,947	657,433	-	7,811,380
Buildings Improvements	411,395	148,844	-	560,239
Improvements Other Than Building	397,147	48,951	-	446,098
Machinery, Furniture, Equipment, and Vehicles	6,797,598	611,549	435,071	6,974,076
Software	153,525	65,600	-	219,125
Infrastructure	47,014,158	2,055,384	-	49,069,542
Total Accumulated Depreciation	61,927,770	3,587,761	435,071	65,080,460
Total Capital Assets, Depreciated, Net	108,833,649	1,908,749	49,789	110,692,609
Governmental Activities Capital Assets, Net	<u>\$ 125,618,699</u>	<u>\$ 6,073,797</u>	<u>\$ 4,023,703</u>	<u>\$ 127,668,793</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. Assets (Continued)

4. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the Primary Government as follows:

Governmental Activities	
General Government	\$ 755,921
Public Safety	367,391
Highways and Streets, Including Infrastructure	2,341,445
Sanitation	28,673
Human Services	1,472
Culture and Recreation	91,916
Conservation of Natural Resources	943
	<hr/>
Depreciation Expense - Governmental Activities	<u><u>\$ 3,587,761</u></u>

B. Liabilities

1. Construction Commitments

The County has active construction projects as of December 31, 2016. The projects include the following:

	<u>Original Contract Amount</u>	<u>Remaining Commitment</u>
Governmental Activities		
Roads and Bridges	\$ 7,646,602	\$ 3,098,381

2. Other Postemployment Benefits

**a) Plan Description and Funding Policy**

Retirees:

The County provides postemployment health care benefits for retirees and their dependents under a single-employer fully-insured plan. This benefit is provided based on Board of County Commissioners motion dated January 5, 1999. Mower County offers various levels of retiree health insurance coverage based upon the date of hire, retirement date, and years of service. The County has three basic groups as follows:

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

B. Liabilities (Continued)

2. Other Postemployment Benefits (Continued)

**a) Plan Description and Funding Policy (Continued)**

Retirees (Continued):

- (1) Employees who retired prior to July 18, 1989, who meet the eligibility requirements are eligible to be included as a member of the County's group medical insurance program until death. The County pays the family (\$1,814 per month) premium. Under certain conditions, dependents, at their cost, can continue in this program after the death of the retiree. During 2016, there was one participant in this plan at a cost of \$21,764 for the full year.
- (2) Employees who retire after October 31, 1992, and were hired before that date, and meet other eligibility requirements, are qualified to receive the same health insurance benefits as current County employees. Under certain conditions, dependents, at their cost, can continue in this program after the death of the retiree. During 2016, there were twenty-four participants in the plan at a cost of \$326,948 for the full year and seven participants in this plan at a cost of \$47,317 for a partial year.
- (3) Employees who were hired after October 31, 1992, and meet other eligibility requirements are qualified to receive employer contribution to health insurance capped at the dollar amount being paid at the date of retirement. The retiree is responsible for all premium increases. Benefits terminate when the retiree qualifies for full Social Security benefits. Under certain conditions, dependents, at their cost, can continue in this program after the death of the retiree. During 2016, there were three participants in the plan at a cost of \$33,617.
- (4) When retirees reach the age of 65 they may join a Medicare Supplement and Medicare RX plan. The County will pay for the cost of the plan. If the retiree was a less than full-time employee, the cost of the plan will be prorated between the County and the retiree. There were 137 retirees enrolled at a cost of \$368,380.

Elected Officials

After their County Service, elected County officials are entitled to the same benefits listed above. They must meet the age and years of service qualifying conditions to be eligible for health insurance benefits.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

B. Liabilities (Continued)

2. Other Postemployment Benefits (Continued)

**b) Annual OPEB Cost and Net OPEB Obligation**

A County's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), 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 liabilities over a period not to exceed thirty years.

The following table shows the components of the County's annual OPEB cost for the year, the amount actually paid from the plan, and changes in the County's net OPEB obligation:

Annual Required Contribution (ARC)	\$ 2,292,848
Interest on Net OPEB Obligation	395,674
Adjustment to Annual Required Contribution	<u>(1,010,342)</u>
Annual OPEB Cost (Expense)	1,678,180
Contributions Made	(897,475)
Net OPEB Obligation - Beginning of Year	<u>11,304,984</u>
Net OPEB Obligation, End of Year	<u><u>\$ 12,085,689</u></u>

The County's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years are as follows:

Fiscal Year End	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2016	\$ 1,678,180	\$ 897,475	53.5 %	\$ 12,085,689
December 31, 2015	2,476,635	919,471	37.1	11,304,984
December 31, 2014	2,227,524	1,027,728	46.1	9,747,820

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

B. Liabilities (Continued)

2. Other Postemployment Benefits (Continued)

**c) Funded Status and Funding Progress**

**Funded Status**

The County currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
January 1, 2016	\$ -	\$ 16,882,668	\$ 16,882,668	- %	\$ 13,861,583	121.8%

**Funding Progress**

Actuarial valuations of an ongoing plan 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 healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions 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, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**d) 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 plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are 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.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

B. Liabilities (Continued)

2. Other Postemployment Benefits (Continued)

**d) Actuarial Methods and Assumptions (Continued)**

In the County's January 1, 2014 actuarial valuation, the actuarial cost method was used. The actuarial assumptions included a four percent discount rate (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The UAAL is being amortized as a level percentage of projected payrolls on a 20-year closed basis. The remaining amortization period at December 31, 2016 was 19 years.

3. Long-Term Debt

Loans Payable

In 1996, the County started a program that resulted in entering into several loan agreements with the Minnesota Department of Agriculture and the Minnesota Department of Employment and Economic Development for financing failing septic systems. The revolving loans are secured by special assessments placed on the individual parcels requesting repair of a failing septic system. The loans are to be repaid in amounts ranging from \$2,500 to \$14,736 with -0-% interest and final maturity of 2026. The loans are repaid with the proceeds that are collected on the related loans receivable in the Sewer Improvement Special Revenue Fund.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

B. Liabilities (Continued)

3. Long-Term Debt (Continued)

General Obligation Bonds Payable

On July 15, 2009, the County issued \$16,660,000 General Obligation Taxable Jail Bonds, Series 2009A (Build America Bonds). The proceeds were used to construct a law enforcement center. The County is eligible to receive a credit from the federal government in the amount of 35% of the interest payable on each interest payment date.

Capital Lease Payable

During 2015, the County entered into a capital lease for two Lanier copiers. The five year leases totaled \$11,210 and are payable through November of 2020.

At December 31, 2016, the County had total assets under capital lease of \$11,210 with the related accumulated depreciation of \$2,616.

Debt Summary

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issues Amount	Outstanding Balance December 31, 2016
Loans Payable:					
2004 Septic Loans	2024	\$2,500 - \$14,736	- %	\$ 124,712	\$ -
2005 Septic Loans	2025	\$2,500 - \$5,400	-	54,000	-
2006 Septic Loans	2025	\$2,500 - \$5,400	-	60,000	-
2007 Septic Loans	2025	\$2,500 - \$5,400	-	40,169	-
2008 Septic Loans	2025	\$2,500 - \$5,400	-	10,500	-
2009 Septic Loans	2025	\$2,500 - \$5,400	-	7,000	-
2010 Septic Loans	2027	\$2,500 - \$5,400	-	118,839	40,220
2011 Septic Loans	2027	\$2,500 - \$5,400	-	52,500	52,500
2012 Septic Loans	2027	\$2,500 - \$5,400	-	409,619	409,619
2013 Septic Loans	2027	\$2,500 - \$5,400	-	281,512	281,512
2014 Septic Loans	2027	\$2,500 - \$5,400	-	325,000	325,000
2015 Septic Loans	2027	\$2,500 - \$9,140	-	220,500	220,500
2016 Septic Loans	2027	\$2,500 - \$9,140	-	304,500	84,000
Total Loans Payable				2,008,851	1,413,351
Bonds:					
General Obligation Taxable					
Jail Bonds, Series 2009A	2022	\$425,000 - \$1,560,000	1.25%-5.4%	16,660,000	7,730,000
Capital Improvement Plan Bonds, 2012A	2028	\$615,000 - \$715,000	1.5%-2.7%	9,955,000	7,655,000
Total Bonds Payable				26,615,000	15,385,000
Capital Lease Payable:					
2015 Copier Leases	2020	\$165 - \$2,361	5%	11,210	9,013
Total Long-Term Debt				\$ 28,635,061	\$ 16,807,364

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

B. Liabilities (Continued)

3. Long-Term Debt (Continued)

Debt Service Requirements

Debt service requirements at December 31, 2016, were as follows:

Year Ending December 31	State Loans		Bonds	
	Principal	Interest	Principal	Interest
2017	\$ 206,702	\$ -	\$ 1,950,000	\$ 511,418
2018	175,725	-	2,000,000	434,513
2019	169,897	-	2,055,000	353,875
2020	171,648	-	2,110,000	269,245
2021	169,979	-	2,175,000	178,076
2022-2026	518,347	-	3,685,000	384,839
2027-2028	1,053	-	1,410,000	37,819
Totals	<u>\$ 1,413,351</u>	<u>\$ -</u>	<u>\$ 15,385,000</u>	<u>\$ 2,169,785</u>

Year Ending December 31	Capital Leases	
	Principal	Interest
2017	\$ 2,136	\$ 402
2018	2,246	293
2019	2,361	178
2020	2,270	57
Totals	<u>\$ 9,013</u>	<u>\$ 930</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans Payable	\$ 1,505,058	\$ 84,000	\$ 175,707	\$ 1,413,351	\$ 206,702
Bonds Payable	17,285,000	-	1,900,000	15,385,000	1,950,000
Unamortized Discount	(80,541)	-	(13,238)	(67,303)	-
Unamortized Premium	54,906	-	4,543	50,363	-
Leases Payable	11,045	-	2,032	9,013	2,136
Compensated Absences	1,195,942	1,046,743	1,136,990	1,105,695	96,684
Other Postemployment Benefits Payable	11,304,984	1,678,180	897,475	12,085,689	-
Long-Term Liabilities	<u>\$ 31,276,394</u>	<u>\$ 2,808,923</u>	<u>\$ 4,103,509</u>	<u>\$ 29,981,808</u>	<u>\$ 2,255,522</u>

The bonds payable are liquidated by the Nonmajor Bond Fund, loans payable are liquidated by the Nonmajor Sewer Improvements Fund, and the leases payable, compensated absences, and other postemployment benefits payable liabilities are liquidated by the General Fund.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 4 PENSION PLANS**

A. Pension Description

The County participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

1. General Employees Retirement Plan (General Employees Plan)

All full-time and certain part-time employees other than those covered by the Police and Fire and Correctional Plans. General Employees Plan 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.

2. Public Employees Police and Fire Plan (Police and Fire Plan)

The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPFF also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

3. Local Correctional Plan (Correctional Plan (accounted for in the Correctional Fund))

The Correctional Plan was established for correctional officers serving in county and regional corrections facilities. Eligible participants must be responsible for the security, custody, and control of the facilities and their inmates.

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified 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% postretirement benefit increase. If the funding ratio reaches 90% for two consecutive years, the benefit increase will revert to 2.5%. If, after reverting to a 2.5% benefit increase, the funding ratio declines to less than 80% for one year or less than 85% for two consecutive years, the benefit increase will decrease to 1.0%.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 4 PENSION PLANS (CONTINUED)**

B. Benefits Provided (Continued)

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

1. General Employees Plan Benefits

General Employees Plan 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 PERA's 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% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For 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.

2. Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010 but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

3. Correctional Plan Benefits

Benefits for Correctional Plan members first hired after June 30, 2010, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. The annuity accrual rate is 1.9% of average salary for each year of service in that plan. For Correctional Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90 and normal retirement age is 55.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 4 PENSION PLANS (CONTINUED)**

C. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

1. General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2016. The County was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The County's contributions to the General Employees Plan for the year ended December 31, 2016, were \$790,373. The County and System's contributions were equal to the required contributions as set by the state statute.

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2016. The County was required to contribute 16.20% of pay for Police and Fire Plan members in calendar year 2016. The County's contributions to the Police and Fire Plan for the year ended December 31, 2016 were \$242,618. The County's contributions were equal to the required contributions as set by state statute.

3. Correctional Fund Contributions

In calendar year 2016, plan members were required to contribute 5.83% of their annual covered salary. The County was required to contribute 8.75% of pay for Correctional Plan members in calendar year 2016. The County's contributions to the Correctional Plan for the year ended December 31, 2016, were \$122,853. The County's contributions were equal to the required contributions as set by state statute.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 4 PENSION PLANS (CONTINUED)**

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2016, the County reported a liability of \$13,916,830 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2016 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, 2015 through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016 the County's proportion share was 0.171% which was an increase of 0.003% from its proportion measured as of June 30, 2015.

The County also recognized an additional \$54,215 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Fund. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. Legislation requires the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan each year, starting September 15, 2015 through September 15, 2031. The State of Minnesota's proportionate share of the net pension liability associated with the County totaled \$181,823.

For the year ended December 31, 2016, the County recognized pension expense of \$1,867,809 for its proportionate share of General Employees Plan's pension expense.

County's Proportionate Share of the Net Pension Liability	\$ 22,884,305
States Proportionate Share of the Net Pension Liability	181,823
Total	<u>\$ 23,066,128</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 4 PENSION PLANS (CONTINUED)**

D. Pension Costs (Continued)

1. General Employees Fund Pension Costs (Continued)

At December 31, 2016, the County reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ 1,130,536
Changes in Actuarial Assumptions	2,724,928	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	2,641,474	-
Changes in Proportion and Differences Between County Contributions and Proportionate Share of Contributions	141,166	338,220
County Contributions Subsequent to the Measurement Date	398,641	-
Total	<u>\$ 5,906,209</u>	<u>\$ 1,468,756</u>

\$398,641 is reported as deferred outflows of resources related to pensions resulting from the County's contributions to GERF subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the next fiscal year.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 4 PENSION PLANS (CONTINUED)**

D. Pension Costs (Continued)

1. General Employees Fund Pension Costs (Continued)

Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year Ended June 30	Pension Expenses Amount
2017	\$ 1,072,573
2018	1,072,573
2019	1,390,966
2020	502,700

2. Police and Fire Fund Pension Costs

At December 31, 2016, the County reported a liability of \$6,300,683 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2016 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, 2015 through June 30, 2016 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.157% which is a decrease of 0.005% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the County recognized pension expense of \$1,090,856 for its proportionate share of the Police and Fire Plan's pension expense. The County also recognized \$14,130 for the year ended December 31, 2016, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

**MOWER COUNTY  
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**NOTE 4 PENSION PLANS (CONTINUED)**

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs (Continued)

At December 31, 2016, the County reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ 722,808
Changes in Actuarial Assumptions	3,467,541	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	961,528	-
Changes in Proportion and Differences Between County Contributions and Proportionate Share of Contributions	36,001	46,772
County Contributions Subsequent to the Measurement Date	121,971	-
Total	<u>\$ 4,587,041</u>	<u>\$ 769,580</u>

\$121,971 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	Pension Expenses Amount
2017	\$ 796,829
2018	796,829
2019	796,829
2020	719,126
2021	585,877

**MOWER COUNTY  
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**NOTE 4 PENSION PLANS (CONTINUED)**

E. Pension Costs (Continued)

3. Correctional Plan Pension Costs

At December 31, 2016, the County reported a liability of \$2,666,792 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.730%, which had no change from its proportion as measured at June 30, 2015.

For the year ended December 31, 2016, the County recognized pension expense of \$752,447 for its proportionate share of the Correctional Plan's pension expense.

At December 31, 2016, the County reported its proportionate share of the Correctional Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ 28,806
Changes in Actuarial Assumptions	1,699,068	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	301,717	-
Changes in Proportion and Differences Between County Contributions and Proportionate Share of Contributions	-	1,509
County Contributions Subsequent to the Measurement Date	62,454	-
Total	<u>\$ 2,063,239</u>	<u>\$ 30,315</u>

**MOWER COUNTY  
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NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 4 PENSION PLANS (CONTINUED)**

D. Pension Costs (Continued)

1. PECF Pension Costs (Continued)

\$62,454 reported as deferred outflows of resources related to pensions resulting from County 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 June 30	Pension Expenses Amount
2017	\$ 632,682
2018	632,682
2019	647,839
2020	57,267

The County's total pension expense for all plans recognized by the County for the year ended December 31, 2016 was \$3,779,457.

E. Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per Year
Active Member Payroll Growth	3.25% per Year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan and Correctional Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years for the General Employees Plan and Police and Fire Plan, and 2.5% for all years for the Correctional Plan.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The experience study for Police and Fire Plan was for the period July 1, 2004 through June 30, 2009. The experience study for the Public Employees Correctional Plan was for the period 2006 through 2011.

**MOWER COUNTY  
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**NOTE 4 PENSION PLANS (CONTINUED)**

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Police and Fire Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Correctional Fund

- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.31%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return 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 geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	45 %	5.50 %
International Equity	15	6.00
Bonds	18	1.45
Alternative Assets	20	6.40
Cash	2	0.50
Totals	<u>100 %</u>	

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 4 PENSION PLANS (CONTINUED)**

F. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. 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.

In the Police and Fire Fund and the Correctional Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056 and June 30, 2058 respectively. Beginning in fiscal years ended June 30, 2057 for the Police and Fire Fund and June 30, 2059 for the Correctional Fund, when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% for the Police and Fire Fund and 5.31% for the Correctional Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% after.

G. Pension Liability Sensitivity

The following presents the County and System's proportionate share of the net pension liability for all plans they participate in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the County and System's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

Description	Proportionate Share of the					
	General Employees Fund		Police and Fire Fund		Correctional Fund	
1% Lower	6.50%	\$ 19,766,023	4.60%	\$ 8,820,120	4.31%	\$ 4,015,365
Current Discount Rate	7.50%	13,916,830	5.60%	6,300,683	5.31%	2,666,792
1% Higher	8.50%	8,685,902	6.60%	4,242,112	6.31%	1,613,972

**MOWER COUNTY  
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**NOTE 4 PENSION PLANS (CONTINUED)**

E. Pension Plan Fiduciary Net Position

Detailed information about GERS's fiduciary's net position is available in a separately-issued PERA financial report. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

**NOTE 5 DEFINED CONTRIBUTION PLAN**

County Commissioners of Mower County are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by PERA. The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee 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% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each member's account annually.

Total contributions made by the County during fiscal year 2016 were:

	Contribution Amount		Percentage of Covered Payroll		Required Rates
	Employee	Employer	Employee	Employer	
2016	\$ 8,028	\$ 8,028	5.0 %	5.0 %	5.0 %
2015	7,931	7,931	5.0	5.0	5.0
2014	5,031	5,031	5.0	5.0	5.0

**MOWER COUNTY  
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NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 6 RISK MANAGEMENT**

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 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.

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

The County has entered into a joint powers agreement with other Minnesota counties to form the Southeast Service Cooperative for group employee benefits. Group employee benefits include, but are not limited to, health benefits coverage, life insurance, disability income protection, dental insurance, flexible spending programs, and other services as directed by the joint powers board.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 7 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS**

A. 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.

B. Joint Ventures

Family Services Collaborative

The Mower County Family Services Collaborative (the Collaborative) was established in 1996 under the authority of Minnesota Statutes §§33 471.59 and 124D.23. The Collaborative includes Mower County; the City of Austin; SEMCAC; Mower County Township Association; and Independent School District Nos. 492, 495, 497, 499, and 500. All of these entities appoint members to the Collaborative's governing board. The purpose of the Collaborative is to provide a coordinated approach to support and nurture individuals and families through prevention and intervention so as to ensure success for every child.

Control of the Collaborative is vested in a board of directors. Mower County appoints two members to this 14-member Board. The Mower County Department of Social Services acts as fiscal agent for the Collaborative. The Collaborative is financed by state grants and appropriations from participating members. In the event of withdrawal from the Collaborative, the withdrawing party shall give a 30-day notice. The withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, all property, real and personal, at the time of termination shall be distributed by the Minnesota Department of Education.

During 2016, the County made no payments to the Collaborative.

Currently, the Collaborative does not prepare complete financial statements; therefore, the Collaborative does not have audited financial statements. Financial information can be obtained by contacting Val Kruger, Mower County Social Service Collections and Financial Supervisor, Social Services Department, 201 First Street N.E., Austin, Minnesota 55912.

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NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 7 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)**

C. Jointly-Governed Organizations

Mower County, in conjunction with other governmental entities and various private organizations, has formed the jointly-governed organizations listed:

1. Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During 2016, Mower County paid \$144,757 to the Cooperative.

2. Southeast Minnesota Emergency Management Services (EMS)

The EMS provides various health services to several counties. During 2016, the County did not make any payments to the EMS.

3. Southeast Minnesota Recyclers Exchange (SEMREX)

The County paid \$1,300 to SEMREX for recycling coordination services.

4. Southeastern Minnesota Community Action Council

The Southeastern Minnesota Community Action Council provides various elder care programs on behalf of member counties. During the year, the County paid \$3,000 to the Southeastern Minnesota Community Action Council.

5. Southeastern Minnesota Narcotics Task Force

The Southeastern Minnesota Narcotics Task Force provides drug investigation services for member organizations. During 2016, the County paid \$6,000 to the Task Force.

6. Southeastern Minnesota Private Industry Council

The Southeastern Minnesota Private Industry Council provides various job training services to member counties. During 2016, the County paid \$555,855 to the Council.

7. Southeast Minnesota Water Resources Board

The Southeast Minnesota Water Resources Board provides water quality services to several counties. The County paid \$4,500 to the Board during 2016.

8. Southeast Minnesota Regional Radio Board

The Southeast Minnesota Regional Board has been organized to ensure communication among member counties for emergency service purposes. The County paid \$25,364 to the Board during 2016.

**MOWER COUNTY  
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**NOTE 7 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)**

C. Jointly-Governed Organizations (Continued)

9. Rural Minnesota Energy Board

The Rural Minnesota Energy Board has been organized to provide policies and procedures regarding alternative energy sources, including ethanol, bio-diesel, solar, wind, etc. The County paid \$1,000 to the Board during the year.

10. SEMN Region1 JPB Emergency Management Board

The SEMN Region1 JPB Emergency Management Board has been organized to provide for the joint exercise of the parties' powers requiring regional coordination to plan for the needs of southeast Minnesota homeland security emergency management. The County paid \$1,000 to the Board during the year.

11. Austin/Mower County Home Ownership Fund

The Austin/Mower County Home Ownership Fund (the Fund) has been organized to provide a flexible source of secondary funds to families and individuals interested in purchasing a house. The Fund is meant to assist families and individuals who qualify for a mortgage with down payment assistance. The Fund can also be used to assist with rehabilitation on projects that are required to be made in order to meet code or mortgage requirements. The County made no payments to the Fund during 2016.

**NOTE 8 COMPONENT UNIT DISCLOSURES**

A. Summary of Significant Accounting Policies

In addition to those identified in Note 1, the County's discretely presented component unit has the following significant accounting policies.

1. Reporting Entity

The Housing and Redevelopment Authority (HRA) is governed by a five-member board of directors appointed by the County Board and the HRA requires tax levy financing. The HRA has a fiscal year-end of September 30.

Because of the significance of its financial relationship, Mower County considers the HRA a discrete component unit.

2. Basis of Presentation

The HRA prepares separate financial statements. These statements were prepared in accordance with GASB Statement 34.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
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**NOTE 8 COMPONENT UNIT DISCLOSURES (CONTINUED)**

A. Summary of Significant Accounting Policies (Continued)

3. Cash, Cash Equivalents, Investments, and Restricted Investments

For the purposes of reporting cash flows, the HRA considers all cash on hand, checking, and money market savings accounts, excluding amounts restricted by mortgage agreements, to be cash equivalents. Restricted investments represent balances that are held in escrow by agencies to which the HRA owes a mortgage payable—the Minnesota Housing Finance Agency (MHFA). The investments in these accounts cannot be spent without regulatory agency approval.

B. Detailed Notes on All Funds

1. Assets

Deposits and Investments

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

Component Unit	
Deposits - Unrestricted	\$ 777,259
Investments - Restricted	796,550
Total Cash and Investments	<u>\$ 1,573,809</u>

In accordance with Minnesota Statutes, the HRA maintains deposits at depository banks authorized by the HRA Board.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the HRA's deposits may not be returned to it. The HRA's deposit policy for custodial credit risk follows Minnesota Statutes for deposits.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

The HRA's deposits in banks at September 30, 2016, were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

**MOWER COUNTY  
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**NOTE 8 COMPONENT UNIT DISCLOSURES (CONTINUED)**

B. Detailed Notes on All Funds (Continued)

1. Assets (Continued)

Investments

The HRA may also invest idle funds, as authorized by Minnesota Statutes, as follows:

- (a) direct obligations or obligations guaranteed by the United States or its agencies;
- (b) shares of investment companies registered under the Federal Investment Company Act of 1940 that either receive the highest credit rating and one of the two highest ratings by a statistical rating agency, with all of the investments having a final maturity of no more than 13 months, or holds itself out to be a money market mutual fund and is rated in one of the two highest ratings by a statistical rating agency;
- (c) general obligations rated "A" or better; revenue obligations rated "AA" or better;
- (d) general obligations of the Minnesota Housing Finance Agency rated "A" or better;
- (e) bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System;
- (f) commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less;
- (g) guaranteed investment contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; and
- (h) repurchase or reverse purchase agreements and securities lending agreements financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

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**NOTE 8 COMPONENT UNIT DISCLOSURES (CONTINUED)**

B. Detailed Notes on All Funds (Continued)

1. Assets (Continued)

Restricted Investments

At September 30, 2016, the HRA had the following restricted investments:

	At Estimated Market Value
Held in Escrow at the MHFA	\$ 796,550
Replacement Reserve Colonial	13,198

The MHFA requires the HRA to establish various escrow and reserve accounts. These investments are restricted and held in an escrow account by the MHFA in the HRA's name in accordance with debt agreements. These restricted investments are administered by the MHFA. Eligible investments of these funds, as stated in the escrow agreement, include instruments of the U.S. government and its agencies, the State of Minnesota and its agencies, certain financial institution demand or time deposits, and certain shares of investment companies. The balances are stated at their cost, which approximates fair value. The HRA does not have the authority to invest or to disburse funds from these accounts. Expenditures must be approved by the MHFA, who then withdraws the funds and mails the funds to the HRA. Interest income generated by these investments totaled \$8,156 and \$7,389 for the years ended September 30, 2016 and 2015, respectively.

Interest Rate Risk

The HRA has an informal investment policy that addresses permissible investment, portfolio diversification, and instrument maturities. Investment maturities are scheduled to coincide with projected cash flows. Within these parameters, it is the HRA's policy to stagger portfolio maturities to avoid undue concentration of assets, provide for stability of income, and limit exposure to fair value losses arising from rising interest rates.

Concentration of Investments

The HRA does not have a policy that limits the amount of the total portfolio that may be invested with any one depository. In general, other than escrowed funds, all other excess funds are invested in deposits and are covered under the HRA's collateral requirements.

Balance Sheet Presentation

Deposits	\$ 733,360
Tenant Deposit Cash	30,701
Restricted Investments	809,748
Total	\$ 1,573,809

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 8 COMPONENT UNIT DISCLOSURES (CONTINUED)**

B. Detailed Notes on All Funds (Continued)

1. Assets (Continued)

Capital Assets

HRA capital asset activity for the year ended September 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital Assets, Being Depreciated				
Equipment	\$ 3,120	\$ -	\$ -	\$ 3,120
Accumulated Depreciation for:				
Equipment	3,120	-	-	3,120
Total Capital Assets, Being Depreciated, Net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Business-Type Activities:</b>				
Capital Asset, Not Being Depreciated				
Land	\$ 42,304	\$ -	\$ -	\$ 42,304
Capital Assets, Being Depreciated				
Land Improvements	381,332	-	-	381,332
Buildings	4,356,261	28,971	-	4,385,232
Furnishings	544,655	11,473	-	556,128
Maintenance Equipment	42,886	1,052	-	43,938
Total Capital Assets Being Depreciated	<u>5,325,134</u>	<u>41,496</u>	<u>-</u>	<u>5,366,630</u>
Accumulated Depreciation for:				
Land Improvements	299,269	12,284	-	311,553
Buildings	2,976,856	117,274	-	3,094,130
Furnishings	369,031	17,814	-	386,845
Maintenance Equipment	34,329	7,630	-	41,959
Total Accumulated Depreciation	<u>3,679,485</u>	<u>155,002</u>	<u>-</u>	<u>3,834,487</u>
Total Capital Assets, Being Depreciated, Net	<u>1,645,649</u>	<u>(113,506)</u>	<u>-</u>	<u>1,532,143</u>
Business-Type Activities Capital Assets, Net	<u>\$ 1,687,953</u>	<u>\$ (113,506)</u>	<u>\$ -</u>	<u>\$ 1,574,447</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 8 COMPONENT UNIT DISCLOSURES (CONTINUED)**

B. Detailed Notes on All Funds (Continued)

1. Assets (Continued)

Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the discretely presented component unit as follows:

Business-Type Activities	\$	155,002
Housing	<u></u>	<u></u>

2. Liabilities

Long-Term Debt

Long-term debt outstanding at September 30, 2016, for the HRA consists of the following:

Types of Indebtedness	Final Maturity	Interest Rates (%)	Original Amount	Remaining Balance	Due Within One Year
Mortgage Payable	2020	6.50	\$ 875,870	\$ 215,636	\$ 47,656
Mortgage Payable	2024	8.75	123,000	47,458	4,390
	Total		<u>\$ 998,870</u>	<u>\$ 263,094</u>	<u>\$ 52,046</u>

Debt Service Requirements

Mortgage debt service requirements to maturity for the HRA are as follows:

Year Ending December 31	Mortgages Payable	
	Principal	Interest
2017	\$ 52,046	\$ 16,567
2018	55,638	12,975
2019	59,479	9,134
2020	63,589	5,024
2021	11,213	2,149
2022-2024	21,129	2,760
Totals	<u>\$ 263,094</u>	<u>\$ 48,609</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 8 COMPONENT UNIT DISCLOSURES (CONTINUED)**

B. Detailed Notes on All Funds (Continued)

2. Liabilities (Continued)

Changes in Long-Term Liabilities

The following is a summary of the long-term debt transactions of the HRA for the year ended September 30, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Mortgages Payable	\$ 311,942	\$ -	\$ 48,848	\$ 263,094	\$ 52,046
Compensated Absences	35,881	30,125	27,955	38,051	15,000
Long-Term Liabilities	<u>\$ 347,823</u>	<u>\$ 30,125</u>	<u>\$ 76,803</u>	<u>\$ 301,145</u>	<u>\$ 67,046</u>

**NOTE 9 COMMITMENTS AND CONTINGENCIES**

The County may be involved in various claims. Although the outcome of any claims 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.

**NOTE 10 PRIOR PERIOD ADJUSTMENT**

Capital Projects Fund beginning fund balance and beginning net position of the governmental activities were restated by \$174,204 to properly account for a prior year misstatement in contracts payable and related capital outlay expenditures in the 2015 financial statements.

	Capital Projects Fund	Governmental Activities
As Originally Reported, Net Position, January 1, 2016	\$ 2,745,221	\$ 131,469,258
Restatement Adjustment: Contracts Payable	<u>174,204</u>	<u>174,204</u>
Restated Net Position, January 1, 2016	<u>\$ 2,919,425</u>	<u>\$ 131,643,462</u>

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**REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A**



**MOWER COUNTY  
AUSTIN, MINNESOTA  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFIT PLANS  
YEAR ENDED DECEMBER 31, 2016**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
January 1, 2016	\$ -	\$ 16,882,668	\$ 16,882,668	- %	\$ 13,861,583	121.8%
January 1, 2014	-	22,756,429	22,756,429	-	12,407,632	183.4
January 1, 2012	-	25,543,999	25,543,999	-	11,728,771	217.8

**Notes to Schedule of Funding Progress**

Mower County currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero.

Mower County implemented Governmental Accounting Standards Board Statement 45 in the fiscal year ended December 31, 2008.

In the January 2016 actuarial valuation, there were some changes to key assumptions which caused a decrease in the Actuarial Accrued Liability (AAL) from the January 2014 valuation report. There was a decrease in the current year medical trend rate, from 7.5% in the January 2014 report to 6.75% in the January 2016 report. There was also a decrease in the years to ultimate trend rate, from ten years in the January 2014 report to seven years in the January 2016 report.

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**MOWER COUNTY  
AUSTIN, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 11,160,937	\$ 11,160,937	\$ 11,111,080	\$ (49,857)
Special Assessments	509,435	509,435	519,182	9,747
Licenses and Permits	42,050	42,050	80,650	38,600
Intergovernmental	2,325,441	2,325,441	2,915,438	589,997
Charges for Services	1,096,618	1,096,618	1,506,571	409,953
Fines and Forfeits	39,900	39,900	51,158	11,258
Gifts and Contributions	6,000	6,000	6,050	50
Investments Earnings	668,155	668,155	309,149	(359,006)
Miscellaneous	1,918,964	1,918,964	1,450,748	(468,216)
Total Revenues	<u>17,767,500</u>	<u>17,767,500</u>	<u>17,950,026</u>	<u>182,526</u>
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
<b>GENERAL GOVERNMENT</b>				
Commissioners	271,141	271,141	254,030	17,111
Courts	92,000	92,000	79,199	12,801
Law Library	38,830	38,830	26,989	11,841
County Administration	872,071	872,071	521,635	350,436
County Auditor-Treasurer	250,662	250,662	252,234	(1,572)
County Assessor	502,394	502,394	556,888	(54,494)
Elections	132,856	132,856	134,186	(1,330)
Auditing	75,000	75,000	86,268	(11,268)
Information Systems	650,554	650,554	623,874	26,680
Attorney	1,000,451	1,000,451	1,012,691	(12,240)
Recorder	453,560	453,560	281,877	171,683
Buildings and Plant	868,979	868,979	702,109	166,870
Veterans Service	176,862	176,862	150,260	26,602
Other General Government	1,185,538	1,185,538	884,996	300,542
Total General Government	<u>6,570,898</u>	<u>6,570,898</u>	<u>5,567,236</u>	<u>1,003,662</u>

*Notes to Required Supplementary Information are an Integral Part of this Schedule.*

**MOWER COUNTY  
AUSTIN, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE (CONTINUED)  
GENERAL FUND  
YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>EXPENDITURES (Continued)</b>				
<b>CURRENT (Continued)</b>				
<b>PUBLIC SAFETY</b>				
Sheriff	\$ 2,629,123	\$ 2,629,123	\$ 2,614,612	\$ 14,511
E911	113,647	113,647	193,716	(80,069)
Coroner	111,285	111,285	64,291	46,994
County Jail	2,843,228	2,843,228	3,173,423	(330,195)
County Jail Canteen	141,840	141,840	10,637	131,203
Law Enforcement Center	1,256,112	1,256,112	1,150,104	106,008
Community Corrections	2,013,652	2,013,652	2,218,132	(204,480)
Sentence to Serve	60,265	60,265	60,266	(1)
Civil/Bailiff	190,552	190,552	174,296	16,256
Other Public Safety	73,022	73,022	73,496	(474)
Total Public Safety	<u>9,432,726</u>	<u>9,432,726</u>	<u>9,732,973</u>	<u>(300,247)</u>
<b>SANITATION</b>				
Solid Waste	622,295	622,295	823,923	(201,628)
<b>CULTURE AND RECREATION</b>				
Historical Society	44,765	44,765	44,765	-
Senior Citizens	43,400	43,400	43,400	-
Regional Library	251,400	251,400	254,328	(2,928)
Other	68,032	68,032	69,807	(1,775)
Total Culture and Recreation	<u>407,597</u>	<u>407,597</u>	<u>412,300</u>	<u>(4,703)</u>

Notes to Required Supplementary Information are an Integral Part of this Schedule.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE (CONTINUED)  
GENERAL FUND  
YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>EXPENDITURES (Continued)</b>				
<b>CURRENT (Continued)</b>				
<b>CONSERVATION OF NATURAL RESOURCES</b>				
County Extension	\$ 170,080	\$ 170,080	\$ 166,223	\$ 3,857
Soil and Water Conservation	146,998	146,998	146,998	-
Fairgrounds	30,000	30,000	30,000	-
Other	-	-	7,228	(7,228)
Total Conservation of Natural Resources	347,078	347,078	350,449	(3,371)
<b>ECONOMIC DEVELOPMENT</b>				
Development Corporation	15,826	15,826	-	15,826
<b>CAPITAL OUTLAY</b>				
General Government	329,964	329,964	260,410	69,554
Public Safety	224,100	224,100	307,924	(83,824)
Sanitation	184,500	184,500	335,673	(151,173)
Culture and Recreation	2,000	2,000	18	1,982
Total Capital Outlay	740,564	740,564	904,025	(163,461)
Total Expenditures	18,136,984	18,136,984	17,790,906	346,078
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	(369,484)	(369,484)	159,120	528,604
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from the Sale of Capital Assets	1,000	1,000	311	(689)
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (368,484)</u>	<u>\$ (368,484)</u>	159,431	<u>\$ 527,915</u>
Fund Balance - Beginning of Year			27,462,336	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 27,621,767</u>	

Notes to Required Supplementary Information are an Integral Part of this Schedule.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE FUND  
YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 2,577,956	\$ 2,577,956	\$ 2,924,261	\$ 346,305
Licenses and Permits	42,000	42,000	68,752	26,752
Intergovernmental	10,305,551	10,305,551	6,855,856	(3,449,695)
Charges for Services	157,500	157,500	93,904	(63,596)
Miscellaneous	594,700	594,700	465,428	(129,272)
Total Revenues	<u>13,677,707</u>	<u>13,677,707</u>	<u>10,408,201</u>	<u>(3,269,506)</u>
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
<b>HIGHWAY AND STREETS</b>				
Administration	622,108	622,108	622,275	(167)
Maintenance	2,643,177	2,643,177	2,271,179	371,998
Construction	10,310,828	10,310,828	5,288,358	5,022,470
Equipment and Maintenance Shops	870,967	870,967	878,607	(7,640)
Buildings and Grounds	185,736	185,736	174,214	11,522
Total Current	<u>14,632,816</u>	<u>14,632,816</u>	<u>9,234,633</u>	<u>5,398,183</u>
<b>CAPITAL OUTLAY</b>				
Highway and Streets	692,550	692,550	685,845	6,705
Environmental Services	309,851	309,851	278,199	31,652
Total Capital Outlay	<u>1,002,401</u>	<u>1,002,401</u>	<u>964,044</u>	<u>38,357</u>
Total Expenditures	<u>15,635,217</u>	<u>15,635,217</u>	<u>10,198,677</u>	<u>5,436,540</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	(1,957,510)	(1,957,510)	209,524	2,167,034
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from the Sale of Capital Assets	-	-	30,000	30,000
<b>NET CHANGE IN FUND BALANCE</b>				
	<u>\$ (1,957,510)</u>	<u>\$ (1,957,510)</u>	239,524	<u>\$ 2,197,034</u>
Fund Balance - Beginning of Year			8,497,591	
<b>CHANGE IN INVENTORIES</b>				
			<u>(19,924)</u>	
<b>FUND BALANCE - END OF YEAR</b>				
			<u>\$ 8,717,191</u>	

Notes to Required Supplementary Information are an Integral Part of this Schedule.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE  
SOCIAL SERVICES FUND  
YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes	\$ 4,082,716	\$ 4,082,716	\$ 3,989,753	\$ (92,963)
Intergovernmental	6,245,833	6,245,833	8,005,024	1,759,191
Charges for Services	1,700,390	1,700,390	1,092,934	(607,456)
Investments Earnings	-	-	1,193	1,193
Miscellaneous	686,155	686,155	811,773	125,618
Total Revenues	<u>12,715,094</u>	<u>12,715,094</u>	<u>13,900,677</u>	<u>1,185,583</u>
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
<b>HUMAN SERVICES</b>				
Income Maintenance	3,717,474	3,717,474	3,960,620	(243,146)
Social Services	7,010,025	7,010,025	7,961,886	(951,861)
Total Human Services	<u>10,727,499</u>	<u>10,727,499</u>	<u>11,922,506</u>	<u>(1,195,007)</u>
<b>HEALTH</b>				
Health	1,972,151	1,972,151	1,902,973	69,178
<b>CAPITAL OUTLAY</b>				
Human Services	<u>15,444</u>	<u>15,444</u>	<u>9,070</u>	<u>6,374</u>
Total Expenditures	<u>12,715,094</u>	<u>12,715,094</u>	<u>13,834,549</u>	<u>(1,119,455)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	66,128	<u>\$ 66,128</u>
Fund Balance - Beginning of Year			<u>3,293,332</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 3,359,460</u>	

Notes to Required Supplementary Information are an Integral Part of this Schedule.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED DECEMBER 31, 2016**

**I. BUDGETARY INFORMATION**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end.

On or before mid-July of each year, all departments and agencies submit requests for appropriations to the Mower County Coordinator so that a budget can be prepared. Before September 15, the proposed budget is presented to the Board of County Commissioners for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. The County's department head may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the Board of County Commissioners or County Coordinator if under \$5,000. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, the Board made expense reductions to meet unbudgeted state-aid reductions.

Encumbrance accounting is employed in governmental funds. Encumbrances (such as, purchase orders or contracts) outstanding at year-end are reported as assignments of fund balances and do not constitute expenditures or liabilities because the commitments will be reapportioned and honored during the subsequent year.

**II. EXCESS OF EXPENDITURES OVER BUDGET**

The following fund had expenditures in excess of budget for the year ended December 31, 2016:

	<u>Actual</u>	<u>Budget</u>	<u>Excess</u>
Social Services	\$ 13,834,549	\$ 12,715,094	\$ 1,119,455

The excess of expenditures over budget was funded by greater than anticipated revenues.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF THE COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
DECEMBER 31, 2016**

	Measurement Date June 30, 2016	Measurement Date June 30, 2015
<b>GERF</b>		
County's Proportion of the Net Pension Liability	0.171%	0.168%
County's Proportionate Share of the Net Pension Liability	\$ 13,916,830	\$ 8,685,902
State's Proportionate Share of the Net Pension Liability	\$ 181,823	\$ -
Total Proportionate Share of the Net Pension Liability	\$ 14,098,653	\$ 8,685,902
County's Covered-Employee Payroll	\$ 10,621,187	\$ 10,475,290
County's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	131.03%	82.92%
Plan Fiduciary Net Position as a Percentage of the total Pension Liability	68.90%	78.20%
<b>PEPFF</b>		
County's Proportion of the Net Pension Liability	0.157%	0.162%
County's Proportionate Share of the Net Pension Liability	\$ 6,300,683	\$ 1,840,699
County's Covered-Employee Payroll	\$ 1,516,909	\$ 1,506,793
County's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	415.36%	122.16%
Plan Fiduciary Net Position as a Percentage of the total Pension Liability	63.90%	86.60%
<b>PECF</b>		
County's Proportion of the Net Pension Liability	0.730%	0.730%
County's Proportionate Share of the Net Pension Liability	\$ 2,666,792	\$ 112,858
County's Covered-Employee Payroll	\$ 1,376,247	\$ 1,348,969
County's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	193.77%	8.37%
Plan Fiduciary Net Position as a Percentage of the total Pension Liability	58.20%	96.90%

Note: Information is required to be presented for ten years. However, until a full 10-year trend is compiled, the County will present information for only those years for which information is available.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF THE COUNTY'S CONTRIBUTIONS  
DECEMBER 31, 2016**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>GERF</b>			
Contractually Required Contribution	\$ 790,373	\$ 726,621	\$ 692,722
Contributions in Relation to the Contractually Required Contribution	<u>(790,373)</u>	<u>(726,621)</u>	<u>(692,722)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
County's Covered-Employee Payroll	\$ 10,538,307	\$ 9,688,280	\$ 9,554,786
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.50%	7.25%
<b>PEPFF</b>			
Contractually Required Contribution	\$ 242,618	\$ 233,183	\$ 207,479
Contributions in Relation to the Contractually Required Contribution	<u>(242,618)</u>	<u>(233,183)</u>	<u>(207,479)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
County's Covered-Employee Payroll	\$ 1,497,642	\$ 1,439,401	\$ 1,356,072
Contributions as a Percentage of Covered Employee Payroll	16.20%	16.20%	15.30%
<b>PECF</b>			
Contractually Required Contribution	\$ 122,853	\$ 114,921	\$ 115,046
Contributions in Relation to the Contractually Required Contribution	<u>(122,853)</u>	<u>(114,921)</u>	<u>(115,046)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
County's Covered-Employee Payroll	\$ 1,404,034	\$ 1,313,383	\$ 1,314,811
Contributions as a Percentage of Covered Employee Payroll	8.75%	8.75%	8.75%

Note: Information is required to be presented for ten years. However, until a full 10-year trend is compiled, the County will present information for only those years for which information is available.

## **SUPPLEMENTARY INFORMATION**



**MOWER COUNTY  
AUSTIN, MINNESOTA  
DESCRIPTION OF FUNDS  
DECEMBER 31, 2016**

**NONMAJOR SPECIAL REVENUE FUNDS**

The Ditch Special Revenue Fund is used to account for the financing of public improvements or services for the construction, reconstruction, and maintenance of both County and joint-County drainage systems. These services are financed by special assessments against the benefited properties.

The Sewer Improvements Fund accounts for sewer system improvement loans made through the County.

**NONMAJOR DEBT SERVICE FUND**

The Bond Fund accounts for the accumulation of resources for, and the payment, of debt principal, interest, and related costs of the County's debt.

**AGENCY FUNDS**

The State Revenue Fund accounts for monies received by the County that will be remitted to the various state agencies.

The Family Connections Collaborative Fund accounts for the operations of the Mower County Family Services Collaborative.

The Taxes and Penalties Fund accounts for the collection and distribution of property taxes (current and delinquent).

The Social Welfare Agency Fund is used to account for the receipts and disbursements of the social welfare account.

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**MOWER COUNTY  
AUSTIN, MINNESOTA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2016**

	Ditch	Sewer Improvements	Bond Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 595,649	\$ 1,133,820	\$ 481,647	\$ 2,211,116
Taxes Receivable - Delinquent	-	-	57,095	57,095
Special Assessments Receivable - Current	162	1,130	-	1,292
Special Assessments Receivable - Delinquent	377	-	-	377
Special Assessments Receivable - Noncurrent	25,000	-	-	25,000
Loans Receivable	-	839,695	-	839,695
Due from Other Governments	3,381	-	-	3,381
Restricted Investments - Temporary	-	29,725	-	29,725
Total Assets	<u>\$ 624,569</u>	<u>\$ 2,004,370</u>	<u>\$ 538,742</u>	<u>\$ 3,167,681</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 1,078	\$ -	\$ -	\$ 1,078
Due to Other Governments	505	-	-	505
Total Liabilities	1,583	-	-	1,583
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Taxes	-	1,130	45,620	46,750
Unavailable Special Assessments	25,408	-	-	25,408
Total Deferred Inflows of Resources	25,408	1,130	45,620	72,158
<b>FUND BALANCES</b>				
Restricted For				
Ditch Projects	597,578	-	-	597,578
Sewer Improvements	-	709,375	-	709,375
Debt Service	-	573,656	493,122	1,066,778
Assigned For				
Sewer Improvements	-	720,209	-	720,209
Total Fund Balance	<u>597,578</u>	<u>2,003,240</u>	<u>493,122</u>	<u>3,093,940</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 624,569</u>	<u>\$ 2,004,370</u>	<u>\$ 538,742</u>	<u>\$ 3,167,681</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2016**

	Ditch	Sewer Improvements	Bond Fund	Total Nonmajor Governmental Funds
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ 2,413,431	\$ 2,413,431
Special Assessments	30,342	244,808	-	275,150
Intergovernmental	-	-	170,378	170,378
Interest on Investments	-	50	-	50
Miscellaneous	3,381	-	-	3,381
Total Revenues	<u>33,723</u>	<u>244,858</u>	<u>2,583,809</u>	<u>2,862,390</u>
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
Conservation	46,074	146,985	-	193,059
<b>DEBT SERVICE</b>				
Principal	-	175,707	1,900,000	2,075,707
Interest	-	-	584,668	584,668
Total Debt Service	<u>-</u>	<u>175,707</u>	<u>2,484,668</u>	<u>2,660,375</u>
Total Expenditures	<u>46,074</u>	<u>322,692</u>	<u>2,484,668</u>	<u>2,853,434</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(12,351)	(77,834)	99,141	8,956
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from Loan	-	84,000	-	84,000
<b>NET CHANGE IN FUND BALANCES</b>	(12,351)	6,166	99,141	92,956
Fund Balance - Beginning of Year	<u>609,929</u>	<u>1,997,074</u>	<u>393,981</u>	<u>3,000,984</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 597,578</u>	<u>\$ 2,003,240</u>	<u>\$ 493,122</u>	<u>\$ 3,093,940</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE  
DITCH FUND  
YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Special Assessments	\$ 30,000	\$ 30,000	\$ 30,342	\$ 342
Miscellaneous	-	-	3,381	3,381
Total Revenues	<u>30,000</u>	<u>30,000</u>	<u>33,723</u>	<u>3,723</u>
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
<b>CONSERVATION OF NATURAL RESOURCES</b>				
Other	<u>118,003</u>	<u>118,003</u>	<u>46,074</u>	<u>71,929</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (88,003)</u>	<u>\$ (88,003)</u>	(12,351)	<u>\$ 75,652</u>
Fund Balance - Beginning of Year			<u>609,929</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 597,578</u>	

**MOWER COUNTY  
AUSTIN, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE  
SEWER IMPROVEMENT FUND  
YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Special Assessments	\$ 195,000	\$ 195,000	\$ 244,808	\$ 49,808
Investments Earnings	-	-	50	50
Total Revenues	<u>195,000</u>	<u>195,000</u>	<u>244,858</u>	<u>49,858</u>
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
<b>CONSERVATION OF NATURAL RESOURCES</b>				
Other	220,500	220,500	146,985	73,515
<b>DEBT SERVICE</b>				
Principal	<u>137,800</u>	<u>137,800</u>	<u>175,707</u>	<u>(37,907)</u>
Total Expenditures	<u>358,300</u>	<u>358,300</u>	<u>322,692</u>	<u>35,608</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(163,300)	(163,300)	(77,834)	85,466
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan Proceeds	<u>220,500</u>	<u>220,500</u>	<u>84,000</u>	<u>(136,500)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 57,200</u>	<u>\$ 57,200</u>	6,166	<u>\$ (51,034)</u>
Fund Balance - Beginning of Year			<u>1,997,074</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 2,003,240</u>	

**MOWER COUNTY  
AUSTIN, MINNESOTA  
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
YEAR ENDED DECEMBER 31, 2016**

	Balance January 1	Additions	Deductions	Balance December 31
<b>STATE REVENUE</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 99,782	\$ 853,809	\$ 862,421	\$ 91,170
<b>LIABILITIES</b>				
Due to Other Governments	\$ 99,782	\$ 853,809	\$ 862,421	\$ 91,170
<b>FAMILY CONNECTIONS COLLABORATIVE</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 521,778	\$ 287,760	\$ 389,200	\$ 420,338
<b>LIABILITIES</b>				
Accounts Payable	\$ 547	\$ -	\$ -	\$ 547
Due to Other Governments	521,231	287,760	389,200	419,791
Total Liabilities	\$ 521,778	\$ 287,760	\$ 389,200	\$ 420,338
<b>TAXES AND PENALTIES</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 542,732	\$ 48,810,446	\$ 48,837,504	\$ 515,674
<b>LIABILITIES</b>				
Funds Held in Trust	\$ 542,732	\$ 48,810,446	\$ 48,837,504	\$ 515,674
<b>SOCIAL WELFARE FUND</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 157,433	\$ 891,112	\$ 926,858	\$ 121,687
<b>LIABILITIES</b>				
Due to Other Governments	\$ 157,433	\$ 891,112	\$ 926,858	\$ 121,687
<b>TOTAL ALL AGENCY FUNDS</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 1,321,725	\$ 50,843,127	\$ 51,015,983	\$ 1,148,869
<b>LIABILITIES</b>				
Funds Held in Trust	\$ 542,732	\$ 48,810,446	\$ 48,837,504	\$ 515,674
Accounts Payable	547	-	-	547
Due to Other Governments	778,446	2,032,681	2,178,479	632,648
Total Liabilities	\$ 1,321,725	\$ 50,843,127	\$ 51,015,983	\$ 1,148,869

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF INTERGOVERNMENTAL REVENUE  
YEAR ENDED DECEMBER 31, 2016**

	Governmental Funds
<b>SHARED REVENUE</b>	
State	
Highway Users Tax	\$ 4,711,557
County Program Aid	1,828,272
PERA Rate Reimbursement	40,232
Disparity Reduction Aid	150,949
Police Aid	195,006
Enhanced 911	118,766
Market Value Credit	341,262
Aquatic Invasive Species	4,713
	7,390,757
<b>REIMBURSEMENT FOR SERVICES</b>	
<b>STATE</b>	
Minnesota Department of Human Services	1,600,089
<b>PAYMENTS</b>	
<b>LOCAL</b>	
Payments in Lieu of Taxes	83,810
<b>GRANTS</b>	
<b>STATE</b>	
Minnesota Department/Board of	
Peace Officers Board	6,566
Corrections	333,138
Health	330,714
Human Services	2,007,015
Soil and Water Resources	113,269
Revenue	120
Natural Resources	84,108
Public Safety	48,737
Local	54,715
Pollution Control Agency	157,312
Total State	3,135,694
<b>FEDERAL</b>	
Department of	
Agriculture	513,311
Commerce	1,490
Education	1,933
Justice	89,516
Transportation	1,575,511
Homeland Security	26,839
Health and Human Services	3,389,977
Internal Revenue Service	138,733
Total Federal	5,737,310
Total State and Federal Grants	8,873,004
Total Intergovernmental Revenue	\$ 17,947,660

**REPORTS RELATED TO *GOVERNMENT AUDITING STANDARDS*  
AND SINGLE AUDIT**

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

Board of County Commissioners  
Mower County  
Austin, Minnesota

We have audited, in accordance with the 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 Mower County (the County), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Mower County's basic financial statements, and have issued our report thereon dated September 27, 2017.

The County's financial statements include the operations of the Mower County Housing and Redevelopment Authority (HRA) for the year ended September 30, 2016. Our reporting, described below, did not include the operations of the HRA because the HRA (component unit) engaged for its own separate audit in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Mower County's internal control over financial reporting (internal control) 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 Mower County's internal control. Accordingly, we do not express an opinion on the effectiveness of Mower County's internal control.

*A deficiency in internal control* 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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses. We consider deficiencies 2016-001 through 2016-006 to be material weaknesses.

**Internal Control Over Financial Reporting (Continued)**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mower 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*.

**Mower County's Responses to Findings**

Mower County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Mower County's responses were not subjected to auditing procedures applied in the audits 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 and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Mower County's internal control 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 and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
September 27, 2017

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of County Commissioners  
Mower County  
Austin, Minnesota

**Report on Compliance for Each Major Federal Program**

We have audited Mower County's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Mower County's major federal programs for the year ended December 31, 2016. Mower County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The County's financial statements include the operations of the Mower County Housing and Redevelopment Authority (HRA), a component unit, which expended \$427,766 in federal awards during the year ended September 30, 2016. The federal awards for the HRA are not included in the accompanying schedule of expenditures of federal awards for Mower County. Our audit, described below, did not include these activities because they receive a separate audit.

***Management's Responsibility***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Mower 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 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 Mower 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 Mower County's compliance.

**Opinion on Each Major Federal Program**

In our opinion, Mower 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, 2016.

**Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-007, 2016-008 and 2016-009. Our opinion on each major federal program is not modified with respect to these matters.

**Mower County's Responses to Findings**

Mower County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Mower County's responses were not subjected to auditing procedures applied in the audits of the financial statements, and accordingly, we express no opinion on them

**Report on Internal Control Over Compliance**

Management of Mower 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 Mower 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 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 Mower County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weakness and significant deficiencies.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-007 and 2016-008 to be material weaknesses.

**Report on Internal Control Over Compliance (Continued)**

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-009 to be a significant deficiency.

**Mower County's Responses to Findings**

Mower County's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Mower County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 result of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
September 27, 2017

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
DECEMBER 31, 2016**

**SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified?        X   yes                 no
- Significant deficiency(ies) identified?                 yes        X   none reported

Noncompliance material to financial statements noted?                 yes        X   no

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified?        X   yes                 no
- Significant deficiency(ies) identified?        X   yes                 none reported

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

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?        X   yes                 no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
93.558	Temporary Assistance for Needy Families (TANF)
20.205	Highway Planning and Construction (Highway Planning and Construction Cluster)
93.778	Medical Assistance (Medicaid Cluster)

Dollar threshold used to distinguish between Type A and Type B programs:      \$750,000

Auditee qualified as low-risk auditee?                 yes        X   no

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
DECEMBER 31, 2016**

**FINANCIAL STATEMENT FINDINGS**

2016-001 SEGREGATION OF DUTIES – VARIOUS DEPARTMENTS

**Type of Finding:** Material Weakness in Internal Control over Financial Reporting

**Criteria:** County management should constantly be aware of the need to have adequate segregation of duties regarding the processing of transactions for the County. In addition, County management should be aware that the concentration of duties and responsibilities in one or a very few individuals is not desirable from an internal control perspective.

**Condition and Context:** Adequate segregation of the accounting functions necessary to ensure adequate internal accounting control, is not in place for County departments.

**Cause:** The County has a limited number of personnel within several County departments.

**Possible Effect:** The design of the internal controls over financial reporting could affect the ability of the County to record, process, summarize and report financial data consistently with the assertions of management in the financial statements. In addition, this lack of segregation of duties may result in the County's inability to prevent/detect misappropriation of County assets.

**Repeat Finding:** Finding was a repeat finding from the prior year identified as Finding 2015-001.

**Recommendation:** We recommend County management be aware of the lack of segregation of duties within the accounting functions and assess whether additional segregation of duties is cost beneficial. If additional segregation is not possible, we recommend County management implement oversight procedures to ensure the internal control policies and procedures are being implemented by County staff.

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:**

**Contact Person:** Donna Welsh, Finance Director

**Corrective Action Planned:** A corrective action plan is in place.

**Anticipated Completion Date:** December 31, 2017

2016-002 AUDIT ADJUSTMENTS

**Type of Finding:** Material Weakness in Internal Control over Financial Reporting

**Criteria:** County management is responsible for establishing and maintaining internal controls for the proper recording of all the County's accounting transactions, including account coding, depreciation, and reporting of accruals and net position.

**Condition and Context:** As part of the audit, we proposed material audit adjustments for recording of accruals, reclassifications of revenues to the proper accounts, adjustment of deferred inflow of resources, adjustment to various Road and Bridge Fund accounts, a prior period adjustment, and corrections of modified accrual adjustments.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
DECEMBER 31, 2016**

**FINANCIAL STATEMENT FINDINGS (CONTINUED):**

2016-002 AUDIT ADJUSTMENTS (CONTINUED)

**Cause:** The County has a limited number of personnel.

**Possible Effect:** The design of the internal controls over recording transactions and year-end accruals limits the ability of the County to provide accurate modified accrual basis financial information for external financial reporting purposes.

**Repeat Finding:** Finding was a repeat finding from the prior year identified as Finding 2015-002.

**Recommendation:** We recommend County management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in recording transactions, accruals, and reclassifications and develop internal control policies to ensure proper recording of these items.

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:**

**Contact Person:** Donna Welsh, Finance Director

**Corrective Action Planned:** A corrective action plan is in place.

**Anticipated Completion Date:** December 31, 2017

2016-003 TIMELY DEPOSITS

**Type of Finding:** Material Weakness in Internal Control over Financial Reporting

**Criteria:** Internal control frameworks recommend that collections be deposited on a daily basis to improve internal controls over cash.

**Condition and Context:** Collections in various departments and offices within the County are not deposited in a timely manner. These departments and offices make deposits anywhere from weekly to monthly.

**Cause:** Past practice.

**Possible Effect:** The risk of fraud and theft of collections is increased due to the increased time elapsed between deposits.

**Repeat Finding:** Finding was a repeat finding from the prior year identified as Finding 2015-003.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
DECEMBER 31, 2016**

**FINANCIAL STATEMENT FINDINGS (CONTINUED):**

2016-003 TIMELY DEPOSITS (CONTINUED)

**Recommendation:** We recommend deposits be made on a daily basis in order to minimize the risk of fraud and theft.

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:**

**Contact Person:** Donna Welsh, Finance Director

**Corrective Action Planned:** A corrective action plan is in place.

**Anticipated Completion Date:** December 31, 2017

2016-004 BANK RECONCILIATIONS

**Type of Finding:** Material Weakness in Internal Control over Financial Reporting

**Criteria:** As part of sound financial controls over cash and investments balances, the County should reconcile its bank and investment accounts to its general ledger at the end of each calendar month.

**Condition and Context:** The County has not been able to completely reconcile the bank balances to the general ledger since January of 2015. The reconciliations of January 2017 have not been completed as of the report date.

**Cause:** Lack of Personnel.

**Possible Effect:** Absence a complete and accurate reconciliation of the County's cash each month diminishes the ability of the County's management to prevent timely and accurate reporting of financial information.

**Repeat Finding:** Finding was a repeat finding from the prior year identified as Finding 2015-005.

**Recommendation:** We recommend the County staff complete a precise and timely reconciliation of the County's bank accounts to its general ledger each month and the County document the review of these monthly reconciliations by the Finance Director.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
DECEMBER 31, 2016**

**FINANCIAL STATEMENT FINDINGS (CONTINUED):**

2016-004 BANK RECONCILIATIONS

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:**

**Contact Person:** Donna Welsh, Finance Director

**Corrective Action Planned:** A corrective action plan is in place.

**Anticipated Completion Date:** December 31, 2017

2016-005 CONTROLS OVER INVESTMENT ACTIVITY

**Type of Finding:** Material Weakness in Internal Control over Financial Reporting

**Criteria:** Internal control frameworks recommend that investment activity is reviewed and approved by the Board.

**Condition and Context:** The primary control regarding investment activity is the review and approval by the Board. Investment activity information is regularly given to the Board. However, documentation of supervisor review is not in the information presented to the Board and Board approval is not documented in the minutes.

**Cause:** Past practice.

**Possible Effect:** The design of the internal controls over investment activity do not document the approval process to assist the County in ensuring accurate information is being presented to, and is approved, by the Board.

**Repeat Finding:** Finding was a repeat finding from the prior year identified as Finding 2015-004.

**Recommendation:** We recommend the supervisory review procedures be documented on the investment detail and County Board review and approval be documented as part of the Board minutes

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:**

**Contact Person:** Donna Welsh, Finance Director

**Corrective Action Planned:** A corrective action plan is in place.

**Anticipated Completion Date:** December 31, 2017

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
DECEMBER 31, 2016**

**FINANCIAL STATEMENT FINDING (CONTINUED):**

2016-006 JOURNAL ENTRY SUPPORT

**Type of Finding:** Material Weakness in Internal Control over Financial Reporting

**Criteria:** Standard internal controls suggest all journal entries performed be reviewed by someone other than the preparer and have supporting documentation available.

**Condition and Context:** During testing of five journal entries, it was noted that two did not have proper supporting documentation.

**Cause:** Oversight.

**Possible Effect:** The design of the controls over the journal entry process would affect the ability of the County to prevent or detect errors, fraud, or misappropriation of assets in a timely manner.

**Repeat Finding:** Not Applicable

**Recommendation:** We recommend County management review the controls over the journal entry process and ensure journal entries are being reviewed by someone other than the preparer and proper support is kept for all journal entries.

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:**

**Contact Person:** Donna Welsh, Finance Director

**Corrective Action Planned:** A corrective action plan is in place.

**Anticipated Completion Date:** December 31, 2017

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
DECEMBER 31, 2016**

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

2016-007

**Federal Agency:** U.S. Department of Health and Human Services

**Federal Program:** Temporary Assistance for Needy Families (Part of TANF Cluster)

**CFDA Number:** 93.558

**Pass Through Agency:** Minnesota Department of Human Services

**Pass Through Numbers:** 1601MNTANF, 1701MNTANF

**Award Periods:** Year ended December 31, 2016

**Type of Finding:** Material Weakness in Internal Control over Compliance and Compliance

**Criteria:** Compliance requirements over TANF require that all clients must answer question if applicant has a felony conviction in the last ten years.

**Condition and Context:** During our testing of compliance for the program, one of forty applications tested did not have the required questions answered regarding felony conviction.

**Questioned Costs:** None noted in files tested.

**Cause:** Oversight.

**Possible Effect:** Benefits could be provided to an ineligible client.

**Repeat Finding:** Not Applicable

**Recommendation:** We recommend the County take proper steps to ensure all applications are properly completed and have the appropriate signatures on them.

**Views of responsible officials and planned corrective actions**

**Contact Person:** Todd Lysne, Income Maintenance Supervisor

**Corrective Action Planned:** A corrective action plan is in place.

**Anticipated Completion Date:** December 31, 2017

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
DECEMBER 31, 2016**

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

2016-008

**Federal Agency:** U.S. Department of Health and Human Services

**Federal Program:** Temporary Assistance for Needy Families (Part of TANF Cluster)

**CFDA Number:** 93.558

**Pass Through Agency:** Minnesota Department of Human Services

**Pass Through Numbers:** 1601MNTANF, 1701MNTANF

**Award Periods:** Year ended December 31, 2016

**Type of Finding:** Material Weakness in Internal Control over Compliance and Compliance

**Criteria:** Compliance requirements over TANF require that all applicants be asked income amounts to test against limits to see if the applicant meets income eligibility guidelines.

**Condition and Context:** During our testing of compliance, in one of forty applications tested, the applicant had informed the worker of their income. This income made them ineligible for benefits. The applicant still received benefits.

**Questioned Costs:** \$1,009

**Cause:** Oversight.

**Possible Effect:** Benefits were provided to an ineligible client.

**Repeat Finding:** Not Applicable

**Recommendation:** We recommend the County take proper steps to ensure all applications are properly completed and have the appropriate signatures on them.

**Views of responsible officials and planned corrective actions**

**Contact Person:** Todd Lysne, Income Maintenance Supervisor

**Corrective Action Planned:** A corrective action plan is in place.

**Anticipated Completion Date:** December 31, 2017

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
DECEMBER 31, 2016**

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

2016-009

**Federal Agency:** U.S. Department of Health and Human Services

**Federal Program:** Medical Assistance Program (Part of Medicaid Cluster)

**CFDA Number:** 93.778

**Pass Through Agency:** Minnesota Department of Human Services

**Pass Through Numbers:** 1705MN5ADM, 1605MN5ADM

**Award Periods:** Year ended December 31, 2016

**Type of Finding:** Significant Deficiency in Internal Control over Compliance and Compliance

**Criteria:** Standard internal control procedures suggest County personnel review all applications to ensure they have proper agency approval over eligibility documented to receive benefits. The compliance requirements require that any client income earned be verified through pay stubs. The amount of income on the pay stub must match the amount of income entered into the state system for determining eligibility.

**Condition and Context:** During our testing of compliance over the eligibility requirements for the program, one of forty applications tested; the income per the paystub was entered in the system incorrectly. The income entered was higher than it should have been, meaning the error did not affect the client's eligibility status.

**Questioned Costs:** None.

**Cause:** Oversight.

**Possible Effect:** Benefits could be provided to an ineligible client.

**Repeat Finding:** Not Applicable

**Recommendation:** We recommend the County take proper steps to ensure all applicant income is verified through pay stubs.

**Views of responsible officials and planned corrective actions**

**Contact Person:** Todd Lysne, Income Maintenance Supervisor

**Corrective Action Planned:** A corrective action plan is in place.

**Anticipated Completion Date:** December 31, 2017

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
DECEMBER 31, 2016**

**PREVIOUSLY REPORTED ITEMS RESOLVED**

Comment Reference	Comment Title	Status	If not Corrected, Provided Planning Corrective Action or Other Explanation
2015-001	Segregation of Duties	Not Corrected	See Current Year Finding 2016-001
2016-002	Audit Adjustments	Not Corrected	See Current Year Finding 2016-002
2015-003	Timely Deposits	Not Corrected	See Current Year Finding 2016-003
2015-004	Controls Over Investment Activity	Not Corrected	See Current Year Finding 2016-005
2015-005	Bank Reconciliation	Not Corrected	See Current Year Finding 2016-004
2015-006	Journal Entry Approval	Corrected	N/A
2015-007	Budget Reconciliation	Corrected	N/A
	93.558: Eligibility Compliance		
2015-008	Requirements over Citizenship	Corrected	N/A
	93.778: Lack of Controls over Signature		
2015-009	on Application Form	Corrected	N/A

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2016**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Grant Award numbers	Expenditures	Passed to Subrecipients
<b>U.S. Department of Agriculture</b>				
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	15152MN101S2514	\$ 276,049	\$ -
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	Not Provided	237,262	-
Total Department of Agriculture			513,311	-
<b>U.S. Department of Commerce</b>				
Passed Through Southeast Regional Radio Board Public Safety Interoperable Communications Grant Program	11.555	Not Provided	1,490	-
<b>U.S. Department of Justice</b>				
Passed Through Southeast Regional Radio Board Bulletproof Vest Partnership Program	16.607	Not Provided	17,639	-
Direct Supervised Visitation, Safe Havens for Children	16.527	1012-CW-AX-K010	71,877	-
Total Department of Justice			89,516	-
<b>U.S. Department of Transportation</b>				
Passed Through Minnesota Department of Transportation Highway Planning and Construction (Part of Highway Planning and Construction Cluster)	20.205	276615180MS301	1,575,511	-
<b>U.S. Department of Education</b>				
Passed Through Minnesota Department of Health Special Education-Grants for Infants and Families	84.181	H18A150029	1,933	-
<b>U.S. Department of Health and Human Services</b>				
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	U90TP000529	45,110	-
Immunization Cooperative Agreements	93.268	Not Provided	2,950	-
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	D89MC23539	164,257	-
Temporary Assistance for Needy Families (Total TANF Program Cluster 93.558 \$588,556)	93.558	20156996115	50,814	-
Maternal and Child Health Services Block Grant to the States	93.994	B04MC28107	47,358	-

Notes to Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2016**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Grant Award numbers	Expenditures	Passed to Subrecipients
<b>U.S. Department of Health and Human Services (Continued)</b>				
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	G-1601MNFPS	\$ 14,123	\$ -
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$588,556)	93.558	1502MNTANF, 1601MNTANF	537,742	520,663
Child Support Enforcement	93.563	1504MNCSES, 1604MNCST, 1604MNCSES	901,490	-
Refugee and Entrant Assistance-State Administered Programs	93.566	1501MNRCA, 1601MNRCA	269	-
Child Care and Development Block Grant	93.575	G1501MNCCDF, G1601MNCCDF	16,919	-
Community-Based Child Abuse Prevention Grants	93.590	G-1402MNFPRG	16,485	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1501MNCWSS	7,666	-
Foster Care Title IV-E	93.658	1501MNFST, 1601MNFST	235,275	-
Social Services Block Grant	93.667	G-1501MNSOSR, G-1601MNSOSR	255,242	-
Chafee Foster Care Independence Program	93.674	G-1501MNCILP, G-1601MNCILP	1,456	-
Medical Assistance Program (Medicaid Cluster)	93.778	05-1505MN5ADM, 05-1505MN5MAP, 05-1605MN5ADM, 05-1605MN5MAP	1,089,465	-
Total Department of Health and Human Services			3,386,621	520,663
<b>U.S. Department of Homeland Security</b>				
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grant	97.042	16AC-ATEL	26,839	-
Total Cash Type Federal Awards			\$ 5,595,221	\$ 520,663

Notes to Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.

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**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2016**

1. Reporting Entity

The schedule of expenditures of federal awards presents the activities of federal award programs expended by Mower County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County under programs of the federal government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirement of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the County, it is not intended to and does not present the financial position, changes in net position, or cash flows of the County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principal contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The County has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal Grant Revenue Per Schedule of Intergovernmental Revenue	\$ 5,737,310
Revenues included on the Schedule of Intergovernmental Revenue that are not considered Federal Grant Expenditures (Build America Bonds Interest Refund)	(138,733)
Revenues included on the Schedule of Intergovernmental Revenue that are not considered Federal Grant Expenditures (Prior Year Deferred Inflows of Resources)	(34,100)
Expenditures above, not included as revenues on the Schedule of Intergovernmental Revenues (Current Year Deferred Inflows of Resources)	30,744
Expenditures per Schedule of Expenditures of Federal Awards	\$ 5,595,221

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## INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of County Commissioners  
Mower County  
Austin, 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mower County, Minnesota (the County), as of December 31, 2016, 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 27, 2017.

The County's financial statements include the operations of the Mower County Housing and Redevelopment Authority (HRA), for the year ended September 30, 2016. Our audit, described below, did not include the operations of the HRA because the HRA (component unit) engaged for its own separate audit that included provisions of the *Minnesota Legal Compliance Audit Guide for Counties*.

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing, and miscellaneous provisions. Our audit considered all of the listed categories except that we did not test for compliance with tax increment financing as the County has no tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Mower County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*. 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 Mower County's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Counties* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
September 27, 2017