

**MOWER COUNTY  
AUSTIN, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2017**

**MOWER COUNTY  
AUSTIN, MINNESOTA  
TABLE OF CONTENTS  
YEAR ENDED DECEMBER 31, 2017**

<b>INTRODUCTORY SECTION</b>	
<b>ORGANIZATION</b>	<b>1</b>
<b>FINANCIAL SECTION</b>	
<b>INDEPENDENT AUDITORS' REPORT</b>	<b>2</b>
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>5</b>
<b>BASIC FINANCIAL STATEMENTS</b>	
<b>GOVERNMENT-WIDE FINANCIAL STATEMENTS</b>	
<b>STATEMENT OF NET POSITION</b>	<b>17</b>
<b>STATEMENT OF ACTIVITIES</b>	<b>19</b>
<b>FUND FINANCIAL STATEMENTS</b>	
<b>BALANCE SHEET – GOVERNMENTAL FUNDS</b>	<b>20</b>
<b>RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO             THE GOVERNMENT-WIDE STATEMENT OF NET POSITION –             GOVERNMENTAL ACTIVITIES</b>	<b>24</b>
<b>STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND             BALANCES – GOVERNMENTAL FUNDS</b>	<b>25</b>
<b>RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,             AND CHANGES IN THE FUND BALANCES OF THE GOVERNMENTAL             FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES –             GOVERNMENTAL ACTIVITIES</b>	<b>27</b>
<b>STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS</b>	<b>28</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>29</b>
<b>REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&amp;A</b>	
<b>SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT         BENEFIT PLANS</b>	<b>74</b>
<b>BUDGETARY COMPARISON SCHEDULE – GENERAL FUND</b>	<b>75</b>
<b>BUDGETARY COMPARISON SCHEDULE – ROAD AND BRIDGE FUND</b>	<b>77</b>
<b>BUDGETARY COMPARISON SCHEDULE – SOCIAL SERVICES FUND</b>	<b>78</b>
<b>NOTES TO REQUIRED SUPPLEMENTARY INFORMATION</b>	<b>79</b>
<b>SCHEDULE OF THE COUNTY'S PROPORTIONATE SHARE OF THE NET         PENSION LIABILITY</b>	<b>80</b>
<b>SCHEDULE OF THE COUNTY'S CONTRIBUTIONS</b>	<b>81</b>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
TABLE OF CONTENTS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2017**

**FINANCIAL SECTION (CONTINUED)**

**SUPPLEMENTARY INFORMATION**

<b>DESCRIPTION OF FUNDS</b>	<b>82</b>
<b>COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS</b>	<b>83</b>
<b>COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS</b>	<b>84</b>
<b>BUDGETARY COMPARISON SCHEDULE – DITCH FUND</b>	<b>85</b>
<b>BUDGETARY COMPARISON SCHEDULE – SEWER IMPROVEMENT FUND</b>	<b>86</b>
<b>COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES – ALL AGENCY FUNDS</b>	<b>87</b>
<b>SCHEDULE OF INTERGOVERNMENTAL REVENUE</b>	<b>88</b>

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

<b>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 <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>89</b>
<b>INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE</b>	<b>91</b>
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>	<b>94</b>
<b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>	<b>99</b>
<b>NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>	<b>101</b>
<b>INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE</b>	<b>102</b>

## **INTRODUCTORY SECTION**

**MOWER COUNTY  
AUSTIN, MINNESOTA  
ORGANIZATION  
DECEMBER 31, 2017**

<b>Elected</b>		<u>Term Expires</u>
<b>Commissioners</b>		
Chair	Polly Glynn	District 2
Board Member	Tim Gabrielson	District 1
Board Member	Jerry Reinartz	District 3
Board Member	Anthony Bennett	District 4
Board Member	Mike Ankeny	District 5
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 2020
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

## **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, 2017, 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, 2017, 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.

### **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.

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.

Board of County Commissioners  
Mower County

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2018, 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 solely 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 the effectiveness of Mower County's 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 28, 2018

## **REQUIRED SUPPLEMENTARY INFORMATION**

**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2017**

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, 2017. 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 (2017) and the prior year (2016) is required to be presented in the MD&A.

### **FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2016-2017 fiscal years include the following:

- ◆ County-wide net position increased 3.7% over the prior year.
- ◆ Overall fund-level revenues totaled \$48,568,391 and were \$3,395,750 more than expenditures; this is primarily due to increased grants and contributions.
- ◆ The General Fund's fund balance increased by \$1,435,773 from the prior year; this is primarily due to increased taxes revenues.
- ◆ The Road and Bridge Fund's fund balance increased \$1,033,493 from the prior year; this is primarily due to an increase in tax revenues and intergovernmental revenue.
- ◆ The Social Services Fund's fund balance increased by \$709,038 primarily due to increased tax revenue and intergovernmental revenue.
- ◆ The Capital Projects Fund reflects an increase of \$283,673 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:
  - 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.

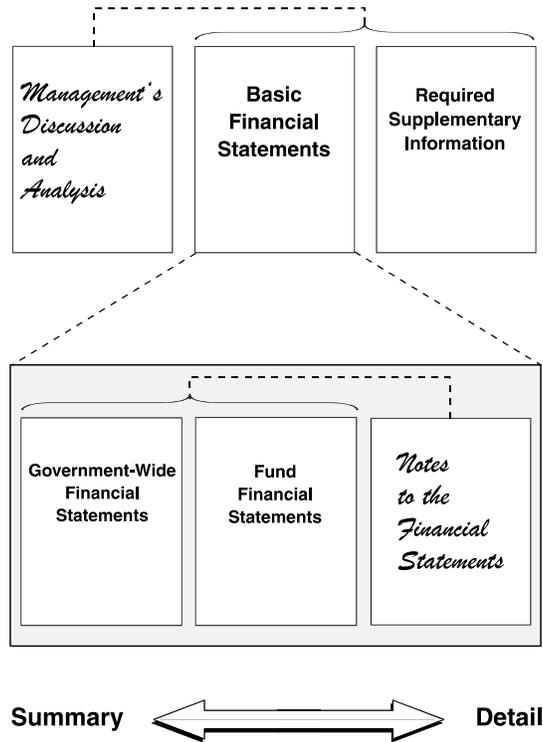
**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2017**

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

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, 2017**

**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, 2017**

**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, 2017**

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

**NET POSITION**

The County's net position was \$140,333,003 on December 31, 2017. (See Table A-1).

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

	Governmental Activities		Percentage Change
	2017	2016	
Current and Other Assets	\$ 56,513,745	\$ 51,924,131	8.8 %
Capital Assets	128,109,407	127,668,793	0.3
Total Assets	<u>184,623,152</u>	<u>179,592,924</u>	2.8
Deferred Outflows of Resources	<u>7,735,842</u>	<u>13,694,332</u>	(43.5)
Current Liabilities	18,974,932	27,908,965	(32.0)
Long-Term Liabilities, Due in More Than One Year	<u>26,779,072</u>	<u>27,726,286</u>	(3.4)
Total Liabilities	<u>45,754,004</u>	<u>55,635,251</u>	(17.8)
Deferred Inflows of Resources	<u>6,271,987</u>	<u>2,268,651</u>	176.5
Net Position			
Net Investment in Capital Assets	114,421,720	110,972,387	3.1
Restricted	7,047,316	5,543,867	27.1
Unrestricted	<u>18,863,967</u>	<u>18,867,100</u>	(0.0)
Total Net Position	<u>\$ 140,333,003</u>	<u>\$ 135,383,354</u>	3.7

**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2017**

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

**CHANGES IN NET POSITION**

The County-wide total revenues were \$50,115,325 for the year ended December 31, 2017. Property and other taxes and intergovernmental revenues accounted for 85% 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
	2017	2016	
<b>REVENUES</b>			
Program Revenues			
Charges for Services	\$ 6,364,787	\$ 5,468,341	16.4 %
Operating Grants and Contributions	10,140,168	9,852,900	2.9
Capital Grants and Contributions	5,924,936	5,966,963	(0.7)
General Revenues			
Property Taxes	19,513,903	18,892,396	3.3
Other Taxes	2,317,242	1,977,215	17.2
Unrestricted Grants and Contributions	4,881,409	5,071,946	(3.8)
Unrestricted Investment Earnings	692,419	373,599	85.3
Miscellaneous	274,883	223,792	22.8
Gain on Sale of Capital Assets	5,578	41	13,504.9
Total Revenues	<u>50,115,325</u>	<u>47,827,193</u>	4.8
<b>EXPENSES</b>			
General Government	6,936,207	6,949,989	(0.2)
Public Safety	11,506,041	12,200,596	(5.7)
Highways and Streets	9,255,009	7,577,173	22.1
Sanitation	1,011,678	865,029	17.0
Human Services	12,598,474	12,649,598	(0.4)
Health	2,164,441	1,837,002	17.8
Culture and Recreation	610,663	504,216	21.1
Conservation of Natural Resources	491,978	833,451	(41.0)
Interest	591,185	670,247	(11.8)
Total Expenses	<u>45,165,676</u>	<u>44,087,301</u>	2.4
<b>CHANGE IN NET POSITION</b>	4,949,649	3,739,892	32.3
Net Position - Beginning of Year	<u>135,383,354</u>	<u>131,643,462</u>	2.8
<b>NET POSITION - END OF YEAR</b>	<u>\$ 140,333,003</u>	<u>\$ 135,383,354</u>	3.7

Total revenues surpassed expenses, increasing net position \$4,949,649 over last year.

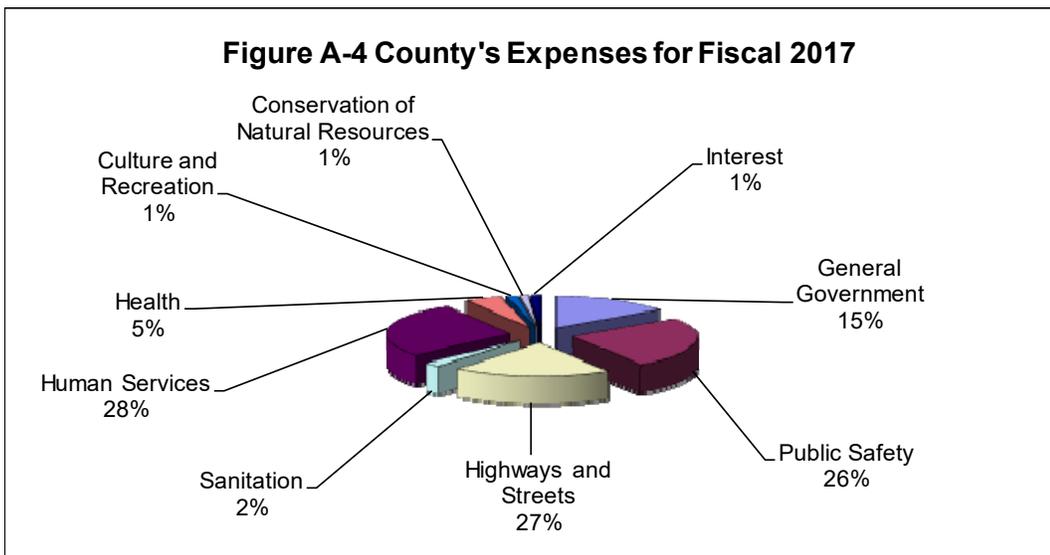
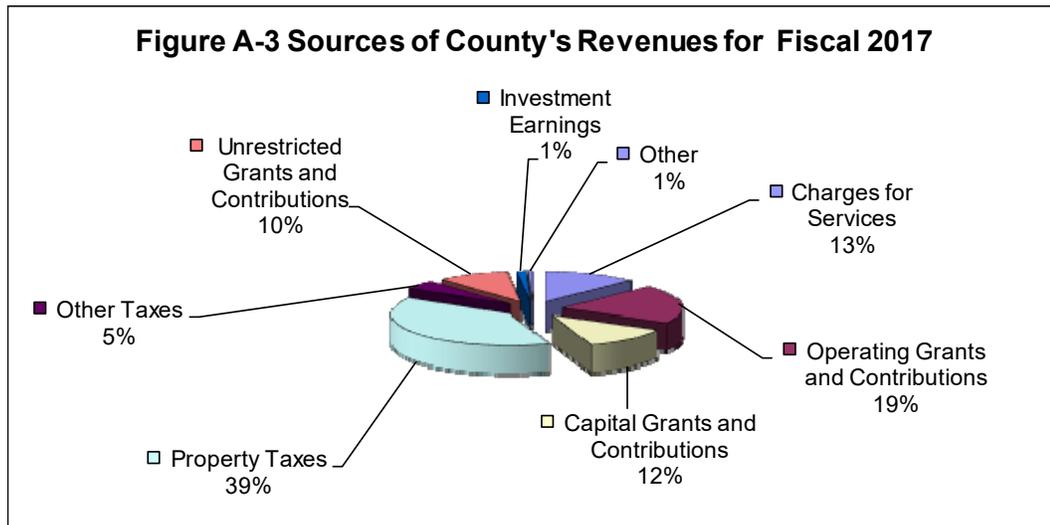
**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2017**

**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 \$45,165,676.

- ◆ Some of the cost was paid by the users of the County's programs (\$6,364,787).
- ◆ Federal, state, and local governments subsidized certain programs with grants and contributions (\$16,065,104).
- ◆ Most of the County's remaining costs (\$22,735,785), however, were paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$19,513,903 in property taxes, \$2,317,242 of other taxes, \$4,881,409 of unrestricted grants and contributions, and with \$972,880 of investment earnings and other general revenues.



**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2017**

**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		
	2017	2016	Change	2017	2016	Change
General Government	\$ 6,936,207	\$ 6,949,989	(0.2)%	\$ (5,376,223)	\$ (5,387,585)	0.2 %
Public Safety	11,506,041	12,200,596	(5.7)	(9,766,347)	(10,114,783)	3.4
Highways and Streets	9,255,009	7,577,173	22.1	(1,994,755)	(1,019,751)	(95.6)
Sanitation	1,011,678	865,029	17.0	(15,627)	(111,694)	86.0
Human Services	12,598,474	12,649,598	(0.4)	(4,476,038)	(5,014,085)	10.7
Health	2,164,441	1,837,002	17.8	34,912	113,522	(69.2)
Culture and Recreation	610,663	504,216	21.1	(610,663)	(504,216)	(21.1)
Conservation of						
Natural Resources	491,978	833,451	(41.0)	(57,761)	(228,991)	74.8
Interest	591,185	670,247	(11.8)	(473,283)	(531,514)	11.0
	<u>\$ 45,165,676</u>	<u>\$ 44,087,301</u>	2.4	<u>\$ (22,735,785)</u>	<u>\$ (22,799,097)</u>	0.3

**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 \$49,326,076.

Revenues for the County's governmental funds were \$48,568,391, while total expenditures were \$45,172,641.

**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, 2017**

**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, 2017	December 31, 2016	Increase (Decrease)	Percent
Taxes	\$ 11,819,850	\$ 11,111,080	\$ 708,770	6.4 %
Special Assessments	733,053	519,182	213,871	41.2
Intergovernmental	3,018,177	2,915,438	102,739	3.5
Charges for Services	1,214,848	1,506,571	(291,723)	(19.4)
Investment Earnings	563,706	309,149	254,557	82.3
Miscellaneous and Other	1,590,733	1,588,606	2,127	0.1
Total General Fund Revenue	<u>\$ 18,940,367</u>	<u>\$ 17,950,026</u>	<u>\$ 990,341</u>	5.5

Total General Fund revenue increased by \$990,341 or 5.5%, from the previous year. Taxes primarily accounted for the increase in revenues.

The following schedule presents a summary of General Fund expenditures:

**Table A-5  
General Fund Expenditures**

	Year Ended		Change	
	December 31, 2017	December 31, 2016	Increase (Decrease)	Percent
General Government	\$ 5,631,771	\$ 5,567,236	\$ 64,535	1.2 %
Public Safety	9,499,544	9,732,973	(233,429)	(2.4)
Sanitation	989,480	823,923	165,557	20.1
Culture and Recreation	518,746	412,300	106,446	25.8
Conservation of Natural Resources	347,565	350,449	(2,884)	(0.8)
Capital Outlay	504,313	904,025	(399,712)	(44.2)
Total General Fund Expenditures	<u>\$ 17,491,419</u>	<u>\$ 17,790,906</u>	<u>\$ (299,487)</u>	(1.7)

The General Fund had total fund balance of \$29,057,540 at the end of the current fiscal year. The fund balance of the General Fund increased \$1,435,773 during the current fiscal year primarily due to increased tax revenue.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2017**

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

**OTHER MAJOR FUNDS ANALYSIS**

The Road and Bridge Fund had total fund balance of \$9,877,298 at the end of the current fiscal year. The fund balance of the Road and Bridge Fund increased \$1,033,493 (excluding the change in inventory) during the current fiscal year primarily due to an increase in tax revenue and intergovernmental revenues.

The Social Services Fund had total fund balance of \$4,068,498 at the end of the current fiscal year. The fund balance of the Social Services Fund increased \$709,038; this is primarily due to increased intergovernmental and tax revenues.

The Capital Projects Fund had a total fund balance of \$3,294,624 at the end of the current fiscal year. The fund balance of the Capital Projects fund increased \$283,673 primarily due to less capital outlay expenditures on open projects.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

- ◆ Actual revenues were \$390,938 more than expected resulting primarily from increased intergovernmental revenues.
- ◆ The actual expenditures were \$1,597,151 less than budget and relate largely to less general government expenditures 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, 2017**

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

**CAPITAL ASSETS**

By the end of 2017, the County had invested approximately \$196,400,000 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 \$3,230,281.

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

	Governmental Activities		Percentage Change
	2017	2016	
Land and Right of Way	\$ 16,699,803	\$ 16,532,063	1.0 %
Construction in Progress	585,739	444,121	31.9
Buildings and Building Improvements	37,181,018	37,138,283	0.1
Improvements Other than Buildings	1,078,648	1,121,383	(3.8)
Machinery and Equipment	11,174,492	10,749,503	4.0
Software	246,679	246,679	-
Infrastructure	129,453,769	126,517,221	2.3
Accumulated Depreciation	(68,310,741)	(65,080,460)	5.0
Total	<u>\$ 128,109,407</u>	<u>\$ 127,668,793</u>	0.3

**LONG-TERM LIABILITIES**

At year-end, the County had \$43,794,748 in long-term liabilities outstanding.

- ◆ The County's total debt decreased \$9,088,305, due largely to scheduled bond payments and net pension liability which are included in Note 3.B and Note 4 to the financial statements.

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

	Governmental Activities		Percentage Change
	2017	2016	
Loans Payable	\$ 1,206,649	\$ 1,413,351	(14.6)%
Bonds Payable	13,435,000	15,385,000	(12.7)
Capital Lease Payable	6,877	9,013	(23.7)
Compensated Absences Payable	1,126,543	1,105,695	1.9
Other Postemployment Benefits Payable	13,284,990	12,085,689	9.9
Net Pension Liability	14,734,689	22,884,305	(35.6)
Total	<u>\$ 43,794,748</u>	<u>\$ 52,883,053</u>	(17.2)

**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2017**

**FACTORS BEARING ON THE COUNTY'S FUTURE AND 2018 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 2018 expenditure budget at \$57,402,578, an increase of about \$10,000,000 from the 2017 expenditure budget due to future construction projects in 2018. The revenue budget also increased about \$10,000,000 as a result of the construction projects.

**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, 2017**

	Governmental Activities	September 30, 2017 Discretely Presented Component Unit
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>ASSETS</b>		
Cash and Pooled Investments	\$ 47,317,900	\$ 707,079
Petty Cash and Change Funds	2,160	-
Cash with Fiscal Agent	6,249	-
Tenant Deposit Cash	-	29,784
Taxes Receivable:		
Delinquent	443,948	51,177
Special Assessments Receivable:		
Delinquent	78,045	-
Noncurrent	140,008	-
Accounts Receivable - Net	165,937	5,917
Notes Receivable	36,900	-
Accrued Interest Receivable	238,643	395
Loans Receivable	866,059	-
Due from Other Governments	6,334,790	-
Inventories	476,531	-
Restricted Assets - Temporary	29,725	788,050
Prepaid Items	376,850	28,656
Nondepreciable Capital Assets:		
Land and Right of Way	16,699,803	42,304
Construction in Progress	585,739	-
Depreciable Capital Assets:		
Buildings (Net)	27,986,939	1,331,215
Improvements Other Than Buildings (Net)	590,019	57,511
Machinery, Vehicles, Furniture, and Equipment (Net)	4,009,405	190,681
Software (Net)	221	-
Infrastructure (Net)	78,237,281	-
Total Assets	184,623,152	3,232,769
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Outflows of Resources - Loss on Refunding	1,034,403	-
Deferred Outflows of Resources - Pension Related	6,701,439	-
Total Deferred Outflows of Resources	7,735,842	-

See accompanying Notes to Financial Statements.

	Governmental Activities	September 30, 2017 Discretely Presented Component Unit
<b>LIABILITIES</b>		
Accounts Payable	\$ 998,011	\$ 98,305
Salaries Payable	347,400	9,267
Claims and Judgments Payable	5,507	-
Contracts Payable	179,580	-
Due to Other Governments	239,422	-
Accrued Expenses	-	14,528
Accrued Interest Payable	197,578	1,028
Unearned Revenue	-	735
Compensated Absences Payable - Due within One Year	94,774	15,000
General Obligation Bonds Payable - Due within One Year	2,000,000	-
Loans Payable - Due within One Year	175,725	55,638
Capital Lease Payable - Due within One Year	2,246	-
Tenant Deposits Payable	-	29,784
Compensated Absences Payable - Due in More Than One Year	1,031,770	19,477
Other Postemployment Benefits Plan Payable - Due in More than One Year	13,284,990	-
General Obligation Bonds Payable - Due in More Than One Year	11,426,757	-
Loans Payable - Due in More Than One Year	1,030,924	155,452
Capital Lease Payable - Due in More Than One Year	4,631	-
Net Pension Liability	14,734,689	-
Total Liabilities	<u>45,754,004</u>	<u>399,214</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Inflows of Resources - Pension Related	6,012,111	-
Deferred Inflows of Resources - Property Taxes Received for Future Periods	259,876	-
Total Deferred Inflows of Resources	<u>6,271,987</u>	<u>-</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	114,421,720	1,337,274
Restricted for:		
General Government	837,853	-
Highways and Streets	4,100,582	-
Public Safety	194,645	-
HRA Housing	-	788,050
Conservation	1,318,200	-
Debt Service	596,036	-
Unrestricted	18,863,967	708,231
Total Net Position	<u>\$ 140,333,003</u>	<u>\$ 2,833,555</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2017**

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Position	
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Changes in Net Position	Discretely Presented Component Unit
					Governmental Activities	
<b>PRIMARY GOVERNMENT</b>						
<b>GOVERNMENTAL ACTIVITIES</b>						
General Government	\$ 6,936,207	\$ 1,255,109	\$ 304,875	\$ -	\$ (5,376,223)	
Public Safety	11,506,041	694,994	976,386	68,314	(9,766,347)	
Highways and Streets	9,255,009	1,266,846	136,786	5,856,622	(1,994,755)	
Sanitation	1,011,678	866,754	129,297	-	(15,627)	
Human Services	12,598,474	808,941	7,313,495	-	(4,476,038)	
Health	2,164,441	977,453	1,221,900	-	34,912	
Culture and Recreation	610,663	-	-	-	(610,663)	
Conservation of Natural Resources	491,978	376,788	57,429	-	(57,761)	
Interest	591,185	117,902	-	-	(473,283)	
Total Governmental Activities	45,165,676	6,364,787	10,140,168	5,924,936	(22,735,785)	
<b>COMPONENT UNIT *</b>						
Housing and Redevelopment Authority	1,091,244	506,796	370,744	40,881	-	\$ (172,823)
Total Reporting Entity	<u>\$ 46,256,920</u>	<u>\$ 6,871,583</u>	<u>\$ 10,510,912</u>	<u>\$ 5,965,817</u>	(22,735,785)	(172,823)
<b>GENERAL REVENUES</b>						
Property Taxes					19,513,903	113,255
Wheelage Taxes					371,337	-
Wind Production Taxes					1,899,146	-
Mortgage Registry and Deed Tax					24,320	-
Payments in Lieu of Tax					22,439	-
Grants and Contributions not Restricted for a Particular Purpose					4,881,409	-
Unrestricted Investment Earnings					692,419	11,555
Miscellaneous					274,883	22,075
Gain on the Sale of Capital Assets					5,578	-
Total General Revenues					<u>27,685,434</u>	<u>146,885</u>
<b>CHANGE IN NET POSITION</b>					4,949,649	(25,938)
Net Position - Beginning of Year					135,383,354	2,859,493
<b>NET POSITION - END OF YEAR</b>					<u>\$ 140,333,003</u>	<u>\$ 2,833,555</u>

\* The statement of activities for the Component Unit is for the year ended September 30, 2017.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2017**

	General	Road and Bridge	Social Services
<b>ASSETS</b>			
Cash and Pooled Investments	\$ 28,723,989	\$ 10,020,389	\$ 3,123,683
Petty Cash and Change Funds	1,530	30	600
Cash with Fiscal Agent	6,249	-	-
Taxes Receivable - Delinquent	235,955	49,417	93,219
Special Assessments Receivable - Current	-	-	-
Special Assessments Receivable - Delinquent	50,472	-	-
Special Assessments Receivable - Noncurrent	119,846	-	-
Accounts Receivable	36,620	11,063	118,254
Notes Receivable	36,900	-	-
Accrued Interest Receivable	238,643	-	-
Loans Receivable	-	-	-
Due from Other Governments	573,754	4,341,207	1,419,829
Inventories	-	476,531	-
Prepaid Items	376,850	-	-
Restricted Cash - Temporary	-	-	-
Total Assets	<u>\$ 30,400,808</u>	<u>\$ 14,898,637</u>	<u>\$ 4,755,585</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ 345,070	\$ 400,295	\$ 251,192
Salaries Payable	190,113	35,743	121,544
Claims and Judgments Payable	5,507	-	-
Contracts Payable	-	179,580	-
Due to Other Governments	85,299	12,120	141,903
Total Liabilities	625,989	627,738	514,639
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Taxes	\$ 201,647	\$ 41,503	\$ 79,825
Unavailable Special Assessments	163,065	-	-
Unavailable Grants	208,761	217,044	43,361
Unavailable State Aid Allotments	-	4,100,582	-
Property Taxes Levied for Subsequent Year	143,806	34,472	49,262
Total Deferred Inflows of Resources	717,279	4,393,601	172,448

See accompanying Notes to Financial Statements.

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 3,297,796	\$ 2,152,043	\$ 47,317,900
-	-	2,160
-	-	6,249
9,623	55,734	443,948
-	27,605	27,605
-	130	50,602
-	20,000	139,846
-	-	165,937
-	-	36,900
-	-	238,643
-	866,059	866,059
-	-	6,334,790
-	-	476,531
-	-	376,850
-	29,725	29,725
<u>\$ 3,307,419</u>	<u>\$ 3,151,296</u>	<u>\$ 56,513,745</u>

\$ -	\$ 1,454	\$ 998,011
-	-	347,400
-	-	5,507
-	-	179,580
-	100	239,422
-	1,554	1,769,920

\$ 8,438	\$ 49,394	\$ 380,807
-	44,253	207,318
-	-	469,166
-	-	4,100,582
4,357	27,979	259,876
12,795	121,626	5,417,749

**MOWER COUNTY  
AUSTIN, MINNESOTA  
BALANCE SHEET (CONTINUED)  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2017**

	General	Road and Bridge	Social Services
<b>FUND BALANCES</b>			
Nonspendable For:			
Inventories	-	476,531	-
Prepaid Items	376,850	-	-
Notes Receivable	36,900	-	-
Restricted For:			
Law Library	86,505	-	-
Recorder Equipment	139,752	-	-
Canteen	140,558	-	-
Debt Service	-	-	-
Attorney Forfeited Property	72,682	-	-
Sheriff's Conceal	46,245	-	-
Missing Heirs	15,955	-	-
DARE	7,842	-	-
Land Records	376,455	-	-
Sewer Improvements	-	-	-
Ditch Projects	-	-	-
Recorder's Security Deposit	2,404	-	-
Aquatic Invasive Species	21,356	-	-
Cafeteria Plan	135	227	353
Riparian Aid	-	122,029	-
Committed:			
Wind Tower	3,000	-	-
Capital Projects	-	-	-
Assigned For:			
Veterans	3,576	-	-
Economic Development	1,643,027	-	-
GIS	56,897	-	-
Compensated Absences	716,106	149,956	260,481
Medical Insurance Claims	7,468,771	-	-
5 Year Capital Improvement Plan	119,846	2,000,000	-
Human Services Operations	-	-	3,807,664
Road and Bridge Operations	-	7,128,555	-
Sewer Improvements	-	-	-
Unassigned	17,722,678	-	-
Total Fund Balance	<u>29,057,540</u>	<u>9,877,298</u>	<u>4,068,498</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 30,400,808</u>	<u>\$ 14,898,637</u>	<u>\$ 4,755,585</u>

See accompanying Notes to Financial Statements.

Capital Projects	Other Governmental Funds	Total Governmental Funds
-	-	476,531
-	-	376,850
-	-	36,900
-	-	86,505
-	-	139,752
-	-	140,558
-	825,044	825,044
-	-	72,682
-	-	46,245
-	-	15,955
-	-	7,842
-	-	376,455
-	742,002	742,002
-	556,037	556,037
-	-	2,404
-	-	21,356
-	-	715
-	-	122,029
-	-	3,000
3,294,624	-	3,294,624
-	-	3,576
-	-	1,643,027
-	-	56,897
-	-	1,126,543
-	-	7,468,771
-	-	2,119,846
-	-	3,807,664
-	-	7,128,555
-	905,033	905,033
-	-	17,722,678
<u>3,294,624</u>	<u>3,028,116</u>	<u>49,326,076</u>
<u>\$ 3,307,419</u>	<u>\$ 3,151,296</u>	<u>\$ 56,513,745</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
GOVERNMENT-WIDE STATEMENT OF NET POSITION  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2017**

**FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ 49,326,076

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. 128,109,407

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. 5,157,873

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	\$ (14,734,689)	
Deferred Outflows of Resources - Pension Related	6,701,439	
Deferred Inflows of Resources - Pension Related	<u>(6,012,111)</u>	(14,045,361)

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	(1,206,649)	
Deferred Outflows of Resources - Loss on Refunding	1,034,403	
General Obligation Bonds Payable	(13,435,002)	
Discount on Bonds and Notes Issued	54,063	
Premiums on Bonds and Notes Issued	(45,819)	
Capital Lease Payable	(6,877)	
Accrued Interest Payable	(197,578)	
Compensated Absences	(1,126,543)	
Other Postemployment Benefits Payable	<u>(13,284,990)</u>	<u>(28,214,992)</u>

**NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 140,333,003

**MOWER COUNTY  
AUSTIN, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2017**

	General	Road and Bridge	Social Services
<b>REVENUES</b>			
Taxes	\$ 11,819,850	\$ 3,439,666	\$ 4,041,231
Special Assessments	733,053	-	-
Licenses and Permits	81,025	67,284	-
Intergovernmental	3,018,177	6,893,628	8,600,200
Charges for Services	1,214,848	205,418	1,283,299
Fines and Forfeits	49,101	-	-
Gifts and Contributions	10,710	-	-
Interest on Investments	563,706	-	833
Miscellaneous	1,449,897	1,218,467	793,708
Total Revenues	<u>18,940,367</u>	<u>11,824,463</u>	<u>14,719,271</u>
<b>EXPENDITURES</b>			
<b>CURRENT</b>			
General Government	5,631,771	-	-
Public Safety	9,499,544	-	-
Highways and Streets	-	9,817,503	-
Sanitation	989,480	-	-
Human Services	-	-	11,965,292
Health	-	-	2,040,083
Culture and Recreation	518,746	-	-
Conservation	347,565	-	-
Total Current	<u>16,987,106</u>	<u>9,817,503</u>	<u>14,005,375</u>
<b>CAPITAL OUTLAY</b>			
General Government	120,686	-	-
Public Safety	358,557	-	-
Highways and Streets	-	685,975	-
Sanitation	24,272	-	-
Human Services	-	-	5,162
Culture and Recreation	798	-	-
Conservation	-	300,766	-
Total Capital Outlay	<u>504,313</u>	<u>986,741</u>	<u>5,162</u>
<b>DEBT SERVICE</b>			
Principal	-	-	-
Interest	-	-	-
Total Debt Service	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>17,491,419</u>	<u>10,804,244</u>	<u>14,010,537</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	1,448,948	1,020,219	708,734
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	-	13,274	-
Transfers Out	(13,274)	-	-
Proceeds from the Sale of Capital Assets	99	-	304
Total Other Financing Sources (Uses)	<u>(13,175)</u>	<u>13,274</u>	<u>304</u>
<b>NET CHANGE IN FUND BALANCES</b>	1,435,773	1,033,493	709,038
Fund Balance - Beginning of Year	27,621,767	8,717,191	3,359,460
Change in Inventories	-	126,614	-
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 29,057,540</u>	<u>\$ 9,877,298</u>	<u>\$ 4,068,498</u>

See accompanying Notes to Financial Statements.

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 357,827	\$ 2,295,958	\$ 21,954,532
-	266,288	999,341
-	-	148,309
6,238	157,948	18,676,191
-	-	2,703,565
-	-	49,101
-	-	10,710
-	31	564,570
-	-	3,462,072
<u>364,065</u>	<u>2,720,225</u>	<u>48,568,391</u>
-	-	5,631,771
-	-	9,499,544
-	-	9,817,503
-	-	989,480
-	-	11,965,292
-	-	2,040,083
-	-	518,746
-	116,773	464,338
-	<u>116,773</u>	<u>40,926,757</u>
80,392	-	201,078
-	-	358,557
-	-	685,975
-	-	24,272
-	-	5,162
-	-	798
-	-	300,766
<u>80,392</u>	<u>-</u>	<u>1,576,608</u>
-	2,156,702	2,156,702
-	512,574	512,574
-	<u>2,669,276</u>	<u>2,669,276</u>
<u>80,392</u>	<u>2,786,049</u>	<u>45,172,641</u>
283,673	(65,824)	3,395,750
-	-	13,274
-	-	(13,274)
-	-	403
-	-	<u>403</u>
283,673	(65,824)	3,396,153
3,010,951	3,093,940	45,803,309
-	-	126,614
<u>\$ 3,294,624</u>	<u>\$ 3,028,116</u>	<u>\$ 49,326,076</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN THE FUND BALANCES OF THE GOVERNMENTAL FUNDS TO  
THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

<b>NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS</b>		<b>\$ 3,396,153</b>
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	\$ 4,456,951	
Net Book Value of Capital Assets Disposed	(264,927)	
Current Year Depreciation	<u>(3,751,410)</u>	440,614
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		1,575,086
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.		
		(1,448,894)
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	206,702	
Capital Lease	2,136	
General Obligation Bonds	<u>1,950,000</u>	2,158,838
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	33,525	
Amortization of Deferred Outflows of Resources	(103,440)	
Amortization of Premiums and Discounts	(8,696)	
Change in Accrued Compensated Absences	(20,850)	
Change in Other Postemployment Benefits Payable	(1,199,301)	
Change in Inventories	<u>126,614</u>	<u>(1,172,148)</u>
<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>		<b><u>\$ 4,949,649</u></b>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2017**

	Agency
<b>ASSETS</b>	
Cash and Pooled Investments	\$ 1,574,283
<b>LIABILITIES</b>	
Funds Held in Trust	\$ 911,618
Due to Other Governments	662,665
Total Liabilities	\$ 1,574,283

See accompanying Notes to Financial Statements.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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, 2017. 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, 2017. 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 FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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 FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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 FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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, 2017, 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 FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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 acquisition value. 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 FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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 three 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 60 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. The third type occurs because the County collected property taxes prior to the year they were levied for and, therefore, the County will report deferred inflows for these items.

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 FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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% 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, 2017, the required minimum fund balance is \$14,061,030.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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 \$7,073,023 of restricted net position, of which \$2,324,334 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, 2017:

	Actual	Budget	Excess
Social Services	\$ 14,010,537	\$ 13,378,336	\$ 632,201

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 10% 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 FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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% 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, 2017, 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 FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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, 2017, 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	\$ 499,235	\$ 499,235	\$ -	\$ -	\$ -
Federal Home Loan Bank	297,825	297,825	-	-	-
Federal National Mortgage Association	963,029	-	298,381	480,530	184,118
Federal Home Loan Mortgage Company	328,545	-	-	328,545	-
Municipal Bonds	22,327,069	11,172,473	4,685,446	5,179,688	1,289,462
Money Markets	3,010,555	3,010,555	-	-	-
Small Business Investment Company	275,215	275,215	-	-	-
MAGIC Fund	8,273,352	8,273,352	-	-	-
Negotiable Certificates of Deposit	11,923,218	8,055,233	3,385,328	482,657	-
Total	<u>\$ 47,898,043</u>	<u>\$ 31,583,888</u>	<u>\$ 8,369,155</u>	<u>\$ 6,471,420</u>	<u>\$ 1,473,580</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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, 2017:

Investment Type	S&P/Moody's Rating	Reported Amount
Money Markets	NR	\$ 3,010,555
Municipal Bonds	AAA - Aaa	5,036,820
Municipal Bonds	Aa3 - AA	16,471,512
Municipal Bonds	A+ - A-	379,281
Municipal Bonds	BBB	439,454
Negotiable Certificates of Deposit	NR	11,923,219
Small Business Investment Company	NR	275,215
Federal Home Loan Mortgage Company Counties (MAGIC) Fund	NR	8,273,352
Federal Home Loan Bank	NR	297,825
Financing Corporation Stipped Issues OID	NR	499,235
Federal National Mortgage Association	NR	963,030
Totals		<u>\$ 47,898,043</u>

NR - Not Rated

At December 31, 2017, 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, 2017, none of the County's investments were subject to custodial credit risk.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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 5.0% or more of the County's investments are:

Issuer	Reported Amount	Percentage
Municipal Bonds	\$ 22,327,069	46.6 %
Negotiable Certificates of Deposit	11,923,218	24.9
Federal Home Loan Bank	297,825	0.6
Federal National Mortgage Association	963,029	2.0
Financing Corporation Stripped Issues OID	499,235	1.0
Small Business Investment Company	275,215	0.6
MN Association of Governments Investing for Counties (MAGIC) Fund	8,273,352	17.3
Federal Home Loan Mortgage Company	328,545	0.7
Total	<u>\$ 44,887,488</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, 2017 consisted of:

Deposits	\$ 1,030,114
Petty Cash and Change Funds	2,160
Investments	47,898,043
Total	<u>\$ 48,930,317</u>

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

Cash and Pooled Investments	\$ 47,317,900
Petty Cash and Change Funds	2,160
Restricted Cash	29,725
Cash with Fiscal Agent	6,249
Agency Fund Cash and Investments	1,574,283
Total	<u>\$ 48,930,317</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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 FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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	\$ -	\$ 2,363,849	\$ -	\$ 2,363,849
Municipal Bonds	-	22,327,068	-	22,327,068
Money Market	3,010,555	-	-	3,010,555
Negotiable Certificates of Deposit	-	11,923,219	-	11,923,219
Total investments by fair value level	\$ 3,010,555	\$ 36,614,136	\$ -	39,624,691
<b>Investments Measured at Amortized Cost</b>				
MAGIC portfolio external investment pool				\$ 8,273,352
Total Investments				47,898,043
Deposits, Petty Cash, and Cash on Hand				1,032,274
				\$ 48,930,317

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.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2017, for the County governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 443,948	\$ -
Special Assessments	218,053	139,846
Accounts	165,937	-
Notes	36,900	18,400
Interest	238,643	-
Loans	866,059	712,276
Due from Other Governments	6,334,790	-
Total Governmental Activities, Net	<u>\$ 8,304,330</u>	<u>\$ 870,522</u>

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 3.0%. 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, 2017:

	Beginning Balance	Additional Loans Made	Collections	Ending Balance
Sewer Improvement Loans	\$ 839,695	\$ 294,000	\$ 267,636	\$ 866,059
Notes Receivable	55,400	-	18,500	36,900
Total	<u>\$ 895,095</u>	<u>\$ 294,000</u>	<u>\$ 286,136</u>	<u>\$ 902,959</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended December 31, 2017, 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	10,549,854	167,740	-	10,717,594
Construction in Progress	444,121	2,875,437	2,733,819	585,739
Total Capital Assets, Not Depreciated	16,976,184	3,043,177	2,733,819	17,285,542
Capital Assets Being Depreciated				
Buildings	32,992,901	-	-	32,992,901
Buildings Improvements	4,145,382	42,735	-	4,188,117
Improvements Other Than Building	1,121,383	-	42,735	1,078,648
Machinery, Furniture, Equipment, and Vehicles	10,749,503	1,112,142	687,153	11,174,492
Software	246,679	-	-	246,679
Infrastructure	126,517,221	2,992,716	56,168	129,453,769
Total Capital Assets Being Depreciated	175,773,069	4,147,593	786,056	179,134,606
Less: Accumulated Depreciation for				
Buildings	7,811,380	655,753	-	8,467,133
Buildings Improvements	560,239	166,707	-	726,946
Improvements Other Than Building	446,098	42,531	-	488,629
Machinery, Furniture, Equipment, and Vehicles	6,974,076	658,559	467,548	7,165,087
Software	219,125	27,333	-	246,458
Infrastructure	49,069,542	2,200,527	53,581	51,216,488
Total Accumulated Depreciation	65,080,460	3,751,410	521,129	68,310,741
Total Capital Assets, Depreciated, Net	110,692,609	396,183	264,927	110,823,865
Governmental Activities Capital Assets, Net	<u>\$127,668,793</u>	<u>\$ 3,439,360</u>	<u>\$ 2,998,746</u>	<u>\$128,109,407</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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	\$ 742,199
Public Safety	343,443
Highways and Streets, Including Infrastructure	2,524,805
Sanitation	31,789
Human Services	1,472
Health	14,842
Culture and Recreation	91,917
Conservation of Natural Resources	<u>943</u>
Depreciation Expense - Governmental Activities	<u><u>\$ 3,751,410</u></u>

B. Liabilities

1. Construction Commitments

The County has active construction projects as of December 31, 2017. The projects include the following:

	<u>Original Contract Amount</u>	<u>Remaining Commitment</u>
Governmental Activities		
Roads and Bridges	\$ 3,565,262	\$ 67,451

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 FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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 (\$1,910 per month) premium. Under certain conditions, dependents, at their cost, can continue in this program after the death of the retiree. During 2017, there was one participant in this plan at a cost of \$22,916 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 2017, there were twenty-three participants in the plan at a cost of \$299,924 for the full year and three participants in this plan at a cost of \$5,819 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 2017, there were four participants in the plan at a cost of \$36,872.

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 136 retirees enrolled at a cost of \$405,824.

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 FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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	422,999
Adjustment to Annual Required Contribution	<u>(645,909)</u>
Annual OPEB Cost (Expense)	2,069,938
Contributions Made	(870,637)
Net OPEB Obligation - Beginning of Year	<u>12,085,689</u>
 Net OPEB Obligation, End of Year	 <u><u>\$ 13,284,990</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 2017 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, 2017	\$ 2,069,938	\$ 870,637	42.1 %	\$ 13,284,990
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

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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	-	\$ 13,861,853	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 FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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, 2016 actuarial valuation, the actuarial cost method was used. The actuarial assumptions included a 3.5% 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, 2017 was 18 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.

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.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

B. Liabilities (Continued)

3. Long-Term Debt (Continued)

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, 2017, the County had total assets under capital lease of \$11,210 with the related accumulated depreciation of \$4,333.

Debt Summary

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issues Amount	Outstanding Balance December 31, 2017
Loans Payable:					
2011 Septic Loans	2027	\$2,500 - \$5,400	0%	\$ 52,500	\$ 42,000
2012 Septic Loans	2027	\$2,500 - \$5,400	-	409,619	281,350
2013 Septic Loans	2027	\$2,500 - \$5,400	-	281,512	253,361
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	84,438
Total Loans Payable				2,008,851	1,206,649
Bonds:					
General Obligation Taxable:					
Jail Bonds, Series 2009A Capital Improvement Plan Bonds, 2012A	2022	\$425,000 -	1.25%-5.4%	16,660,000	6,360,000
	2028	\$615,000 - \$715,000	1.5%-2.7%	9,955,000	7,075,000
Total Bonds Payable				26,615,000	13,435,000
Capital Lease Payable:					
2015 Copier Leases	2020	\$165 - \$2,361	5%	11,210	6,877
Total Long-Term Debt				<u>\$ 28,635,061</u>	<u>\$ 14,648,526</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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, 2017, were as follows:

Year Ending December 31	State Loans		Bonds	
	Principal	Interest	Principal	Interest
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	161,637	-	1,050,000	113,162
2023-2027	357,763	-	3,330,000	299,842
2028-2029	-	-	715,000	9,653
Totals	<u>\$ 1,206,649</u>	<u>\$ -</u>	<u>\$ 13,435,000</u>	<u>\$ 1,658,366</u>

Year Ending December 31	Capital Leases	
	Principal	Interest
2018	\$ 2,246	\$ 293
2019	2,361	178
2020	2,270	57
Totals	<u>\$ 6,877</u>	<u>\$ 528</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans Payable	\$ 1,413,351	\$ -	\$ 206,702	\$ 1,206,649	\$ 175,725
Bonds Payable	15,385,000	-	1,950,000	13,435,000	2,000,000
Unamortized Discount	(67,303)	-	(13,240)	(54,063)	-
Unamortized Premium	50,363	-	4,544	45,819	-
Leases Payable	9,013	-	2,136	6,877	2,246
Compensated Absences	1,105,695	1,208,126	1,187,278	1,126,543	94,774
Other Postemployment Benefits Payable	12,085,689	2,069,938	870,637	13,284,990	-
Long-Term Liabilities	<u>\$ 29,981,808</u>	<u>\$ 3,278,064</u>	<u>\$ 4,208,057</u>	<u>\$ 29,051,815</u>	<u>\$ 2,272,745</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 FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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 FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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 FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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 2017. The County was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The County's contributions to the General Employees Plan for the year ended December 31, 2017, were \$832,621. 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 2017. The County was required to contribute 16.20% of pay for Police and Fire Plan members in calendar year 2017. The County's contributions to the Police and Fire Plan for the year ended December 31, 2017 were \$242,328. The County's contributions were equal to the required contributions as set by state statute.

3. Correctional Fund Contributions

In calendar year 2017, 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 2017. The County's contributions to the Correctional Plan for the year ended December 31, 2017, were \$129,428. The County's contributions were equal to the required contributions as set by state statute.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 4 PENSION PLANS (CONTINUED)**

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2017, the County reported a liability of \$10,725,009 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2017 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, 2016 through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017 the County's proportion share was 0.168% which was an increase of 0.003% from its proportion measured as of June 30, 2016.

The County also recognized an additional \$3,895 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 \$134,847.

For the year ended December 31, 2017, the County recognized pension expense of \$1,440,786 for its proportionate share of General Employees Plan's pension expense.

The net pension liability for the General Employees Fund liability, Police and Fire Fund liability, and Correctional Fund liability was \$10,725,009, \$1,957,673, and \$2,052,007, respectively. The combined total of \$14,734,689 is the County's Proportionate Share of the net pension liability.

County's Proportionate Share of the Net Pension Liability	\$ 14,734,689
States Proportionate Share of the Net Pension Liability	<u>134,847</u>
Total	<u><u>\$ 14,869,536</u></u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 4 PENSION PLANS (CONTINUED)**

D. Pension Costs (Continued)

1. General Employees Fund Pension Costs (Continued)

At December 31, 2017, the County reported its proportionate share of GERP'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	\$ 353,584	\$ 689,966
Changes in Actuarial Assumptions	1,780,464	1,075,184
 Net Difference Between Projected and Actual Earnings on Pension Plan Investments	 69,269	 -
Changes in Proportion and Differences Between County Contributions and Proportionate Share of Contributions	94,111	313,138
County Contributions Subsequent to the Measurement Date	419,607	-
Total	<u>\$ 2,717,035</u>	<u>\$ 2,078,288</u>

\$419,607 is reported as deferred outflows of resources related to pensions resulting from the County's contributions to GERP 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 FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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
2018	\$ 305,037
2019	620,468
2020	(251,110)
2021	(455,255)

2. Police and Fire Fund Pension Costs

At December 31, 2017, the County reported a liability of \$1,957,673 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2017 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, 2016 through June 30, 2017 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.145% which is a decrease of 0.012% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the County recognized pension expense of \$451,190 for its proportionate share of the Police and Fire Plan's pension expense. The County also recognized \$13,050 for the year ended December 31, 2017, 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  
AUSTIN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 4 PENSION PLANS (CONTINUED)**

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs (Continued)

At December 31, 2017, 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 related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 45,061	\$ 523,362
Changes in Actuarial Assumptions	2,562,005	2,779,410
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	26,887	-
Changes in Proportion and Differences Between County Contributions and Proportionate Share of Contributions	27,001	202,667
County Contributions Subsequent to the Measurement Date	123,451	-
Total	<u>\$ 2,784,405</u>	<u>\$ 3,505,439</u>

\$123,541 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, 2018.

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
2018	\$ 678
2019	678
2020	(71,086)
2021	(194,836)
2022	(579,919)

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 4 PENSION PLANS (CONTINUED)**

D. Pension Costs (Continued)

3. Correctional Plan Pension Costs

At December 31, 2017, the County reported a liability of \$2,052,007 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.72%, which was a decrease of 0.01% from its proportion as measured at June 30, 2016.

For the year ended December 31, 2017, the County recognized pension expense of \$775,879 for its proportionate share of the Correctional Plan's pension expense.

At December 31, 2017, 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	\$ 1,394	\$ 33,389
Changes in Actuarial Assumptions	1,132,712	357,194
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	9,648
Changes in Proportion and Differences Between County Contributions and Proportionate Share of Contributions	-	28,153
County Contributions Subsequent to the Measurement Date	65,893	-
Total	<u>\$ 1,199,999</u>	<u>\$ 428,384</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 4 PENSION PLANS (CONTINUED)**

D. Pension Costs (Continued)

4. Correctional Plan Pension Costs (Continued)

\$65,893 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
2018	\$ 441,034
2019	456,191
2020	(134,381)
2021	(57,122)

The County's total pension expense for all plans recognized by the County for the year ended December 31, 2017 was \$2,684,800.

E. Actuarial Assumptions

The total pension liability in the June 30, 2017 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: 1.0% 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, 2017 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  
AUSTIN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 4 PENSION PLANS (CONTINUED)**

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and nonvested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for nonvested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

Police and Fire Fund

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30% for vested and nonvested deferred members. The CSA has been changed to 33% for vested members and 2% for nonvested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65% to 60%.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00% for all years to 1.00% per year through 2064 and 2.50% thereafter.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 4 PENSION PLANS (CONTINUED)**

E. Actuarial Assumptions (Continued)

Correctional Fund

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to MP-2016).
- The Combined Service Annuity (CSA) load was 30% for vested and nonvested, deferred members. The CSA has been changed to 35% for vested members and 1% for nonvested members.
- The Single Discount Rate was changed from 5.31% per annum to 5.96% per annum. 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	39 %	5.10 %
International Equity	19	5.30
Bonds	20	0.75
Alternative Assets	20	5.90
Cash	2	-
Totals	100 %	

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 4 PENSION PLANS (CONTINUED)**

F. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed 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 and the Police and Fire 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 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, 2061. Beginning in fiscal years ended June 30, 2062, when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 3.56% 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 5.96% 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 3.56% 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%	\$ 16,635,286	6.50%	\$ 3,686,869	4.96%	\$ 3,381,451
Current Discount Rate	7.50%	10,725,009	7.50%	1,957,673	5.96%	2,052,007
1% Higher	8.50%	5,886,374	8.50%	530,126	6.96%	1,014,358

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 4 PENSION PLANS (CONTINUED)**

H. 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 2017 were:

	Contribution Amount		Percentage of Covered Payroll		Required Rates
	Employee	Employer	Employee	Employer	
2017	\$ 8,070	\$ 8,070	5.0 %	5.0 %	5.0 %
2016	8,197	8,197	5.0	5.0	5.0
2015	7,931	7,931	5.0	5.0	5.0

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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 2017. 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.

**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.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

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 2017, 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.

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 2017, Mower County paid \$134,555 to the Cooperative.

2. Southeast Minnesota Emergency Medical Services (EMS)

The EMS provides various health services to several counties. During 2017, the County did not make any payments to the EMS.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

C. Jointly Governed Organizations (Continued)

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 2017, the County paid \$7,000 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 2017, the County paid \$528,972 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 \$5,000 to the Board during 2017.

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 \$3,000 to the Board during 2017.

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.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

C. Jointly-Governed Organizations (Continued)

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 2017.

**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.

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.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

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	\$ 751,302
Investments - Restricted	773,611
Total Cash and Investments	<u>\$ 1,524,913</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, 2017, were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

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;

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

B. Detailed Notes on All Funds (Continued)

1. Assets (Continued)

- (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.

Restricted Investments

At September 30, 2017, the HRA had the following restricted investments:

	At Estimated Market Value
Held in Escrow at the MHFA	\$ 773,611
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 \$11,490 and \$8,156 for the years ended September 30, 2017 and 2016, 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.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

B. Detailed Notes on All Funds (Continued)

1. Assets (Continued)

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	\$ 707,079
Tenant Deposit Cash	29,784
Restricted Investments	788,050
Total	\$ 1,524,913

Capital Assets

HRA capital asset activity for the year ended September 30, 2017 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	\$ -	\$ -	\$ -	\$ -

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

B. Detailed Notes on All Funds (Continued)

1. Assets (Continued)

Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<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	4,385,232	160,292	48,945	4,496,579
Furnishings	556,128	40,621	2,595	594,154
Maintenance Equipment	43,938	-	-	43,938
Total Capital Assets Being Depreciated	5,366,630	200,913	51,540	5,516,003
Accumulated Depreciation for:				
Land Improvements	311,553	12,268	-	323,821
Buildings	3,094,130	120,179	48,945	3,165,364
Furnishings	386,845	16,466	2,595	400,716
Maintenance Equipment	41,959	4,736	-	46,695
Total Accumulated Depreciation	3,834,487	153,649	51,540	3,936,596
Total Capital Assets, Being Depreciated, Net	1,532,143	47,264	-	1,579,407
Business-Type Activities Capital Assets, Net	\$ 1,574,447	\$ 47,264	\$ -	\$ 1,621,711

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

Business-Type Activities	
Housing	<u>\$ 153,649</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

B. Detailed Notes on All Funds (Continued)

2. Liabilities

Long-Term Debt

Long-term debt outstanding at September 30, 2017, 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	\$ 167,980	\$ 50,848
Mortgage Payable	2024	8.75	123,000	43,110	4,790
		Total	<u>\$ 998,870</u>	<u>\$ 211,090</u>	<u>\$ 55,638</u>

Debt Service Requirements

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

Year Ending December 31	Mortgages Payable	
	Principal	Interest
2018	\$ 55,638	\$ 12,975
2019	59,479	9,134
2020	63,589	5,024
2021	11,213	2,149
2022	6,788	1,555
2023-2024	14,383	1,206
Totals	<u>\$ 211,090</u>	<u>\$ 32,043</u>

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, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Mortgages Payable	\$ 263,094	\$ -	\$ 52,004	\$ 211,090	\$ 55,638
Compensated Absences	38,051	31,029	34,603	34,477	15,000
Long-Term Liabilities	<u>\$ 301,145</u>	<u>\$ 31,029</u>	<u>\$ 86,607</u>	<u>\$ 245,567</u>	<u>\$ 70,638</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.

**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, 2017**

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	-	\$ 13,861,853	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 2014 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.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 12,016,302	\$ 12,016,302	\$ 11,819,850	\$ (196,452)
Special Assessments	735,149	735,149	733,053	(2,096)
Licenses and Permits	46,850	46,850	81,025	34,175
Intergovernmental	2,540,137	2,540,137	3,018,177	478,040
Charges for Services	1,146,789	1,146,789	1,214,848	68,059
Fines and Forfeits	37,200	37,200	49,101	11,901
Gifts and Contributions	6,000	6,000	10,710	4,710
Investments Earnings	578,000	578,000	563,706	(14,294)
Miscellaneous	1,443,002	1,443,002	1,449,897	6,895
Total Revenues	<u>18,549,429</u>	<u>18,549,429</u>	<u>18,940,367</u>	<u>390,938</u>
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
<b>GENERAL GOVERNMENT</b>				
Commissioners	274,273	274,273	250,334	23,939
Courts	92,000	92,000	80,583	11,417
Law Library	27,610	27,610	31,653	(4,043)
County Administration	552,313	553,362	548,246	5,116
County Auditor-Treasurer	223,494	223,494	257,739	(34,245)
County Assessor	617,463	617,463	561,021	56,442
Elections	92,252	92,252	102,635	(10,383)
Auditing	75,000	81,651	84,666	(3,015)
Information Systems	645,145	645,145	626,457	18,688
Attorney	1,099,982	1,099,982	1,052,073	47,909
Recorder	476,181	476,181	326,713	149,468
Buildings and Plant	848,489	848,489	729,367	119,122
Veterans Service	161,038	161,038	158,192	2,846
Other General Government	1,498,712	1,472,712	822,092	650,620
Total General Government	<u>6,683,952</u>	<u>6,665,652</u>	<u>5,631,771</u>	<u>1,033,881</u>
<b>PUBLIC SAFETY</b>				
Sheriff	2,806,403	2,806,403	2,582,780	223,623
E911	148,442	148,442	107,056	41,386
Coroner	113,655	113,655	113,655	-
County Jail	3,072,397	3,287,397	2,945,687	341,710
County Jail Canteen	140,840	140,840	10,607	130,233
Law Enforcement Center	1,293,984	1,299,984	1,202,894	97,090
Community Corrections	2,070,633	2,070,633	2,296,254	(225,621)
Sentence to Serve	60,265	60,265	62,073	(1,808)
Civil/Bailiff	227,957	227,957	177,942	50,015
Other Public Safety	64,185	64,185	596	63,589
Total Public Safety	<u>9,998,761</u>	<u>10,219,761</u>	<u>9,499,544</u>	<u>720,217</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, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>EXPENDITURES (Continued)</b>				
<b>CURRENT (Continued)</b>				
<b>SANITATION</b>				
Solid Waste	\$ 888,296	\$ 888,296	\$ 989,480	\$ (101,184)
<b>CULTURE AND RECREATION</b>				
Historical Society	50,265	50,265	146,567	(96,302)
Senior Citizens	43,400	25,400	43,400	(18,000)
Regional Library	259,980	259,980	249,104	10,876
Other	66,752	84,752	79,675	5,077
Total Culture and Recreation	<u>420,397</u>	<u>420,397</u>	<u>518,746</u>	<u>(98,349)</u>
<b>CONSERVATION OF NATURAL RESOURCES</b>				
County Extension	\$ 172,420	\$ 173,920	\$ 170,567	\$ 3,353
Soil and Water Conservation	164,998	146,998	146,998	-
Fairgrounds	30,000	30,000	30,000	-
Total Conservation of Natural Resources	<u>367,418</u>	<u>350,918</u>	<u>347,565</u>	<u>3,353</u>
<b>CAPITAL OUTLAY</b>				
General Government	164,250	164,250	120,686	43,564
Public Safety	437,140	375,921	358,557	17,364
Sanitation	1,375	1,375	24,272	(22,897)
Culture and Recreation	2,000	2,000	798	1,202
Total Capital Outlay	<u>604,765</u>	<u>543,546</u>	<u>504,313</u>	<u>39,233</u>
 Total Expenditures	 <u>18,963,589</u>	 <u>19,088,570</u>	 <u>17,491,419</u>	 <u>1,597,151</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(414,160)	(539,141)	1,448,948	1,988,089
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer Out	-	-	(13,274)	(13,274)
Proceeds from the Sale of Capital Assets	-	-	99	99
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (414,160)</u>	<u>\$ (539,141)</u>	1,435,773	<u>\$ 1,974,914</u>
Fund Balance - Beginning of Year			<u>27,621,767</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 29,057,540</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, 2017**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes	\$ 2,838,158	\$ 2,838,158	\$ 3,439,666	\$ 601,508
Licenses and Permits	35,000	35,000	67,284	32,284
Intergovernmental	7,761,591	7,761,591	6,893,628	(867,963)
Charges for Services	56,000	56,000	205,418	149,418
Miscellaneous	294,226	294,226	1,218,467	924,241
Total Revenues	<u>10,984,975</u>	<u>10,984,975</u>	<u>11,824,463</u>	<u>839,488</u>
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
<b>HIGHWAY AND STREETS</b>				
Administration	615,740	615,740	598,602	17,138
Maintenance	2,614,140	2,614,140	2,452,532	161,608
Construction	6,402,183	6,402,183	5,895,764	506,419
Equipment and Maintenance Shops	930,483	930,483	732,920	197,563
Buildings and Grounds	301,102	301,102	137,685	163,417
Total Current	<u>10,863,648</u>	<u>10,863,648</u>	<u>9,817,503</u>	<u>1,046,145</u>
<b>CAPITAL OUTLAY</b>				
Highway and Streets	827,627	827,627	685,975	141,652
Environmental Services	311,827	311,827	300,766	11,061
Total Capital Outlay	<u>1,139,454</u>	<u>1,139,454</u>	<u>986,741</u>	<u>152,713</u>
Total Expenditures	<u>12,003,102</u>	<u>12,003,102</u>	<u>10,804,244</u>	<u>1,198,858</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(1,018,127)	(1,018,127)	1,020,219	2,038,346
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer In	-	-	13,274	13,274
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (1,018,127)</u>	<u>\$ (1,018,127)</u>	1,033,493	<u>\$ 2,051,620</u>
Fund Balance - Beginning of Year			8,717,191	
<b>CHANGE IN INVENTORIES</b>			<u>126,614</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 9,877,298</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, 2017**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes	\$ 4,126,421	\$ 4,126,421	\$ 4,041,231	\$ (85,190)
Intergovernmental	6,830,089	6,830,089	8,600,200	1,770,111
Charges for Services	1,806,161	1,806,161	1,283,299	(522,862)
Investments Earnings	1,400	1,400	833	(567)
Miscellaneous	<u>592,265</u>	<u>592,265</u>	<u>793,708</u>	<u>201,443</u>
Total Revenues	<u>13,356,336</u>	<u>13,356,336</u>	<u>14,719,271</u>	<u>1,362,935</u>
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
<b>HUMAN SERVICES</b>				
Income Maintenance	3,896,134	3,896,134	4,214,384	(318,250)
Social Services	<u>7,353,842</u>	<u>7,353,842</u>	<u>7,750,908</u>	<u>(397,066)</u>
Total Human Services	<u>11,249,976</u>	<u>11,249,976</u>	<u>11,965,292</u>	<u>(715,316)</u>
<b>HEALTH</b>				
Health	2,106,360	2,128,360	2,040,083	88,277
<b>CAPITAL OUTLAY</b>				
Human Services	<u>-</u>	<u>-</u>	<u>5,162</u>	<u>(5,162)</u>
Total Expenditures	<u>13,356,336</u>	<u>13,378,336</u>	<u>14,010,537</u>	<u>(632,201)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from the Sale of Capital Assets	<u>-</u>	<u>-</u>	<u>304</u>	<u>(304)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u><u>\$ -</u></u>	<u><u>\$ (22,000)</u></u>	<u>709,038</u>	<u><u>\$ 730,430</u></u>
Fund Balance - Beginning of Year			<u>3,359,460</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u><u>\$ 4,068,498</u></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, 2017**

**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, 2017:

	Actual	Budget	Excess
Social Services	\$ 14,010,537	\$ 13,378,336	\$ 632,201

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, 2017**

	Measurement Date <u>June 30, 2017</u>	Measurement Date <u>June 30, 2016</u>	Measurement Date <u>June 30, 2015</u>
<b>GERF</b>			
County's Proportion of the Net Pension Liability	0.168%	0.171%	0.168%
County's Proportionate Share of the Net Pension Liability	\$ 10,725,009	\$ 13,916,830	\$ 8,685,902
State's Proportionate Share of the Net Pension Liability	\$ 134,847	\$ 181,823	\$ -
Total Proportionate Share of the Net Pension Liability	\$ 10,859,856	\$ 14,098,653	\$ 8,685,902
County's Covered Payroll	\$ 10,822,067	\$ 10,621,187	\$ 10,475,290
County's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	99.10%	131.03%	82.92%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.90%	68.90%	78.20%
<b>PEPFF</b>			
County's Proportion of the Net Pension Liability	0.145%	0.157%	0.162%
County's Proportionate Share of the Net Pension Liability	\$ 1,957,673	\$ 6,300,683	\$ 1,840,699
County's Covered Payroll	\$ 1,486,722	\$ 1,516,909	\$ 1,506,793
County's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	131.68%	415.36%	122.16%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.43%	63.90%	86.60%
<b>PECF</b>			
County's Proportion of the Net Pension Liability	0.720%	0.730%	0.730%
County's Proportionate Share of the Net Pension Liability	\$ 2,052,007	\$ 2,666,792	\$ 112,858
County's Covered Payroll	\$ 1,439,886	\$ 1,376,247	\$ 1,348,969
County's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	142.51%	193.77%	8.37%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	67.89%	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, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>GERF</b>			
Contractually Required Contribution	\$ 832,621	\$ 790,373	\$ 726,621
Contributions in Relation to the Contractually Required Contribution	<u>(832,621)</u>	<u>(790,373)</u>	<u>(726,621)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
County's Covered Payroll	\$ 11,101,613	\$ 10,538,307	\$ 9,688,280
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%
<b>PEPFF</b>			
Contractually Required Contribution	\$ 242,328	\$ 242,618	\$ 233,183
Contributions in Relation to the Contractually Required Contribution	<u>(242,328)</u>	<u>(242,618)</u>	<u>(233,183)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
County's Covered Payroll	\$ 1,495,852	\$ 1,497,642	\$ 1,439,401
Contributions as a Percentage of Covered Payroll	16.20%	16.20%	16.20%
<b>PECF</b>			
Contractually Required Contribution	\$ 129,428	\$ 122,853	\$ 114,921
Contributions in Relation to the Contractually Required Contribution	<u>(129,428)</u>	<u>(122,853)</u>	<u>(114,921)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
County's Covered Payroll	\$ 1,479,177	\$ 1,404,034	\$ 1,313,383
Contributions as a Percentage of Covered 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, 2017**

**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.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2017**

	Ditch	Sewer Improvements	Bond Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 557,460	\$ 1,088,490	\$ 506,093	\$ 2,152,043
Taxes Receivable - Delinquent	-	-	55,734	55,734
Special Assessments Receivable - Current	162	27,443	-	27,605
Special Assessments Receivable - Delinquent	130	-	-	130
Special Assessments Receivable - Noncurrent	20,000	-	-	20,000
Loans Receivable	-	866,059	-	866,059
Restricted Investments - Temporary	-	29,725	-	29,725
Total Assets	<u>\$ 577,752</u>	<u>\$ 2,011,717</u>	<u>\$ 561,827</u>	<u>\$ 3,151,296</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 1,454	\$ -	\$ -	\$ 1,454
Due to Other Governments	100	-	-	100
Total Liabilities	1,554	-	-	1,554
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Taxes	-	-	49,394	49,394
Unavailable Special Assessments	20,161	24,092	-	44,253
Property Taxes Levied for Subsequent Year	-	-	27,979	27,979
Total Deferred Inflows of Resources	20,161	24,092	77,373	121,626
<b>FUND BALANCES</b>				
Restricted For:				
Ditch Projects	556,037	-	-	556,037
Sewer Improvements	-	742,002	-	742,002
Debt Service	-	340,590	484,454	825,044
Assigned For:				
Sewer Improvements	-	905,033	-	905,033
Total Fund Balance	<u>556,037</u>	<u>1,987,625</u>	<u>484,454</u>	<u>3,028,116</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 577,752</u>	<u>\$ 2,011,717</u>	<u>\$ 561,827</u>	<u>\$ 3,151,296</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2017**

	Ditch	Sewer Improvements	Bond Fund	Total Nonmajor Governmental Funds
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ 2,295,958	\$ 2,295,958
Special Assessments	15,232	251,056	-	266,288
Intergovernmental	-	-	157,948	157,948
Interest on Investments	-	31	-	31
Total Revenues	<u>15,232</u>	<u>251,087</u>	<u>2,453,906</u>	<u>2,720,225</u>
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
Conservation	56,773	60,000	-	116,773
Total Current	<u>56,773</u>	<u>60,000</u>	<u>-</u>	<u>116,773</u>
<b>DEBT SERVICE</b>				
Principal	-	206,702	1,950,000	2,156,702
Interest	-	-	512,574	512,574
Total Debt Service	<u>-</u>	<u>206,702</u>	<u>2,462,574</u>	<u>2,669,276</u>
Total Expenditures	<u>56,773</u>	<u>266,702</u>	<u>2,462,574</u>	<u>2,786,049</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(41,541)	(15,615)	(8,668)	(65,824)
<b>NET CHANGE IN FUND BALANCES</b>	(41,541)	(15,615)	(8,668)	(65,824)
Fund Balance - Beginning of Year	<u>597,578</u>	<u>2,003,240</u>	<u>493,122</u>	<u>3,093,940</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 556,037</u>	<u>\$ 1,987,625</u>	<u>\$ 484,454</u>	<u>\$ 3,028,116</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE  
DITCH FUND  
YEAR ENDED DECEMBER 31, 2017**

	<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	\$ 15,000	\$ 15,000	\$ 15,232	\$ 232
Miscellaneous	-	-	-	-
Total Revenues	<u>15,000</u>	<u>15,000</u>	<u>15,232</u>	<u>232</u>
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
<b>CONSERVATION OF NATURAL RESOURCES</b>				
Other	<u>125,278</u>	<u>130,278</u>	<u>56,773</u>	<u>73,505</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (110,278)</u>	<u>\$ (115,278)</u>	(41,541)	<u>\$ 73,737</u>
Fund Balance - Beginning of Year			<u>597,578</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 556,037</u>	

**MOWER COUNTY  
AUSTIN, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE  
SEWER IMPROVEMENT FUND  
YEAR ENDED DECEMBER 31, 2017**

	<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	\$ 166,000	\$ 166,000	\$ 251,056	\$ 85,056
Investments Earnings	-	-	31	31
Total Revenues	<u>166,000</u>	<u>166,000</u>	<u>251,087</u>	<u>85,087</u>
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
<b>CONSERVATION OF NATURAL RESOURCES</b>				
Other	189,000	189,000	60,000	129,000
<b>DEBT SERVICE</b>				
Principal	<u>206,683</u>	<u>206,683</u>	<u>206,702</u>	<u>(19)</u>
Total Expenditures	<u>395,683</u>	<u>395,683</u>	<u>266,702</u>	<u>128,981</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (229,683)</u>	<u>\$ (229,683)</u>	<u>(15,615)</u>	<u>\$ 214,068</u>
Fund Balance - Beginning of Year			<u>2,003,240</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 1,987,625</u>	

**MOWER COUNTY  
AUSTIN, MINNESOTA  
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
YEAR ENDED DECEMBER 31, 2017**

	Balance January 1	Additions	Deductions	Balance December 31
<b>STATE REVENUE</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 91,170	\$ 880,628	\$ 905,599	\$ 66,199
<b>LIABILITIES</b>				
Due to Other Governments	\$ 91,170	\$ 880,628	\$ 905,599	\$ 66,199
<b>FAMILY CONNECTIONS COLLABORATIVE</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 420,338	\$ 322,727	\$ 324,516	\$ 418,549
<b>LIABILITIES</b>				
Accounts Payable	\$ 547	\$ -	\$ 547	\$ -
Due to Other Governments	419,791	322,727	323,969	418,549
Total Liabilities	\$ 420,338	\$ 322,727	\$ 324,516	\$ 418,549
<b>TAXES AND PENALTIES</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 515,674	\$ 51,032,189	\$ 50,636,245	\$ 911,618
<b>LIABILITIES</b>				
Funds Held in Trust	\$ 515,674	\$ 51,032,189	\$ 50,636,245	\$ 911,618
<b>SOCIAL WELFARE FUND</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 121,687	\$ 884,850	\$ 828,620	\$ 177,917
<b>LIABILITIES</b>				
Due to Other Governments	\$ 121,687	\$ 884,850	\$ 828,620	\$ 177,917
<b>TOTAL ALL AGENCY FUNDS</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 1,148,869	\$ 53,120,394	\$ 52,694,980	\$ 1,574,283
<b>LIABILITIES</b>				
Funds Held in Trust	\$ 515,674	\$ 51,032,189	\$ 50,636,245	\$ 911,618
Accounts Payable	547	-	547	-
Due to Other Governments	632,648	2,088,205	2,058,188	662,665
Total Liabilities	\$ 1,148,869	\$ 53,120,394	\$ 52,694,980	\$ 1,574,283

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF INTERGOVERNMENTAL REVENUE  
YEAR ENDED DECEMBER 31, 2017**

	Governmental Funds
<b>SHARED REVENUE</b>	
<b>STATE</b>	
Highway Users Tax	\$ 5,740,083
County Program Aid	2,015,485
PERA Rate Reimbursement	40,232
Disparity Reduction Aid	148,574
Police Aid	178,443
Enhanced 911	118,766
Market Value Credit	339,157
Aquatic Invasive Species	12,279
	8,593,019
Total Shared Revenue	8,593,019
<b>REIMBURSEMENT FOR SERVICES</b>	
<b>STATE</b>	
Minnesota Department of Human Services	2,040,418
<b>PAYMENTS</b>	
<b>LOCAL</b>	
Payments in Lieu of Taxes	22,439
<b>GRANTS</b>	
<b>STATE</b>	
Minnesota Department/Board of:	
Corrections	322,064
Health	464,606
Human Services	2,092,099
Soil and Water Resources	5,807
Revenue	260
Veteran's Affairs	10,000
Natural Resources	502,872
Public Safety	73,019
Local	187,882
Pollution Control Agency	156,283
	3,814,892
Total State	3,814,892
<b>FEDERAL</b>	
Department of:	
Agriculture	510,915
Education	1,450
Justice	19,506
Transportation	142,028
Homeland Security	26,573
Health and Human Services	3,387,049
Internal Revenue Service	117,902
	4,205,423
Total Federal	4,205,423
Total State and Federal Grants	8,020,315
Total Intergovernmental Revenue	\$ 18,676,191

**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, 2017, 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 28, 2018.

The County's financial statements include the operations of the Mower County Housing and Redevelopment Authority (HRA) for the year ended September 30, 2017. 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 as items 2017-001 through 2017-004 that we consider to be material weaknesses.

**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 28, 2018



**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, 2017. 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 \$370,744 in federal awards during the year ended September 30, 2017. 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, 2017.

**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.

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

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of County Commissioners  
Mower County

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 28, 2018

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
DECEMBER 31, 2017**

**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?             yes        X   no
- Significant deficiency(ies) identified?             yes        X   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?             yes        X   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)
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, 2017**

**FINANCIAL STATEMENT FINDINGS**

2017-001 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 2016-001.

**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, 2018

2017-002 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, net pension liability related accounts, and corrections of modified accrual adjustments.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
DECEMBER 31, 2017**

**FINANCIAL STATEMENT FINDINGS (CONTINUED):**

2017-002 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 2016-002.

**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, 2018

2017-003 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 2016-003.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
DECEMBER 31, 2017**

**FINANCIAL STATEMENT FINDINGS (CONTINUED):**

2017-003 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, 2018

2017-004 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 for 2017 were not completed as of year-end in a timely manner.

**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 2016-004.

**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.

**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, 2018

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
DECEMBER 31, 2017**

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**None Noted**

**PREVIOUSLY REPORTED ITEMS RESOLVED**

Comment Reference	Comment Title	Status	If not Corrected, Provided Planning Corrective Action or Other Explanation
2016-001	Segregation of Duties	Not Corrected	See Current Year Finding 2017-001
2016-002	Audit Adjustments	Not Corrected	See Current Year Finding 2017-002
2016-003	Timely Deposits	Not Corrected	See Current Year Finding 2017-003
2016-004	Bank Reconciliation	Not Corrected	See Current Year Finding 2017-004
2016-005	Controls Over Investment Activity	Corrected	N/A
2016-006	Journal Entry Approval 93.558: Eligibility Compliance	Corrected	N/A
2016-007	Requirements over Citizenship 93.778: Eligibility Compliance	Corrected	N/A
2016-008	Requirements over Income Verification 93.558: Eligibility Compliance	Corrected	N/A
2016-009	Requirements over Applications	Corrected	N/A

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2017**

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	17MN101S2514	\$ 282,394	\$ -
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children Total Department of Agriculture	10.557	Not Provided	228,521 <hr/> 510,915	- <hr/> -
<b>U.S. Department of Justice</b>				
Passed Through Southeast Regional Radio Board Bulletproof Vest Partnership Program Total Department of Justice	16.607	Not Provided	19,506 <hr/> 19,506	- <hr/> -
<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	142,028	-
<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	34,432	-
Universal Newborn Hearing Screening	93.251	Not Provided	1,225	-
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	D89MC23539	127,396	-
PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance Financed in Part by Prevention and Public Health Funds	93.539	Not Provided	500	-
Temporary Assistance for Needy Families (Total TANF Program Cluster 93.558 \$627,080)	93.558	20156996115	74,786	-
Maternal and Child Health Services Block Grant to the States	93.994	B04MC28107	43,950	-

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, 2017**

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	\$ 38,193	\$ -
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$627,080)	93.558	1702MNTANF, 1601MNTANF	552,294	552,294
Child Support Enforcement	93.563	1604MNCSES, 1704MNCEST, 1704MNCSES	858,260	-
Refugee and Entrant Assistance-State Administered Programs	93.566	1601MNRCA, 1701MNRCA	692	-
Child Care and Development Block Grant	93.575	G1601MNCCDF, G1701MNCCDF	16,726	-
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNFPG	58,037	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNCWSS	22,910	-
Foster Care Title IV-E	93.658	1601MNFOST, 1701MNFOST	288,879	-
Adoption Assistance	93.659	Not Provided	5,250	-
Social Services Block Grant	93.667	G-1601MNSOSR, G-1701MNSOSR	256,487	-
Chafee Foster Care Independence Program	93.674	G-1501MNCILP, G-1601MNCILP	1,977	-
Children's Health Insurance Program	93.767	05-1705MN1081, 05-1705MN5021	372	-
Medical Assistance Program (Medicaid Cluster) Total Department of Health and Human Services	93.778	05-1605MN5ADM, 05-1605MN5MAP, 05-1705MN5ADM, 05-1705MN5MAP	1,169,976 <u>3,552,342</u>	- <u>552,294</u>
<b>U.S. Department of Homeland Security</b>				
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grant	97.042	16AC-ATEL	<u>26,573</u>	<u>-</u>
Total Cash Type Federal Awards			<u>\$ 4,253,297</u>	<u>\$ 552,294</u>

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

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2017**

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, 2017. 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

Reconciliation to the Schedule of Intergovernmental Revenue:

Federal Grant Revenue Per Schedule of Intergovernmental Revenue	\$ 4,205,423
Revenues included on the Schedule of Intergovernmental Revenue that are not considered Federal Grant Expenditures (Prior Year Deferred Inflows of Resources)	(30,744)
Expenditures above, not included as revenues on the Schedule of Intergovernmental Revenues (Current Year Deferred Inflows of Resources)	<u>185,806</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 4,360,485</u>

## 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, 2017, 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 28, 2018.

The County's financial statements include the operations of the Mower County Housing and Redevelopment Authority (HRA), for the year ended September 30, 2017. 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 28, 2018