

**MOWER COUNTY
AUSTIN, MINNESOTA**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2018

**MOWER COUNTY
AUSTIN, MINNESOTA
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YEAR ENDED DECEMBER 31, 2018**

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AUSTIN, MINNESOTA
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INTRODUCTORY SECTION

**MOWER COUNTY
AUSTIN, MINNESOTA
ORGANIZATION
DECEMBER 31, 2018**

Elected			Term Expires
Commissioners			
Chair	Polly Glynn	District 2	January 2021
Board Member	Tim Gabrielson	District 1	January 2021
Board Member	Jerry Reinartz	District 3	January 2019
Board Member	Anthony Bennett	District 4	January 2019
Board Member	Mike Ankeny	District 5	January 2019
County Attorney	Kristen Nelsen		January 2019
County Auditor-Treasurer	Steven Reinartz		January 2019
County Recorder	Jill Cordes		January 2019
County Sheriff	Terese Amazi		January 2019
Appointed			
Assessor	Joy Kanne		December 2020
Coroner	R. Ross Reichard, MD		December 2018
Administrator	Trish Harren		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, 2018, 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, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 1.E, the County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result of the implementation of GASB Statement No. 75, the County reported a restatement for the change in accounting principle. Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule changes in the total OPEB liability, related ratios, and notes, 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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2019, 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 24, 2019

REQUIRED SUPPLEMENTARY INFORMATION

**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

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, 2018. 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 (2018) and the prior year (2017) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2017-2018 fiscal years include the following:

- ◆ County-wide net position increased 2.7% over the prior year.
- ◆ Overall fund-level revenues totaled \$52,227,586 and were \$2,583,760 less than expenditures; this is primarily due to increased road projects.
- ◆ The General Fund's fund balance increased by \$82,273 from the prior year; this is primarily due to increased taxes revenues.
- ◆ The Road and Bridge Fund's fund balance decreased \$3,510,275 from the prior year; this is primarily due to an increase in construction projects during the year.
- ◆ The Social Services Fund's fund balance increased by \$1,188,410 primarily due to increased tax revenue and intergovernmental revenue.
- ◆ The Capital Projects Fund reflects a decrease of \$97,944 in fund balance. The decrease in this fund is primarily due to an increase in 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.

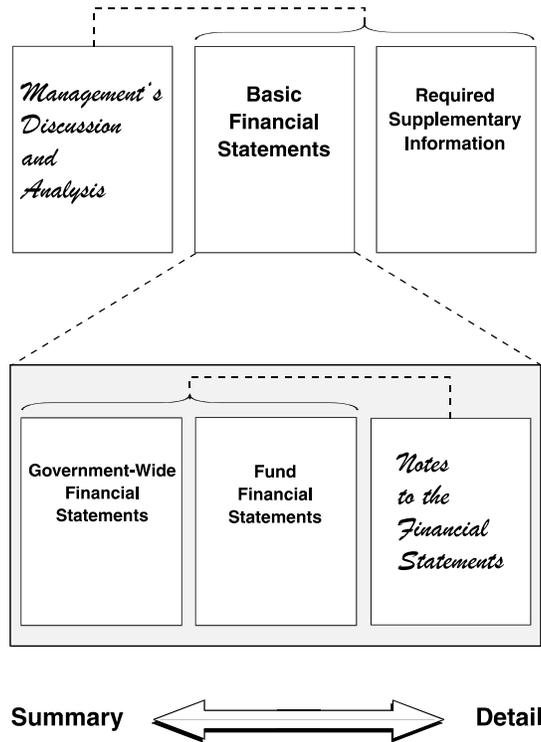
**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

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, 2018**

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.

Figure A-2. Major Features of the County's Government-Wide and Fund Financial Statements			
Type of Statements	Government-Wide	Governmental Funds	Fiduciary Funds
Scope	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.
Required Financial Statements	Statement of net position.	Balance sheet.	Statement of fiduciary net position.
	Statement of activities.	Statement of revenues, expenditures, and changes in fund balance.	
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.
Type of Asset/Liability Information	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.
Type of Inflow/Outflow Information	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, 2018**

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, 2018**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

NET POSITION

The County's net position was \$144,127,573 on December 31, 2018. (See Table A-1).

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

	Governmental Activities		Percentage Change
	2018	2017	
Current and Other Assets	\$ 55,139,180	\$ 56,513,745	(2.4)%
Capital Assets	135,861,500	128,109,407	6.1
Total Assets	<u>191,000,680</u>	<u>184,623,152</u>	3.5
Deferred Outflows of Resources	<u>6,946,815</u>	<u>7,735,842</u>	(10.2)
Current Liabilities	16,115,672	18,974,932	(15.1)
Long-Term Liabilities, Due in More Than One Year	<u>30,358,162</u>	<u>26,779,072</u>	13.4
Total Liabilities	<u>46,473,834</u>	<u>45,754,004</u>	1.6
Deferred Inflows of Resources	<u>7,346,088</u>	<u>6,271,987</u>	17.1
Net Position			
Net Investment in Capital Assets	123,684,170	114,421,720	8.1
Restricted	8,095,668	7,047,316	14.9
Unrestricted	<u>12,347,735</u>	<u>18,863,967</u>	(34.5)
Total Net Position	<u>\$ 144,127,573</u>	<u>\$ 140,333,003</u>	2.7

**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)

CHANGES IN NET POSITION

The County-wide total revenues were \$53,129,264 for the year ended December 31, 2018. Property and other taxes and intergovernmental revenues accounted for 88% 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
	2018	2017	
REVENUES			
Program Revenues			
Charges for Services	\$ 5,419,027	\$ 6,364,787	(14.9)%
Operating Grants and Contributions	11,470,391	10,140,168	13.1
Capital Grants and Contributions	5,122,024	5,924,936	(13.6)
General Revenues			
Property Taxes	20,620,487	19,513,903	5.7
Other Taxes	3,814,562	2,317,242	64.6
Unrestricted Grants and Contributions	5,498,355	4,881,409	12.6
Unrestricted Investment Earnings	900,063	692,419	30.0
Miscellaneous	284,207	274,883	3.4
Gain on Sale of Capital Assets	148	5,578	(97.3)
Total Revenues	<u>53,129,264</u>	<u>50,115,325</u>	6.0
EXPENSES			
General Government	7,442,998	6,936,207	7.3
Public Safety	11,492,567	11,506,041	(0.1)
Highways and Streets	7,844,696	9,255,009	(15.2)
Sanitation	1,058,058	1,011,678	4.6
Human Services	12,537,192	12,598,474	(0.5)
Health	2,127,170	2,164,441	(1.7)
Culture and Recreation	623,600	610,663	2.1
Conservation of Natural Resources	856,041	491,978	74.0
Interest	514,035	591,185	(13.1)
Total Expenses	<u>44,496,357</u>	<u>45,165,676</u>	(1.5)
CHANGE IN NET POSITION	8,632,907	4,949,649	74.4
Net Position - Beginning of Year	140,333,003	135,383,354	3.7
Restatement (See Note 1.E.)	<u>(4,838,337)</u>	<u>-</u>	100.0
Net Position - Beginning of Year, As Restated	<u>135,494,666</u>	<u>135,383,354</u>	
NET POSITION - END OF YEAR	<u>\$ 144,127,573</u>	<u>\$ 140,333,003</u>	2.7

Total revenues surpassed expenses, increasing net position \$8,632,907 over last year.

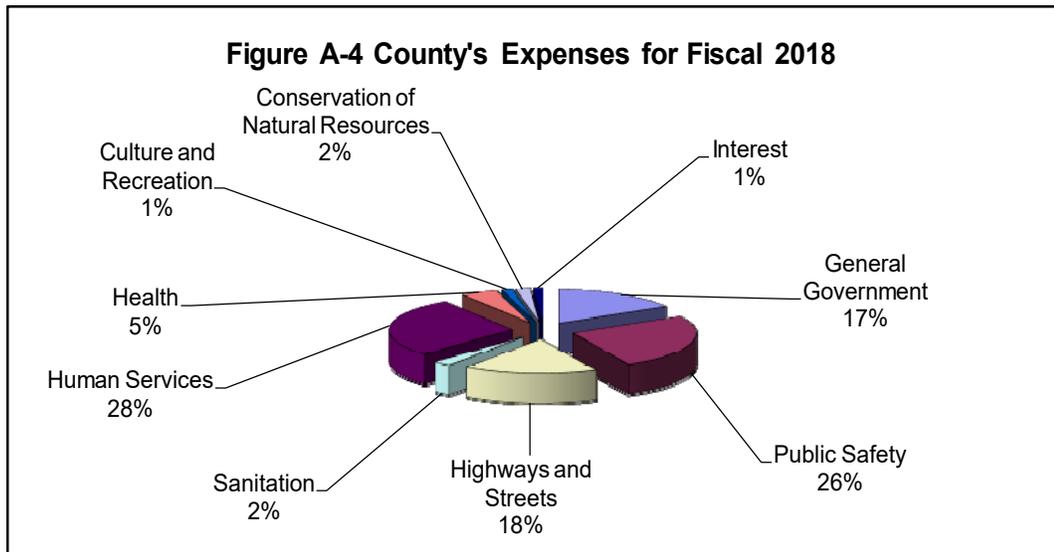
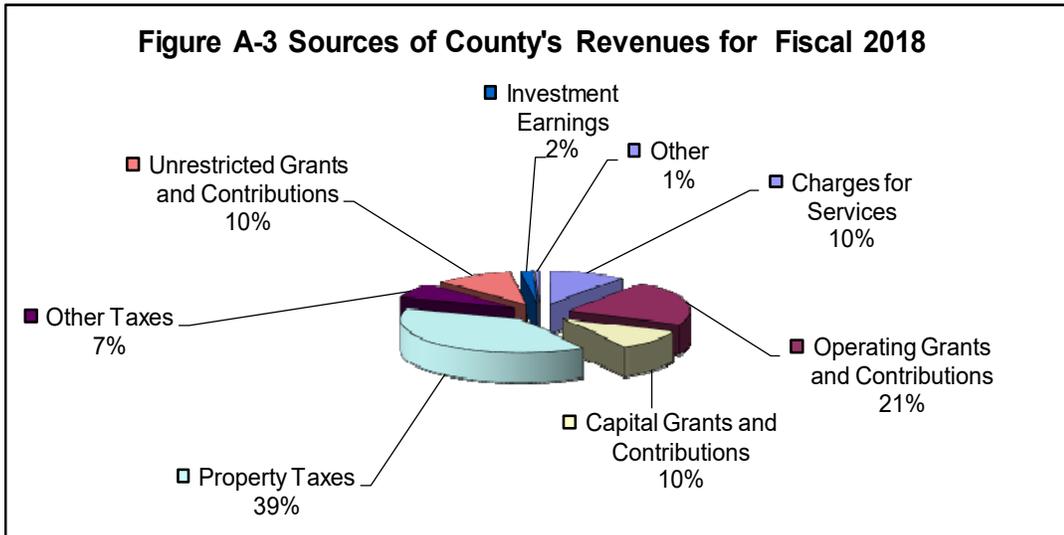
**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)

CHANGES IN NET POSITION (CONTINUED)

The County-wide cost of all governmental activities this year was \$44,496,357.

- ◆ Some of the cost was paid by the users of the County's programs (\$5,419,027).
- ◆ Federal, state, and local governments subsidized certain programs with grants and contributions (\$16,592,415).
- ◆ Most of the County's remaining costs (\$22,484,915), however, were paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$20,620,487 in property taxes, \$3,814,562 of other taxes, \$5,498,355 of unrestricted grants and contributions, and with \$1,148,418 of investment earnings and other general revenues.



**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)

CHANGES IN NET POSITION (CONTINUED)

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

	<u>Total Cost of Services</u>			<u>Net Revenue (Cost) of Services</u>		
	2018	2017	Change	2018	2017	Change
General Government	\$ 7,442,998	\$ 6,936,207	7.3 %	\$ (5,362,863)	\$ (5,376,223)	0.2 %
Public Safety	11,492,567	11,506,041	(0.1)	(9,617,857)	(9,766,347)	1.5
Highways and Streets	7,844,696	9,255,009	(15.2)	(2,169,530)	(1,994,755)	(8.8)
Sanitation	1,058,058	1,011,678	4.6	(367,336)	(15,627)	(2,250.65)
Human Services	12,537,192	12,598,474	(0.5)	(3,499,583)	(4,476,038)	21.8
Health	2,127,170	2,164,441	(1.7)	88,518	34,912	153.5
Culture and Recreation	623,600	610,663	2.1	(623,600)	(610,663)	(2.1)
Conservation of						
Natural Resources	856,041	491,978	74.0	(460,873)	(57,761)	(697.9)
Interest	514,035	591,185	(13.1)	(471,791)	(473,283)	0.3
Total Expenses	<u>\$ 44,496,357</u>	<u>\$ 45,165,676</u>	(1.5)	<u>\$ (22,484,915)</u>	<u>\$ (22,735,785)</u>	1.1

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 \$46,850,026.

Revenues for the County's governmental funds were \$52,227,586, while total expenditures were \$54,815,540.

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, 2018**

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, 2018	December 31, 2017	Increase (Decrease)	Percent
Taxes	\$ 12,264,000	\$ 11,819,850	\$ 444,150	3.8 %
Special Assessments	712,185	733,053	(20,868)	(2.8)
Intergovernmental	3,180,502	3,018,177	162,325	5.4
Charges for Services	936,485	1,214,848	(278,363)	(22.9)
Investment Earnings	898,912	563,706	335,206	59.5
Miscellaneous and Other	2,434,904	1,590,733	844,171	53.1
Total General Fund Revenue	<u>\$ 20,426,988</u>	<u>\$ 18,940,367</u>	<u>\$ 1,486,621</u>	7.8

Total General Fund revenue increased by \$1,486,621 or 7.8%, from the previous year. Investment earnings 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, 2018	December 31, 2017	Increase (Decrease)	Percent
General Government	\$ 6,669,810	\$ 5,631,771	\$ 1,038,039	18.4 %
Public Safety	11,240,782	9,499,544	1,741,238	18.3
Sanitation	1,017,952	989,480	28,472	2.9
Culture and Recreation	443,078	518,746	(75,668)	(14.6)
Conservation of Natural Resources	328,914	347,565	(18,651)	(5.4)
Capital Outlay	579,172	504,313	74,859	14.8
Debt Service	4,316	-	4,316	100.0
Total General Fund Expenditures	<u>\$ 20,284,024</u>	<u>\$ 17,491,419</u>	<u>\$ 2,792,605</u>	16.0

The General Fund had total fund balance of \$29,139,813 at the end of the current fiscal year. The fund balance of the General Fund increased \$82,273 during the current fiscal year primarily due to increased tax revenue.

**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

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

OTHER MAJOR FUNDS ANALYSIS

The Road and Bridge Fund had total fund balance of \$6,474,733 the end of the current fiscal year. The fund balance of the Road and Bridge Fund decreased \$3,510,275 (excluding the change in inventory) during the current fiscal year primarily due to an increase in construction projects during the year.

The Social Services Fund had total fund balance of \$5,256,908 at the end of the current fiscal year. The fund balance of the Social Services Fund increased \$1,188,410; this is primarily due to increased intergovernmental and tax revenues.

The Capital Projects Fund had a total fund balance of \$3,196,680 at the end of the current fiscal year. The fund balance of the Capital Projects fund decreased \$97,944 primarily due to increased capital outlay expenditures on open projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

- ◆ Actual revenues were \$1,533,657 more than expected resulting primarily from increased intergovernmental and investment earnings revenues.
- ◆ The actual expenditures were \$884,700 more than budget and relate largely to increased public safety 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, 2018**

CONSTRUCTION PROJECTS AND DEBT SERVICE (CONTINUED)

CAPITAL ASSETS

By the end of 2018, the County had invested approximately \$207,600,000 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 \$3,447,704.

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

	Governmental Activities		Percentage Change
	2018	2017	
Land and Right of Way	\$ 16,962,805	\$ 16,699,803	1.6 %
Construction in Progress	1,786,743	585,739	205.0
Buildings and Building Improvements	37,294,794	37,181,018	0.3
Improvements Other than Buildings	1,232,202	1,078,648	14.2
Machinery and Equipment	11,543,060	11,174,492	3.3
Software	246,679	246,679	-
Infrastructure	138,553,662	129,453,769	7.0
Accumulated Depreciation	<u>(71,758,445)</u>	<u>(68,310,741)</u>	5.0
Total	<u>\$ 135,861,500</u>	<u>\$ 128,109,407</u>	6.1

LONG-TERM LIABILITIES

At year-end, the County had \$44,041,851 in long-term liabilities outstanding.

- The County's total debt increased \$246,923, due largely to an increase in the County's Other Postemployment Benefits Payable due to the implementation of GASB 75. More detailed information about long term liabilities can be found in Note 3 B of the financial statements.

**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

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

	Governmental Activities		Percentage Change
	2018	2017	
Loans Payable	\$ 1,034,709	\$ 1,206,649	(14.2)%
Bonds Payable	11,435,000	13,435,000	(14.9)
Capital Lease Payable	4,631	6,877	(32.7)
Compensated Absences Payable	1,159,303	1,126,543	2.9
Other Postemployment Benefits Payable	19,052,075	13,284,990	43.4
Net Pension Liability	11,356,133	14,734,869	(22.9)
Total	<u>\$ 44,041,851</u>	<u>\$ 43,794,928</u>	0.6

**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

FACTORS BEARING ON THE COUNTY'S FUTURE AND 2019 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 2019 expenditure budget at \$69,887,357, an increase of about \$12,500,000 from the 2018 expenditure budget due to future construction projects in 2019. The revenue budget also increased about \$12,500,000 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 Trish Harren, County Administrator, or Donna Welsh, Finance Director at (507) 437-9549. Separate financial statements of the Mower County HRA can be obtained at 59039 220th Street, Austin, Minnesota 55912.

BASIC FINANCIAL STATEMENTS

**MOWER COUNTY
AUSTIN, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	Primary Government Governmental Activities	September 30, 2018 Discretely Presented Component Unit
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
ASSETS		
Cash and Pooled Investments	\$ 45,604,818	\$ 707,407
Petty Cash and Change Funds	1,470	-
Cash with Fiscal Agent	7,590	-
Tenant Deposit Cash	-	31,330
Taxes Receivable:		
Delinquent	512,435	57,590
Special Assessments Receivable:		
Delinquent	78,072	-
Noncurrent	100,407	-
Accounts Receivable - Net	210,381	9,466
Notes Receivable	18,400	-
Accrued Interest Receivable	216,020	408
Loans Receivable	781,823	-
Due from Other Governments	7,192,928	-
Inventories	368,821	-
Restricted Assets - Temporary	29,725	696,699
Prepaid Items	16,290	30,312
Nondepreciable Capital Assets:		
Land and Right of Way	16,962,805	42,304
Construction in Progress	1,786,743	-
Depreciable Capital Assets:		
Buildings (Net)	27,193,053	1,254,070
Improvements Other Than Buildings (Net)	783,668	49,021
Machinery, Vehicles, Furniture, and Equipment (Net)	4,008,445	181,744
Software (Net)	221	-
Infrastructure (Net)	85,126,565	-
Total Assets	191,000,680	3,060,351
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows of Resources - Loss on Refunding	930,963	-
Deferred Outflows of Resources - Pension Related	5,000,416	-
Deferred Outflows of Resources - OPEB Related	1,015,436	-
Total Deferred Outflows of Resources	6,946,815	-

See accompanying Notes to Financial Statements.

**MOWER COUNTY
AUSTIN, MINNESOTA
STATEMENT OF NET POSITION (CONTINUED)
DECEMBER 31, 2018**

	Primary Government <hr/> Governmental Activities	September 30, 2018 Discretely Presented Component Unit
LIABILITIES		
Accounts Payable	\$ 843,417	\$ 25,711
Salaries Payable	461,772	9,493
Claims and Judgments Payable	7,589	-
Contracts Payable	661,088	-
Due to Other Governments	296,099	-
Accrued Expenses	-	14,146
Accrued Interest Payable	165,349	775
Unearned Revenue	-	1,880
Compensated Absences Payable - Due within One Year	96,967	15,000
General Obligation Bonds Payable - Due within One Year	2,055,000	-
Loans Payable - Due within One Year	169,897	59,480
Capital Lease Payable - Due within One Year	2,361	-
Tenant Deposits Payable	-	31,330
Compensated Absences Payable - Due in More Than One Year	1,062,337	25,809
Other Postemployment Benefits Plan Payable - Due in More than One Year	19,052,075	-
General Obligation Bonds Payable - Due in More Than One Year	9,380,453	-
Loans Payable - Due in More Than One Year	861,027	95,932
Capital Lease Payable - Due in More Than One Year	2,270	-
Net Pension Liability	11,356,133	-
Total Liabilities	<hr/> 46,473,834	<hr/> 279,556
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows of Resources - Pension Related	7,346,088	-
NET POSITION		
Net Investment in Capital Assets	123,684,170	1,371,727
Restricted for:		
General Government	990,070	-
Highways and Streets	5,176,206	-
Public Safety	213,858	-
HRA Housing	-	696,699
Conservation	1,291,903	-
Debt Service	423,631	-
Unrestricted	12,347,735	712,369
Total Net Position	<hr/> <hr/> \$ 144,127,573	<hr/> <hr/> \$ 2,780,795

See accompanying Notes to Financial Statements.

**MOWER COUNTY
AUSTIN, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

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	Discretely
					Governmental Activities	Presented Component Unit
PRIMARY GOVERNMENT						
GOVERNMENTAL ACTIVITIES						
General Government	\$ 7,442,998	\$ 1,709,896	\$ 295,918	\$ 74,321	\$ (5,362,863)	
Public Safety	11,492,567	746,550	1,128,160	-	(9,617,857)	
Highways and Streets	7,844,696	255,951	371,512	5,047,703	(2,169,530)	
Sanitation	1,058,058	562,187	128,535	-	(367,336)	
Human Services	12,537,192	748,160	8,289,449	-	(3,499,583)	
Health	2,127,170	1,081,258	1,134,430	-	88,518	
Culture and Recreation	623,600	-	-	-	(623,600)	
Conservation of Natural Resources	856,041	272,781	122,387	-	(460,873)	
Interest	514,035	42,244	-	-	(471,791)	
Total Governmental Activities	44,496,357	5,419,027	11,470,391	5,122,024	(22,484,915)	
COMPONENT UNIT *						
Housing and Redevelopment Authority	1,152,938	502,968	410,723	31,098	-	\$ (208,149)
Total Reporting Entity	\$ 45,649,295	\$ 5,921,995	\$ 11,881,114	\$ 5,153,122	(22,484,915)	(208,149)
GENERAL REVENUES						
Property Taxes					20,620,487	125,496
Wheelage Taxes					359,710	-
Transportation sales and use tax					1,528,802	-
Wind Production Taxes					1,900,044	-
Mortgage Registry and Deed Tax					26,006	-
Grants and Contributions not Restricted for a Particular Purpose					5,498,355	-
Unrestricted Investment Earnings					900,063	13,544
Miscellaneous					284,207	16,349
Gain on the Sale of Capital Assets					148	-
Total General Revenues					31,117,822	155,389
CHANGE IN NET POSITION					8,632,907	(52,760)
Net Position - Beginning of Year					140,333,003	2,833,555
Restatement(See Note 1.E.)					(4,838,337)	-
Net Position - Beginning of Year, As Restated					135,494,666	2,833,555
NET POSITION - END OF YEAR					\$ 144,127,573	\$ 2,780,795

* The statement of activities for the Component Unit is for the year ended September 30, 2018.

**MOWER COUNTY
AUSTIN, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

ASSETS	General	Road and Bridge	Social Services
Cash and Pooled Investments	\$ 29,278,646	\$ 6,832,441	\$ 4,325,648
Petty Cash and Change Funds	1,040	30	400
Cash with Fiscal Agent	7,590	-	-
Taxes Receivable - Delinquent	270,890	64,515	107,309
Special Assessments Receivable - Current	29,931	-	-
Special Assessments Receivable - Delinquent	30,970	-	-
Special Assessments Receivable - Noncurrent	84,547	-	-
Accounts Receivable	30,724	57,975	121,682
Notes Receivable	18,400	-	-
Accrued Interest Receivable	216,020	-	-
Loans Receivable	-	-	-
Due from Other Governments	351,049	5,354,670	1,487,209
Inventories	-	368,821	-
Prepaid Items	16,290	-	-
Restricted Cash - Temporary	-	-	-
Total Assets	<u>\$ 30,336,097</u>	<u>\$ 12,678,452</u>	<u>\$ 6,042,248</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 395,613	\$ 258,831	\$ 181,342
Salaries Payable	259,885	45,050	156,376
Claims and Judgments Payable	7,589	-	-
Contracts Payable	34,853	626,235	-
Due to Other Governments	121,521	11,014	163,464
Total Liabilities	819,461	941,130	501,182
DEFERRED INFLOWS OF RESOURCES			
Unavailable Taxes	237,164	57,088	94,092
Unavailable Special Assessments	139,659	-	-
Unavailable Grants	-	29,295	190,066
Unavailable State Aid Allotments	-	5,176,206	-
Total Deferred Inflows of Resources	376,823	5,262,589	284,158

See accompanying Notes to Financial Statements.

**MOWER COUNTY
AUSTIN, MINNESOTA
BALANCE SHEET (CONTINUED)
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 3,202,099	\$ 1,965,984	\$ 45,604,818
-	-	1,470
-	-	7,590
9,796	59,925	512,435
-	5,860	35,791
-	17,171	48,141
-	10,000	94,547
-	-	210,381
-	-	18,400
-	-	216,020
-	781,823	781,823
-	-	7,192,928
-	-	368,821
-	-	16,290
-	29,725	29,725
<u>\$ 3,211,895</u>	<u>\$ 2,870,488</u>	<u>\$ 55,139,180</u>

\$ 6,332	\$ 1,760	\$ 843,878
-	-	461,311
-	-	7,589
-	-	661,088
-	100	296,099
<u>6,332</u>	<u>1,860</u>	<u>2,269,965</u>
8,883	64,203	461,430
-	22,533	162,192
-	-	219,361
-	-	5,176,206
<u>8,883</u>	<u>86,736</u>	<u>6,019,189</u>

See accompanying Notes to Financial Statements.

**MOWER COUNTY
AUSTIN, MINNESOTA
BALANCE SHEET (CONTINUED)
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>
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See accompanying Notes to Financial Statements.

**MOWER COUNTY
AUSTIN, MINNESOTA
BALANCE SHEET (CONTINUED)
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

FUND BALANCES

Nonspendable For:

Inventories	\$ -	\$ 368,821	\$ -
Prepaid Items	16,290	-	-
Notes Receivable	18,400	-	-

Restricted For:

Law Library	87,402	-	-
Recorder Equipment	96,629	-	-
Canteen	132,358	-	-
BWSR Grant	-	29,296	-
Debt Service	-	-	-
Attorney Forfeited Property	78,408	-	-
Sheriff's Conceal	65,396	-	-
Missing Heirs	15,755	-	-
DARE	16,104	-	-
Voting Grant	71,633	-	-
Land Records	325,519	-	-
Sewer Improvements	-	-	-
Ditch Projects	-	-	-
Recorder's Security Deposit	4,297	-	-
Aquatic Invasive Species	21,930	-	-
Cafeteria Plan	1,715	232	508
SCORE	55,778	-	-
Riparian Aid	-	272,601	-

Committed:

Wind Tower	3,000	-	-
Capital Equipment	-	74,530	-
Capital Projects	-	-	-

Assigned For:

Veteran Van	4,205	-	-
Economic Development	1,643,027	-	-
GIS	51,983	-	-
Compensated Absences	723,955	183,782	251,566
Medical Insurance Claims	7,468,771	-	-
5 Year Capital Improvement Plan	119,846	2,000,000	-
Veteran Grant	10,000	-	-
Human Services Operations	-	-	5,004,834
Road and Bridge Operations	-	3,545,471	-
Sewer Improvements	-	-	-

Unassigned	18,107,412	-	-
Total Fund Balance	29,139,813	6,474,733	5,256,908

Total Liabilities, Deferred Inflows of Resources,
and Fund Balance

\$ 30,336,097	\$ 12,678,452	\$ 6,042,248
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See accompanying Notes to Financial Statements.

**MOWER COUNTY
AUSTIN, MINNESOTA
BALANCE SHEET (CONTINUED)
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

See accompanying Notes to Financial Statements.

**MOWER COUNTY
AUSTIN, MINNESOTA
BALANCE SHEET (CONTINUED)
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
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See accompanying Notes to Financial Statements.

**MOWER COUNTY
AUSTIN, MINNESOTA
BALANCE SHEET (CONTINUED)
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

\$	-	\$	-	\$	368,821
	-		-		16,290
	-		-		18,400
	-		-		87,402
	-		-		96,629
	-		-		132,358
	-		-		29,296
	-	656,051			656,051
	-		-		78,408
	-		-		65,396
	-		-		15,755
	-		-		16,104
	-		-		71,633
	-		-		325,519
	-	641,688			641,688
	-	549,865			549,865
	-		-		4,297
	-		-		21,930
	-		-		2,455
	-		-		55,778
	-		-		272,601
	-		-		3,000
	-		-		74,530
	3,196,680		-		3,196,680
	-		-		4,205
	-		-		1,643,027
	-		-		51,983
	-		-		1,159,303
	-		-		7,468,771
	-		-		2,119,846
	-		-		10,000
	-		-		5,004,834
	-		-		3,545,471
	-	934,288			934,288
	-		-		18,107,412
	<u>3,196,680</u>	<u>2,781,892</u>			<u>46,850,026</u>
\$	<u>3,211,895</u>	\$	<u>2,870,488</u>	\$	<u>55,139,180</u>

See accompanying Notes to Financial Statements.

**MOWER COUNTY
AUSTIN, MINNESOTA
BALANCE SHEET (CONTINUED)
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

See accompanying Notes to Financial Statements.

**MOWER COUNTY
AUSTIN, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION –
GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 46,850,026

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. 135,861,500

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. 6,019,189

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	\$ (11,356,133)	
Deferred Outflows of Resources - Pension Related	5,000,416	
Deferred Inflows of Resources - Pension Related	<u>(7,346,088)</u>	(13,701,805)

The County's Other Postemployment Benefit liability and related deferred outflows are recorded only on the statement of net position. Balances at year-end are:

Other Postemployment Benefits Liability	(19,052,075)	
Deferred Outflows of Resources - OPEB Related	<u>1,015,436</u>	(18,036,639)

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	(1,030,924)	
Deferred Outflows of Resources - Loss on Refunding	930,963	
General Obligation Bonds Payable	(11,435,000)	
Discount on Bonds and Notes Issued	40,822	
Premiums on Bonds and Notes Issued	(41,275)	
Capital Lease Payable	(4,631)	
Accrued Interest Payable	(165,349)	
Compensated Absences	<u>(1,159,304)</u>	<u>(12,864,698)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 144,127,573

**MOWER COUNTY
AUSTIN, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018**

REVENUES	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>
Taxes	\$ 12,264,000	\$ 3,527,298	\$ 4,285,283
Transit Sales and Use Tax	-	1,528,802	-
Special Assessments	712,185	2,115	-
Licenses and Permits	87,100	77,993	-
Intergovernmental	3,180,502	7,301,506	9,286,768
Charges for Services	936,485	78,142	1,344,845
Fines and Forfeits	56,625	-	-
Gifts and Contributions	1,382	-	-
Interest on Investments	898,912	-	975
Miscellaneous	2,289,797	532,394	875,660
Total Revenues	20,426,988	13,048,250	15,793,531
EXPENDITURES			
CURRENT			
General Government	6,669,810	-	-
Public Safety	11,240,782	-	-
Highways and Streets	-	15,484,850	-
Sanitation	1,017,952	-	-
Human Services	-	-	12,518,120
Health	-	-	2,133,105
Culture and Recreation	443,078	-	-
Conservation	328,914	-	-
Total Current	19,700,536	15,484,850	14,651,225
CAPITAL OUTLAY			
General Government	182,369	-	-
Public Safety	370,265	-	-
Highways and Streets	-	781,523	-
Sanitation	26,538	-	-
Human Services	-	-	9,896
Conservation	-	301,037	-
Total Capital Outlay	579,172	1,082,560	9,896
DEBT SERVICE			
Principal	2,246	-	-
Interest	2,070	-	-
Total Debt Service	4,316	-	-
Total Expenditures	20,284,024	16,567,410	14,661,121
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	142,964	(3,519,160)	1,132,410
OTHER FINANCING SOURCES (USES)			
Transfers In	-	8,885	56,000
Transfers Out	(64,885)	-	-
Proceeds from the Sale of Capital Assets	4,194	-	-
Total Other Financing Sources (Uses)	(60,691)	8,885	56,000
NET CHANGE IN FUND BALANCES	82,273	(3,510,275)	1,188,410
Fund Balance - Beginning of Year	29,057,540	9,877,298	4,068,498
Change in Inventories	-	107,710	-
FUND BALANCE - END OF YEAR	\$ 29,139,813	\$ 6,474,733	\$ 5,256,908

See accompanying Notes to Financial Statements.

**MOWER COUNTY
AUSTIN, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018**

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 354,613	\$ 2,273,943	\$ 22,705,137
-	-	1,528,802
-	178,855	893,155
-	-	165,093
70,808	80,435	19,920,019
-	-	2,359,472
-	-	56,625
-	-	1,382
-	163	900,050
-	-	3,697,851
<u>425,421</u>	<u>2,533,396</u>	<u>52,227,586</u>
-	-	6,669,810
-	-	11,240,782
-	-	15,484,850
-	-	1,017,952
-	-	12,518,120
-	-	2,133,105
-	-	443,078
-	172,013	500,927
<u>-</u>	<u>172,013</u>	<u>50,008,624</u>
361,631	-	544,000
131,774	-	502,039
29,960	-	811,483
-	-	26,538
-	-	9,896
-	-	301,037
<u>523,365</u>	<u>-</u>	<u>2,194,993</u>
-	2,171,940	2,174,186
<u>-</u>	<u>435,667</u>	<u>437,737</u>
<u>-</u>	<u>2,607,607</u>	<u>2,611,923</u>
<u>523,365</u>	<u>2,779,620</u>	<u>54,815,540</u>
(97,944)	(246,224)	(2,587,954)
-	-	64,885
-	-	(64,885)
-	-	4,194
<u>-</u>	<u>-</u>	<u>4,194</u>
(97,944)	(246,224)	(2,583,760)
3,294,624	3,028,116	49,326,076
<u>-</u>	<u>-</u>	<u>107,710</u>
<u>\$ 3,196,680</u>	<u>\$ 2,781,892</u>	<u>\$ 46,850,026</u>

See accompanying Notes to Financial Statements.

**MOWER COUNTY
AUSTIN, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018**

See accompanying Notes to Financial Statements.

**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, 2018**

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ (2,583,760)

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	\$ 11,733,329	
Current Year Depreciation	(3,977,452)	7,755,877

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	861,317
--	---------

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.	343,556
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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	171,940	
Capital Lease	2,246	
General Obligation Bonds	2,000,000	2,174,186

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	32,229	
Amortization of Premiums and Discounts	(8,696)	
Change in Accrued Compensated Absences	(32,760)	
Change in Other Postemployment Benefits Payable	(58,111)	
Change in Deferred Outflow of Resources - OPEB Related	144,799	
Change in Deferred Outflow of Resources - Loss on Refunding	(103,440)	
Change in Inventories	107,710	81,731

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 8,632,907**

**MOWER COUNTY
AUSTIN, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2018**

	<u>Agency</u>
ASSETS	
Cash and Pooled Investments	<u><u>\$ 1,529,560</u></u>
LIABILITIES	
Funds Held in Trust	\$ 1,046,686
Due to Other Governments	<u>482,874</u>
Total Liabilities	<u><u>\$ 1,529,560</u></u>

See accompanying Notes to Financial Statements.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018. 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, 2018. 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 th 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, 2018**

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.

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.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

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.

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.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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)

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, 2018, 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.

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.

Accounts receivable in the social services fund are offset by an allowance for doubtful accounts. The County estimated this balance to be \$1,684,976 at December 31, 2018. The County considers these types of accounts over 90 days past due to uncollectible. All other accounts receivable are considered to be collectible in full.

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, 2018**

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

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018**

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. Post-Employment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County's Retiree Benefits Plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the County. For this purpose, the County recognizes benefit payments when due and payable in accordance with the benefit terms. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

13. 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
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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. Fund Balance (Continued)

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, 2018, the required minimum fund balance is \$15,565,162.

14. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows 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 debt or liabilities 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 \$8,095,668 of restricted net position, of which \$2,495,831 is restricted by enabling legislation.

15. Use of Estimates

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

E. Restatement for Change in Accounting Principal

During the year ended December 31, 2018, the County adopted the provisions of Governmental Accounting Standards Board (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This pronouncement requires the restatement of the December 31, 2017 net position of the governmental activities.

	Net Position as Previously Stated	Affect of Application of GASB 75	Net Position As Restated
Governmental Activities	\$ 140,333,003	\$ (4,838,337)	\$ 135,494,666

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018:

	<u>Actual</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 20,284,024	\$ 19,399,324	\$ 884,700
Social Services	14,661,121	14,622,595	38,526
Sewer Improvements	327,940	307,500	20,440

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, 2018**

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, 2018, 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, 2018**

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, 2018, the County had the following investments:

Investment Type	Reported Amount	Maturity			
		Less Than 2 Years	2-5 Years	5-10 Years	10+ Years
Federal Farm Credit Banks Debenture	\$ 650,217	\$ 99,066	\$ -	\$ 551,151	\$ -
Federal Home Loan Bank	1,956,505	393,052	-	1,096,883	466,570
Federal National Mortgage Association	451,701	296,781	427	-	154,493
Federal Home Loan Mortgage Company	1,353,147	-	489,762	863,385	-
Municipal Bonds	17,495,655	3,929,627	6,147,976	5,631,024	1,787,028
Money Markets	-	-	-	-	-
Small Business Investment Company	267,058	-	-	267,058	-
MAGIC Fund	8,218,485	8,218,485	-	-	-
Negotiable Certificates of Deposit	8,469,703	4,909,870	2,864,191	695,642	-
Total	<u>\$ 38,862,471</u>	<u>\$ 17,846,881</u>	<u>\$ 9,502,356</u>	<u>\$ 9,105,143</u>	<u>\$ 2,408,091</u>

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018:

Investment Type	S&P/Moody's Rating	Reported Amount
Municipal Bonds	AAA - Aaa	\$ 5,917,935
Municipal Bonds	Aa3 - AA	8,426,426
Municipal Bonds	A+ - A-	1,231,724
Municipal Bonds	Baaa3	326,327
Municipal Bonds	NR	1,593,243
Negotiable Certificates of Deposit	NR	8,469,703
Small Business Investment Company	NR	267,058
MN Association of Governments Investing for Federal Home Loan and Mortgage Company	NR	1,353,148
MN Association of Governments Investing for Counties (MAGIC) Fund	NR	8,218,485
Federal Home Loan Bank	NR	1,956,505
Federal Farm Credit Banks Debenture	NR	650,217
Federal National Mortgage Association	NR	451,700
Totals		<u>\$ 38,862,471</u>

NR - Not Rated

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, 2018, none of the County's investments were subject to custodial credit risk.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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	\$ 17,495,655	45.0 %
Negotiable Certificates of Deposit	8,469,703	21.8
Federal Home Loan Bank	1,956,505	5.0
Federal National Mortgage Association	451,701	1.2
Federal Farm Credit Banks Debenture	650,217	1.7
Small Business Investment Company	267,058	0.7
MN Association of Governments Investing for Counties (MAGIC) Fund	8,218,485	21.1
Federal Home Loan Mortgage Company	1,353,147	3.5
Total	<u>\$ 38,862,471</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, 2018 consisted of:

Deposits	\$ 8,309,222
Petty Cash and Change Funds	1,470
Investments	38,862,471
Total	<u>\$ 47,173,163</u>

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

Cash and Pooled Investments	\$ 45,604,818
Petty Cash and Change Funds	1,470
Restricted Cash	29,725
Cash with Fiscal Agent	7,590
Agency Fund Cash and Investments	1,529,560
Total	<u>\$ 47,173,163</u>

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018**

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
Investments by Fair Value Level				
U.S. Agencies	\$ -	\$ 4,678,628	\$ -	\$ 4,678,628
Municipal Bonds	-	17,495,655	-	17,495,655
Negotiable Certificates of Deposit	-	8,469,703	-	8,469,703
Total investments by fair value level	\$ -	\$ 30,643,986	\$ -	30,643,986
Investments Measured at Amortized Cost				
MAGIC portfolio external investment pool				8,218,485
Total Investments				38,862,471
Deposits, Petty Cash, and Cash on Hand				8,310,692
				\$ 47,173,163

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, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2018, 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	\$ 512,435	\$ -
Special Assessments	178,479	94,547
Accounts	210,381	-
Notes	18,400	-
Interest	216,020	-
Loans	781,823	611,926
Due from Other Governments	7,192,928	-
Total Governmental Activities, Net	<u>\$ 9,110,466</u>	<u>\$ 706,473</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, 2018:

	Beginning Balance	Additional Loans Made	Collections	Ending Balance
Sewer Improvement Loans	\$ 866,059	\$ 156,000	\$ 240,236	\$ 781,823
Notes Receivable	36,900	-	18,500	18,400
Total	<u>\$ 902,959</u>	<u>\$ 156,000</u>	<u>\$ 258,736</u>	<u>\$ 800,223</u>

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Additions & Transfers	Deletions & Transfers	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 5,982,209	\$ -	\$ -	\$ 5,982,209
Right of Way	10,717,594	263,002	-	10,980,596
Construction in Progress	585,739	10,407,474	9,206,470	1,786,743
Total Capital Assets, Not Depreciated	17,285,542	10,670,476	9,206,470	18,749,548
Capital Assets Being Depreciated				
Buildings	32,992,901	-	-	32,992,901
Buildings Improvements	4,188,117	113,776	-	4,301,893
Improvements Other Than Building	1,078,648	239,170	85,616	1,232,202
Machinery, Furniture, Equipment, and Vehicles	11,174,492	717,178	348,610	11,543,060
Software	246,679	-	-	246,679
Infrastructure	129,453,769	9,123,598	23,705	138,553,662
Total Capital Assets Being Depreciated	179,134,606	10,193,722	457,931	188,870,397
Less: Accumulated Depreciation for				
Buildings	8,467,133	711,057	55,304	9,122,886
Buildings Improvements	726,946	251,909	-	978,855
Improvements Other Than Building	488,629	45,521	85,616	448,534
Machinery, Furniture, Equipment, and Vehicles	7,165,087	728,995	359,467	7,534,615
Software	246,458	-	-	246,458
Infrastructure	51,216,488	2,239,970	29,361	53,427,097
Total Accumulated Depreciation	68,310,741	3,977,452	529,748	71,758,445
Total Capital Assets, Depreciated, Net	110,823,865	6,216,270	(71,817)	117,111,952
Governmental Activities Capital Assets, Net	<u>\$128,109,407</u>	<u>\$ 16,886,746</u>	<u>\$ 9,134,653</u>	<u>\$135,861,500</u>

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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	\$	780,066
Public Safety		314,406
Highways and Streets, Including Infrastructure		2,608,995
Sanitation		34,907
Human Services		1,350
Culture and Recreation		180,522
Conservation of Natural Resources		<u>57,206</u>
Depreciation Expense - Governmental Activities	\$	<u><u>3,977,452</u></u>

B. Interfund Receivables, Payables, and Transfers

Interfund Transfers for the year ended December 31, 2018 consisted of the following:

Transfer	Amount	Reason
Transfer from the General Fund to the Social Services Fund	\$ 56,000	Additional payroll adjustments
Transfer from the General Fund to the Road and Bridge Fund	8,885	Additional payroll adjustments
Total Interfund Transfers	<u>\$ 64,885</u>	

C. Liabilities

1. Construction Commitments

The County has active construction projects as of December 31, 2018. The projects include the following:

	<u>Original Contract Amount</u>	<u>Remaining Commitment</u>
Governmental Activities Roads and Bridges	\$ 12,620,812	\$ 1,088,060

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

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:

- (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.
- (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.
- (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.

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.

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, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

2. Other Postemployment Benefits (Continued)

b) Employees Covered by Benefit Terms

At December 31, 2018, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefit Payments	112		
Active Plan Members	258		
Total	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-top: 1px solid black; border-bottom: 3px double black;"></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">370</td> </tr> </table>		370
	370		

c) Actuarial Methods and Assumptions

The County's OPEB liability was measured as of January 1, 2018, and the total OPEB liability was determined by an actuarial valuation as of January 1, 2018.

The total OPEB liability was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary	3.0%
Health Care Trend Rates	6.50% Decreasing to 5.00% over 6 Years

Mortality rates were based on the RP-2014 white collar mortality tables with MP-2017 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel). The actuarial assumptions used in the January 1, 2018 valuation were based on the results of an actuarial experience studies.

The discount rate used to measure the total OPEB liability was 3.30%. The discount rate is equal to the 20-Year high quality, tax-exempt, general obligation municipal bonds as of the Measurement Date.

Since the most recent valuation, the following assumption changes have been made:

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel) to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel).
- The retirement and withdrawal tables for all employees were updated.
- The discount rate was changed from 3.50% to 3.30%.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

2. Other Postemployment Benefits (Continued)

d) Changes to Total OPEB Liability

	Total OPEB Liability
Balance as of January 1, 2018	\$ 18,993,964
Changes for the Year:	
Service Cost	306,095
Interest	622,653
Changes in Assumptions	-
Differences between Expected and Actual Experience	-
Benefit Payments	(870,637)
Net Change in Total OPEB Liability	58,111
Balance as of December 31, 2018	\$ 19,052,075

The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Description	1% Decrease (2.30%)	Discount Rate (3.30%)	1% Increase (4.30%)
Total OPEB Liability	\$ 21,372,036	\$ 19,052,075	\$ 17,108,893

The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (5.50% decreasing to 4.00% over 6 years) or 1% higher (7.50% decreasing to 6.00% over 6 years) than the current healthcare costs trend rates:

Description	1% Decrease (5.50% Decreasing to 4.00% over 6 years)	Current Trend Rates (6.50% Decreasing to 5.00% over 6 years)	1% Increase (7.50% Decreasing to 6.00% over 6 years)
Total OPEB Liability	\$ 17,048,350	\$ 19,052,075	\$ 21,444,391

For the year ended December 31, 2018, the County recognized OPEB expense of \$928,748. At December 31, 2018, the County reported no deferred inflows of resources, and \$1,015,436 in deferred outflows of resources resulting from County contributions subsequent to the measurement date and will be recognized as a reduction of the OPEB liability in the year ended December 31, 2019.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

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, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. 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, 2018, the County had total assets under capital lease of \$11,210 with the related accumulated depreciation of \$7,100.

Debt Summary

Types of Indebtedness	Maturity	Amounts	Rates (%)	Amount	2018
Loans Payable:					
2011 Septic Loans	2027	\$2,500 - \$5,400	0%	\$ 52,500	\$ 36,015
2012 Septic Loans	2027	\$2,500 - \$5,400	-	409,619	241,259
2013 Septic Loans	2027	\$2,500 - \$5,400	-	281,512	217,259
2014 Septic Loans	2027	\$2,500 - \$5,400	-	325,000	278,690
2015 Septic Loans	2027	\$2,500 - \$9,140	-	220,500	189,080
2016 Septic Loans	2027	\$2,500 - \$9,140	-	304,500	72,406
Total Loans Payable				1,593,631	1,034,709
Bonds:					
General Obligation Taxable:					
Jail Bonds, Series 2009A	2022	\$425,000 -	1.25%-5.4%	16,660,000	4,950,000
Capital Improvement Plan Bonds, 2012A	2028	\$615,000 - \$715,000	1.5%-2.7%	9,955,000	6,485,000
Total Bonds Payable				26,615,000	11,435,000
Capital Lease Payable:					
2015 Copier Leases	2020	\$165 - \$2,361	5%	11,210	4,631
Total Long-Term Debt				<u>\$ 28,219,841</u>	<u>\$ 12,474,340</u>

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

3. Long-Term Debt (Continued)

Debt Service Requirements

Debt service requirements at December 31, 2018, were as follows:

Year Ending December 31	State Loans		Bonds	
	Principal	Interest	Principal	Interest
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	142,708	-	640,000	89,350
2024-2028	218,840	-	3,405,000	220,145
Totals	<u>\$ 1,034,709</u>	<u>\$ -</u>	<u>\$ 11,435,000</u>	<u>\$ 1,223,853</u>

Year Ending December 31	Capital Leases	
	Principal	Interest
2019	\$ 2,361	\$ 178
2020	2,270	57
Totals	<u>\$ 4,631</u>	<u>\$ 235</u>

Beginning

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans Payable	\$ 1,206,649	\$ -	\$ 171,940	\$ 1,034,709	\$ 169,897
Bonds Payable	13,435,000	-	2,000,000	11,435,000	2,055,000
Unamortized Discount	(54,063)	-	(13,240)	(40,823)	-
Unamortized Premium	45,819	-	4,544	41,275	-
Leases Payable	6,877	-	2,246	4,631	2,361
Compensated Absences	1,126,543	1,315,082	1,282,322	1,159,303	96,967
Long-Term Liabilities	<u>\$ 15,766,825</u>	<u>\$ 1,315,082</u>	<u>\$ 3,447,812</u>	<u>\$ 13,634,095</u>	<u>\$ 2,324,225</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, 2018**

NOTE 4 PENSION PLANS

A. Pension Description

The County participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (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 (GERF)

All full-time and certain part-time employees of the County are covered by the General Employees Retirement Fund (GERF). GERF members belong to the Coordinated Plan, and are covered by Social Security.

2. Public Employees Police and Fire Plan (PEPFP)

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 (PECF)

The Local Correctional Plan, referred to as the Public Employees Correctional Fund (PECF), 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. 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.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. GERF 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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% of average salary for each of the first 10 years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years 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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90% funded for two consecutive years, benefit recipients are given a 2.5% increase. If the plan has not exceeded 90% funded, or have fallen below 80%, benefit recipients are given a 1% increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

2. PEPFP 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. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Police and Fire Plan benefit recipients receive a future annual 1.0% increase. An annual adjustment will equal 2.5% any time the plan exceeds a 90% funded ratio for two consecutive years. If the adjustment is increased to 2.5% and the funded ratio falls below 80% for one year or 85% for two consecutive years, the postretirement benefit increase will be lowered to one percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. PEPFP Benefits (Continued)

a pro rata increase. For retirements after May 31, 2014, the first increase will be delayed two years.

3. PECF 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. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the Correctional Plan is at least 90% funded for two consecutive years, benefit recipients are given a 2.5% increase. If the plan has not exceeded 90% funded, or have fallen below 80%, benefit recipients are given a one percent increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

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. GERF Contributions

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2018 and the County was required to contribute 7.50% for Coordinated Plan members. The County's contributions to the General Employees Fund for the year ended December 31, 2018 were \$898,428. 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, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

C. Contributions (Continued)

2. PEPFP Contributions

Plan members were required to contribute 10.8% of their annual covered salary and the County was required to contribute 16.20% of pay for members in fiscal year 2018. The County's contributions to the Police and Fire Fund for the year ended December 31, 2018 were \$274,991. The County's contributions were equal to the required contributions as set by state statute.

3. PECF Contributions

Plan members were required to contribute 5.83% of their annual covered salary and the County was required to contribute 8.75% of pay for plan members in fiscal year 2018. The County's contributions to the Correctional Fund for the year ended December 31, 2018 were \$141,043. The County's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2018, the County reported a liability of \$9,608,426 for its proportionate share of the General Employees Fund's net pension liability. The County's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million to the fund in 2018. The state of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the County totaled \$315,207, for a total net pension liability of \$9,923,633 associated with the County. The net pension liability was measured as of June 30, 2018, 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 proportionate share 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, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2018, the County's proportionate share was 0.173% which was an increase of 0.005% from its proportionate share measured as of June 30, 2017.

For the year ended December 31, 2018, the County recognized pension expense of \$956,574 for its proportionate share of the General Employees Plan's pension expense. In addition, the County recognized an additional \$73,506 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Fund Pension Costs (Continued)

At December 31, 2018, the County reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 254,320	\$ 280,236
Changes in Actuarial Assumptions	917,848	1,079,609
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	981,829
Changes in Proportion and Differences Between County Contributions and Proportionate Share of Contributions	285,857	96,018
County Contributions Subsequent to the Measurement Date	452,806	-
Total	<u>\$ 1,910,831</u>	<u>\$ 2,437,692</u>

\$452,806 reported as deferred outflows of resources related to pensions resulting from County contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. 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
2019	\$ 409,008
2020	(488,091)
2021	(700,042)
2022	(200,542)

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. PEPFP Pension Costs

At December 31, 2018, the County reported a liability of \$1,621,229 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2018, 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 proportionate share 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, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2018, the County's proportionate share was 0.152% which was an increase of 0.007% from its proportionate share measured as of June 30, 2017. The County also recognized \$13,689 for the year ended December 31, 2018, as revenue and an offsetting reduction of net pension liability 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.

For the year ended December 31, 2018, the County recognized pension expense of \$170,634 for its proportionate share of the PEPFPs pension expense.

At December 31, 2018, the County reported its proportionate share of the PEPFP'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	\$ 65,344	\$ 397,729
Changes in Actuarial Assumptions	2,015,591	2,386,662
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	339,571
Changes in Proportion and Differences Between County Contributions and Proportionate Share of Contributions	125,174	160,263
County Contributions Subsequent to the Measurement Date	140,322	-
Total	<u>\$ 2,346,431</u>	<u>\$ 3,284,225</u>

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. PEPFP Pension Costs (Continued)

\$140,322 reported as deferred outflows of resources related to pensions resulting from County contributions to the PEPFP subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to the PEPFP will be recognized in pension expense as follows:

Year Ended June 30	Pension Expenses Amount
2019	\$ (51,309)
2020	(126,587)
2021	(255,956)
2022	(660,353)
2022	16,089

3. PECF Pension Costs

At December 31, 2018, the County reported a liability of \$126,478 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2018, 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 proportionate share 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, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2018, the County's proportionate share was 0.769% which was an increase of 0.049% from its proportionate share measured as of June 30, 2017.

For the year ended December 31, 2018, the County recognized pension expense of (\$127,722) for its proportionate share of the Correctional Plan's pension expense.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

3. PECF Pension Costs (Continued)

At December 31, 2018, 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	\$ 6,604	\$ 13,518
Changes in Actuarial Assumptions	596,614	1,462,377
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	143,516
Changes in Proportion and Differences Between County Contributions and Proportionate Share of Contributions	68,218	4,760
County Contributions Subsequent to the Measurement Date	71,718	-
Total	<u>\$ 743,154</u>	<u>\$ 1,624,171</u>

\$71,718 reported as deferred outflows of resources related to pensions resulting from County contributions to PECF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to PECF will be recognized in pension expense as follows:

Year Ended June 30	Pension Expenses Amount
2019	\$ 80,667
2020	(541,450)
2021	(465,473)
2022	(26,479)

The total pension expense for all plans recognized by the County for the year ended December 31, 2018, was \$1,072,992.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

E. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

	<u>GERF</u>	<u>PEPFP</u>	<u>PECF</u>
Inflation	2.50% per Year	2.50% per Year	2.00% per Year
Active Member Payroll Growth	3.25% per Year	3.25% per Year	3.50% per Year
Investment Rate of Return	7.50%	7.50%	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan, 1.0% per year for the Police and Fire Plan, and 2.0% per year for the Correctional Plan. S

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. The most recent four-year experience study for Police and Fire Plan was completed in 2016. The five-year experience study for the Correctional Plan, prepared by a former actuary, was completed in 2012. The mortality assumption for the Correctional Plan is based on the Police and Fire Plan experience study completed in 2016. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2018:

General Employees Fund

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

Police and Fire Fund

- The mortality projection scale was changed from MP-2015 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0% per year through 2064 and 2.5% per year, thereafter, to 1.0% for all years, with no trigger.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.
- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution. Additionally, annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter, until the plan reached 100% funding, or July 1, 2048 if earlier.
- Member contributions were changed effective January 1, 2019 and January 1, 2020 from 10.80% to 11.30% and 11.80% of pay, respectively. Employer contributions were changed effective January 1, 2019 and January 1, 2020 from 16.20% to 16.95 and 17.70% of pay, respectively. Interest credited on member contributions decreased from 4.00% to 3.00%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.

Correctional Fund

- The Single Discount Rate was changed from 5.96% per annum to 7.50% per annum.
- The mortality projection scale was changed from MP-2016 to MP-2017.
- The assumed postretirement benefit increase was changed from 2.50% per year to 2.00% per year.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

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	36 %	5.10 %
International Equity	17	5.30
Bonds	20	0.75
Alternative Assets	25	5.90
Cash	2	-
Totals	100 %	

F. Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund, the Police and Fire Fund, and the Correctional Fund were 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.

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	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
County's Proportionate Share of the GERF Net Pension Liability	\$ 15,614,922	\$ 9,608,426	\$ 4,650,235
County's Proportionate Share of the PEPFP Net Pension Liability	3,476,017	1,621,229	87,397
County's Proportionate Share of the PECF Net Pension Liability	1,082,429	126,478	(638,255)

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

H. Pension Plan Fiduciary Net Position

Detailed information about GERP'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; 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

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. 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 five percent 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 contributions 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 two percent of employer contributions and twenty-five hundredths of one percent (0.25%) of the assets in each member's account annually.

Total contributions made by the County during fiscal year 2018 were:

	Contribution Amount		Percentage of Covered Payroll		Required Rates
	Employee	Employer	Employee	Employer	
2018	\$ 8,024	\$ 8,024	5.0 %	5.0 %	5.0 %

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 RISK MANAGEMENT

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 in 2018. 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 FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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 2018, 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 2018, Mower County paid \$134,117 to the Cooperative.

2. Southeast Minnesota Emergency Medical Services (EMS)

The EMS provides various health services to several counties. During 2018, the County paid \$1,250 to Southeast Minnesota Emergency Medical Services.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
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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 2018, the County paid \$7,490 to the Task Force.

6. Workforce Development, Inc.

Workforce Development, Inc. provides various job training services to member counties. During 2018, the County paid \$501,858 to the Development.

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 2018.

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 \$2,567 to the Board during 2018.

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 \$2,500 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 FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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 2018.

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 FINANCIAL STATEMENTS
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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	\$ 738,737
Investments - Restricted	696,699
Total Cash and Investments	<u>\$ 1,435,436</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, 2018, 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 FINANCIAL STATEMENTS
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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, 2018, the HRA had the following restricted investments:

	At Estimated Market Value
Held in Escrow at the MHFA	\$ 681,018
Replacement Reserve Colonial	15,681

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 \$12,272 for the year ended September 30, 2018.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 8 COMPONENT UNIT DISCLOSURES (CONTINUED)

B. Detailed Notes on All Funds (Continued)

1. Assets (Continued)

Interest Rate Risk

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

Concentration of Investments

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

Balance Sheet Presentation

Deposits	\$	707,407
Tenant Deposit Cash		31,330
Restricted Investments		696,699
Total	\$	<u>1,435,436</u>

Capital Assets

HRA capital asset activity for the year ended September 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Being Depreciated				
Equipment	\$ 3,120	\$ -	\$ -	\$ 3,120
Accumulated Depreciation for:				
Equipment	3,120	-	-	3,120
Total Capital Assets, Being Depreciated, Net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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
Business-Type Activities:				
Capital Asset, Not Being Depreciated				
Land	\$ 42,304	\$ -	\$ -	\$ 42,304
Capital Assets, Being Depreciated				
Land Improvements	381,332	-	-	381,332
Buildings	4,496,579	49,161	10,260	4,535,480
Furnishings	594,154	13,174	1,051	606,277
Maintenance Equipment	43,938	-	-	43,938
Total Capital Assets Being Depreciated	5,516,003	62,335	11,311	5,567,027
Accumulated Depreciation for:				
Land Improvements	323,821	8,490	-	332,311
Buildings	3,165,364	126,218	10,172	3,281,410
Furnishings	400,716	16,963	1,051	416,628
Maintenance Equipment	46,695	5,148	-	51,843
Total Accumulated Depreciation	3,936,596	156,819	11,223	4,082,192
Total Capital Assets, Being Depreciated, Net	1,579,407	(94,484)	88	1,484,835
Business-Type Activities Capital Assets, Net	\$ 1,621,711	\$ (94,484)	\$ 88	\$ 1,527,139

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

Business-Type Activities	
Housing	<u>\$ 156,819</u>

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018, 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	\$ 117,131	\$ 54,254
Mortgage Payable	2024	8.75	123,000	38,280	5,226
	Total		<u>\$ 998,870</u>	<u>\$ 155,411</u>	<u>\$ 59,480</u>

Debt Service Requirements

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

Year Ending December 31	Mortgages Payable	
	Principal	Interest
2019	\$ 59,480	\$ 9,134
2020	63,589	5,024
2021	11,213	2,149
2022	6,788	1,555
2023	7,407	937
2024	6,934	268
Totals	<u>\$ 155,411</u>	<u>\$ 19,067</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, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Mortgages Payable	\$ 211,090	\$ -	\$ 55,679	\$ 155,411	\$ 59,480
Compensated Absences	34,477	31,803	25,471	40,809	15,000
Long-Term Liabilities	<u>\$ 245,567</u>	<u>\$ 31,803</u>	<u>\$ 81,150</u>	<u>\$ 196,220</u>	<u>\$ 74,480</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 CHANGES IN THE TOTAL OPEB LIABILITY, RELATED RATIOS, AND NOTES
YEAR ENDED DECEMBER 31, 2018**

	Measurement Date <u>December 31, 2018</u>
Total OPEB Liability	
Service Cost	\$ 306,095
Interest	622,653
Changes in Assumptions	-
Differences between Expected and Actual Experience	-
Benefit Payments	<u>(870,637)</u>
Net Change in Total OPEB Liability	58,111
Total OPEB Liability - Beginning	<u>18,993,964</u>
Total OPEB Liability - Ending	<u><u>\$ 19,052,075</u></u>
Covered Employee Payroll	\$ 15,676,233
Agency's OPEB Liability as a Percentage of Covered Employee Payroll	121.5%

Note 1: The County implemented GASB Statement No. 75 in 2018. The above table will be expanded to ten years of information as the information becomes available.

Note 2: No assets are accumulated in a trust.

**MOWER COUNTY
AUSTIN, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 12,515,027	\$ 12,515,027	\$ 12,264,000	\$ (251,027)
Special Assessments	730,046	730,046	712,185	(17,861)
Licenses and Permits	59,750	59,750	87,100	27,350
Intergovernmental	2,677,960	2,677,960	3,180,502	502,542
Charges for Services	917,284	917,284	936,485	19,201
Fines and Forfeits	31,700	31,700	56,625	24,925
Gifts and Contributions	-	-	1,382	1,382
Investments Earnings	525,922	525,922	898,912	372,990
Miscellaneous	1,435,642	1,435,642	2,289,797	854,155
Total Revenues	<u>18,893,331</u>	<u>18,893,331</u>	<u>20,426,988</u>	<u>1,533,657</u>
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Commissioners	266,379	266,379	262,682	3,697
Courts	138,500	138,500	155,349	(16,849)
Law Library	45,810	45,810	33,943	11,867
County Administration	547,477	547,477	481,936	65,541
County Auditor-Treasurer	269,155	293,279	303,788	(10,509)
County Assessor	608,695	670,695	625,138	45,557
Elections	162,763	162,763	207,310	(44,547)
Auditing	75,000	75,000	84,679	(9,679)
Information Systems	666,031	834,504	827,101	7,403
Attorney	1,102,519	1,111,082	1,097,100	13,982
Recorder	501,284	521,709	383,872	137,837
Buildings and Plant	845,806	845,806	812,408	33,398
Veterans Service	164,666	170,868	173,944	(3,076)
Other General Government	1,108,145	957,227	1,220,560	(263,333)
Total General Government	<u>6,502,230</u>	<u>6,641,099</u>	<u>6,669,810</u>	<u>(28,711)</u>
PUBLIC SAFETY				
Sheriff	2,860,388	2,935,808	2,925,621	10,187
E911	133,753	133,753	126,701	7,052
Coroner	115,929	115,929	116,015	(86)
County Jail	3,204,304	3,204,304	3,591,662	(387,358)
County Jail Canteen	18,840	18,840	17,499	1,341
Law Enforcement Center	1,354,675	1,354,675	1,427,048	(72,373)
Community Corrections	2,328,310	2,358,451	2,781,581	(423,130)
Sentence to Serve	65,798	65,798	65,798	-
Civil/Bailiff	168,945	193,628	187,826	5,802
Other Public Safety	300	300	1,031	(731)
Total Public Safety	<u>10,251,242</u>	<u>10,381,486</u>	<u>11,240,782</u>	<u>(859,296)</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, 2018

Budgeted Amounts		Actual Amounts	Variance with Final Budget
Original	Final		

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, 2018**

EXPENDITURES (Continued)

CURRENT (Continued)

SANITATION

Solid Waste	\$ 880,639	\$ 881,887	\$ 1,017,952	\$ (136,065)
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CULTURE AND RECREATION

Historical Society	55,265	55,265	55,265	-
Senior Citizens	48,400	48,400	48,400	-
Regional Library	269,980	269,980	274,671	(4,691)
Other	84,540	84,540	64,742	19,798
Total Culture and Recreation	<u>458,185</u>	<u>458,185</u>	<u>443,078</u>	<u>15,107</u>

CONSERVATION OF NATURAL RESOURCES

County Extension	178,485	178,485	151,579	26,906
Soil and Water Conservation	146,998	146,998	146,998	-
Fairgrounds	30,000	30,000	30,000	-
Other	-	-	337	(337)
Total Conservation of Natural Resources	<u>355,483</u>	<u>355,483</u>	<u>328,914</u>	<u>26,569</u>

CAPITAL OUTLAY

General Government	293,194	293,194	182,369	110,825
Public Safety	375,490	375,490	370,265	5,225
Sanitation	10,500	10,500	26,538	(16,038)
Culture and Recreation	2,000	2,000	-	2,000
Total Capital Outlay	<u>681,184</u>	<u>681,184</u>	<u>579,172</u>	<u>102,012</u>

DEBT SERVICE

Principal Retirement	-	-	2,246	(2,246)
Interest	-	-	2,070	(2,070)
Total Debt Service	<u>-</u>	<u>-</u>	<u>4,316</u>	<u>(4,316)</u>

Total Expenditures	<u>19,128,963</u>	<u>19,399,324</u>	<u>20,284,024</u>	<u>(884,700)</u>
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EXCESS OF REVENUES OVER (UNDER) EXPENDITURES

	(235,632)	(505,993)	142,964	648,957
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OTHER FINANCING SOURCES (USES)

Transfer Out	-	-	(64,885)	(64,885)
Proceeds from the Sale of Capital Assets	-	-	4,194	4,194
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(60,691)</u>	<u>(60,691)</u>

NET CHANGE IN FUND BALANCE	<u>\$ (235,632)</u>	<u>\$ (505,993)</u>	82,273	<u>\$ 588,266</u>
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Fund Balance - Beginning of Year			<u>29,057,540</u>	
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FUND BALANCE - END OF YEAR			<u>\$ 29,139,813</u>	
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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, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 2,929,734	\$ 2,929,734	\$ 3,527,298	\$ 597,564
Transit Sales and Use Tax	1,500,000	1,500,000	1,528,802	28,802
Special Assessments	-	-	2,115	2,115
Licenses and Permits	38,000	38,000	77,993	39,993
Intergovernmental	10,326,273	10,326,273	7,301,506	(3,024,767)
Charges for Services	51,000	51,000	78,142	27,142
Miscellaneous	455,000	455,000	532,394	77,394
Total Revenues	<u>15,300,007</u>	<u>15,300,007</u>	<u>13,048,250</u>	<u>(2,251,757)</u>
EXPENDITURES				
CURRENT				
HIGHWAY AND STREETS				
Administration	631,719	631,719	682,471	(50,752)
Maintenance	2,761,858	2,761,858	2,249,453	512,405
Construction	14,408,096	14,408,096	11,435,754	2,972,342
Equipment and Maintenance Shops	947,075	947,075	930,158	16,917
Buildings and Grounds	183,274	183,274	187,014	(3,740)
Total Current	<u>18,932,022</u>	<u>18,932,022</u>	<u>15,484,850</u>	<u>3,447,172</u>
CAPITAL OUTLAY				
Highway and Streets	747,500	938,500	781,523	156,977
Environmental Services	355,721	364,606	301,037	63,569
Total Capital Outlay	<u>1,103,221</u>	<u>1,303,106</u>	<u>1,082,560</u>	<u>220,546</u>
Total Expenditures	<u>20,035,243</u>	<u>20,235,128</u>	<u>16,567,410</u>	<u>3,667,718</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	(4,735,236)	(4,935,121)	(3,519,160)	1,415,961
OTHER FINANCING SOURCES (USES)				
Transfer In	-	-	8,885	8,885
NET CHANGE IN FUND BALANCE	<u><u>\$ (4,735,236)</u></u>	<u><u>\$ (4,935,121)</u></u>	(3,510,275)	<u><u>\$ 1,424,846</u></u>
Fund Balance - Beginning of Year			9,877,298	
CHANGE IN INVENTORIES			<u>107,710</u>	
FUND BALANCE - END OF YEAR			<u><u>\$ 6,474,733</u></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, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 4,401,298	\$ 4,401,298	\$ 4,285,283	\$ (116,015)
Intergovernmental	7,516,778	7,516,778	9,286,768	1,769,990
Charges for Services	1,936,459	1,936,459	1,344,845	(591,614)
Investments Earnings	1,050	1,050	975	(75)
Miscellaneous	711,010	711,010	875,660	164,650
Total Revenues	<u>14,566,595</u>	<u>14,566,595</u>	<u>15,793,531</u>	<u>1,226,936</u>
EXPENDITURES				
CURRENT				
HUMAN SERVICES				
Income Maintenance	4,399,035	4,399,035	4,872,759	(473,724)
Social Services	8,049,892	8,049,892	7,645,361	404,531
Total Human Services	<u>12,448,927</u>	<u>12,448,927</u>	<u>12,518,120</u>	<u>(69,193)</u>
HEALTH				
Health	2,101,468	2,157,468	2,133,105	24,363
CAPITAL OUTLAY				
Human Services	16,200	16,200	9,896	6,304
Total Expenditures	<u>14,566,595</u>	<u>14,622,595</u>	<u>14,661,121</u>	<u>(38,526)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(56,000)	1,132,410	1,188,410
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	56,000	56,000
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ (56,000)</u>	1,188,410	<u>\$ 1,244,410</u>
Fund Balance - Beginning of Year			<u>4,068,498</u>	
FUND BALANCE - END OF YEAR			<u>\$ 5,256,908</u>	

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

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF THE COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
DECEMBER 31, 2018**

	Measurement Date June 30, 2018	Measurement Date June 30, 2017	Measurement Date June 30, 2016	Measurement Date June 30, 2015
GERF				
County's Proportion of the Net Pension Liability	0.173%	0.168%	0.171%	0.168%
County's Proportionate Share of the Net Pension Liability	\$ 9,608,426	\$ 10,725,009	\$ 13,916,830	\$ 8,685,902
State's Proportionate Share of the Net Pension Liability	\$ 315,207	\$ 134,847	\$ 181,823	\$ -
Total Proportionate Share of the Net Pension Liability	\$ 9,923,633	\$ 10,859,856	\$ 14,098,653	\$ 8,685,902
County's Covered Payroll	\$ 11,536,387	\$ 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	83.29%	99.10%	131.03%	82.92%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.53%	75.90%	68.90%	78.20%
PEPFF				
County's Proportion of the Net Pension Liability	0.152%	0.145%	0.157%	0.162%
County's Proportionate Share of the Net Pension Liability	\$ 1,621,229	\$ 1,957,673	\$ 6,300,683	\$ 1,840,699
County's Covered Payroll	\$ 1,593,340	\$ 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	101.75%	131.68%	415.36%	122.16%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.84%	85.43%	63.90%	86.60%
PECF				
County's Proportion of the Net Pension Liability	0.769%	0.720%	0.730%	0.730%
County's Proportionate Share of the Net Pension Liability	\$ 126,478	\$ 2,052,007	\$ 2,666,792	\$ 112,858
County's Covered Payroll	\$ 1,545,349	\$ 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	8.18%	142.51%	193.77%	8.37%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.64%	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.

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

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF THE COUNTY'S CONTRIBUTIONS
DECEMBER 31, 2018**

	2018	2017	2016	2015	2014
GERF					
Contractually Required Contribution	\$ 898,428	\$ 832,621	\$ 790,373	\$ 726,621	\$ 692,722
Contributions in Relation to the Contractually Required Contribution	<u>(898,428)</u>	<u>(832,621)</u>	<u>(790,373)</u>	<u>(726,621)</u>	<u>(692,722)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>				
County's Covered Payroll	\$ 11,979,040	\$ 11,101,613	\$ 10,538,307	\$ 9,688,280	\$ 9,554,786
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.50%	7.25%
PEPFF					
Contractually Required Contribution	\$ 274,991	\$ 242,328	\$ 242,618	\$ 233,183	\$ 207,479
Contributions in Relation to the Contractually Required Contribution	<u>(274,991)</u>	<u>(242,328)</u>	<u>(242,618)</u>	<u>(233,183)</u>	<u>(207,479)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>				
County's Covered Payroll	\$ 1,697,475	\$ 1,495,852	\$ 1,497,642	\$ 1,439,401	\$ 1,356,072
Contributions as a Percentage of Covered Payroll	16.20%	16.20%	16.20%	16.20%	15.30%
PECF					
Contractually Required Contribution	\$ 141,043	\$ 129,428	\$ 122,853	\$ 114,921	\$ 115,046
Contributions in Relation to the Contractually Required Contribution	<u>(141,043)</u>	<u>(129,428)</u>	<u>(122,853)</u>	<u>(114,921)</u>	<u>(115,046)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>				
County's Covered Payroll	\$ 1,611,920	\$ 1,479,177	\$ 1,404,034	\$ 1,313,383	\$ 1,314,811
Contributions as a Percentage of Covered Payroll	8.75%	8.75%	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.

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

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018**

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 major funds had expenditures in excess of budget for the year ended December 31, 2018:

Excess of Expenditures Over Budget - RSI

	<u>Actual</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 20,284,024	\$ 19,399,324	\$ 884,700
Social Services	14,661,121	14,622,595	38,526

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

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
DECEMBER 31, 2018**

III. CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30:

A. General Employees Fund

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

2017

- 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.

2016

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

B. Police and Fire Fund

2018

- The mortality projection scale was changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0% per year through 2064 and 2.5% per year thereafter to 1.0% per year for all years with no trigger.
- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution. Additionally, annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter, until the plan reaches 100% funding or July 1, 2048, if earlier.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
DECEMBER 31, 2018**

III. CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

B. Police and Fire Fund (Continued)

2018 (Continued)

- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80% to 11.30% and 11.80% of pay, respectively. Employer contributions were changed effective January 1, 2019 and January 1, 2020 from 16.20% to 16.95% and 17.70% of pay, respectively. Interest credited on member contributions decreased from 4.00% to 3.00% beginning July 1, 2018.
- Deferred augmentation was changed to 0.00% effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

- 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.
- The single discount rate was changed from 5.6% per annum to 7.5% per annum.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
DECEMBER 31, 2018**

III. CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

B. Police and Fire Fund (Continued)

2016

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

C. Correctional Fund

2018

- The Single Discount Rate was changed from 5.96% per annum to 7.50% per annum.
- The morality projection scale was changed from MP-2016 to MP-2017.
- The assumed post-retirement benefit increase was changed from 2.50% per year to 2.00% per year.

2017

- 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.

2016

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

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
DECEMBER 31, 2018**

IV. OTHER POSTEMPLOYMENT BENEFITS

Since the most recent valuation, the following assumption changes have been made:

2018

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel) to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel).
- The retirement and withdrawal tables for all employees were updated.
- The discount rate was changed from 3.50% to 3.30%.
- The trend applied to post-age 65 premiums was changed from half of the health care trend rates to 4% per year.
- The trend applied to the County paid VEBA deductible was changed from full health care trend rates to half of the health care trend rates.

SUPPLEMENTARY INFORMATION

**MOWER COUNTY
AUSTIN, MINNESOTA
DESCRIPTION OF FUNDS
DECEMBER 31, 2018**

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, 2018**

	Ditch	Sewer Improvements	Bond Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and Pooled Investments	\$ 551,717	\$ 1,016,824	\$ 397,443	\$ 1,965,984
Taxes Receivable - Delinquent	-	-	59,925	59,925
Special Assessments Receivable - Current	69	5,791	-	5,860
Special Assessments Receivable - Delinquent	96	17,075	-	17,171
Special Assessments Receivable - Noncurrent	10,000	-	-	10,000
Loans Receivable	-	781,823	-	781,823
Restricted Investments - Temporary	-	29,725	-	29,725
Total Assets	\$ 561,882	\$ 1,851,238	\$ 457,368	\$ 2,870,488
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 1,760	\$ -	\$ -	\$ 1,760
Due to Other Governments	100	-	-	100
Total Liabilities	1,860	-	-	1,860
DEFERRED INFLOWS OF RESOURCES				
Unavailable Taxes	10,000	-	54,203	64,203
Unavailable Special Assessments	157	22,376	-	22,533
Total Deferred Inflows of Resources	10,157	22,376	54,203	86,736
FUND BALANCES				
Restricted For:				
Ditch Projects	549,865	-	-	549,865
Sewer Improvements	-	641,688	-	641,688
Debt Service	-	252,886	403,165	656,051
Assigned For:				
Sewer Improvements	-	934,288	-	934,288
Total Fund Balance	549,865	1,828,862	403,165	2,781,892
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 561,882	\$ 1,851,238	\$ 457,368	\$ 2,870,488

**MOWER COUNTY
AUSTIN, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018**

	Ditch	Sewer Improvements	Bond Fund	Total Nonmajor Governmental Funds
REVENUES				
Taxes	\$ -	\$ -	\$ 2,273,943	\$ 2,273,943
Special Assessments	9,841	169,014	-	178,855
Intergovernmental	-	-	80,435	80,435
Interest on Investments	-	163	-	163
Total Revenues	<u>9,841</u>	<u>169,177</u>	<u>2,354,378</u>	<u>2,533,396</u>
EXPENDITURES				
CURRENT				
Conservation	16,013	156,000	-	172,013
Total Current	<u>16,013</u>	<u>156,000</u>	<u>-</u>	<u>172,013</u>
DEBT SERVICE				
Principal	-	171,940	2,000,000	2,171,940
Interest	-	-	435,667	435,667
Total Debt Service	<u>-</u>	<u>171,940</u>	<u>2,435,667</u>	<u>2,607,607</u>
Total Expenditures	<u>16,013</u>	<u>327,940</u>	<u>2,435,667</u>	<u>2,779,620</u>
NET CHANGE IN FUND BALANCES	(6,172)	(158,763)	(81,289)	(246,224)
Fund Balance - Beginning of Year	<u>556,037</u>	<u>1,987,625</u>	<u>484,454</u>	<u>3,028,116</u>
FUND BALANCE - END OF YEAR	<u>\$ 549,865</u>	<u>\$ 1,828,862</u>	<u>\$ 403,165</u>	<u>\$ 2,781,892</u>

**MOWER COUNTY
AUSTIN, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
DITCH FUND
YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Special Assessments	\$ 10,000	\$ 10,000	\$ 9,841	\$ (159)
EXPENDITURES				
CURRENT				
CONSERVATION OF NATURAL RESOURCES				
Other	<u>78,278</u>	<u>78,278</u>	<u>16,013</u>	<u>62,265</u>
NET CHANGE IN FUND BALANCE	<u><u>\$ (68,278)</u></u>	<u><u>\$ (68,278)</u></u>	<u>(6,172)</u>	<u><u>\$ 62,106</u></u>
Fund Balance - Beginning of Year			<u>556,037</u>	
FUND BALANCE - END OF YEAR			<u><u>\$ 549,865</u></u>	

**MOWER COUNTY
AUSTIN, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
SEWER IMPROVEMENT FUND
YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Special Assessments	\$ 137,000	\$ 137,000	\$ 169,014	\$ 32,014
Investments Earnings	-	-	163	163
Total Revenues	<u>137,000</u>	<u>137,000</u>	<u>169,177</u>	<u>32,177</u>
EXPENDITURES				
CURRENT				
CONSERVATION OF NATURAL RESOURCES				
Other	105,000	105,000	156,000	(51,000)
DEBT SERVICE				
Principal	<u>202,500</u>	<u>202,500</u>	<u>171,940</u>	<u>30,560</u>
Total Expenditures	<u>307,500</u>	<u>307,500</u>	<u>327,940</u>	<u>(20,440)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (170,500)</u>	<u>\$ (170,500)</u>	(158,763)	<u>\$ 11,737</u>
Fund Balance - Beginning of Year			<u>1,987,625</u>	
FUND BALANCE - END OF YEAR			<u>\$ 1,828,862</u>	

**MOWER COUNTY
AUSTIN, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2018**

	Balance January 1	Additions	Deductions	Balance December 31
STATE REVENUE				
ASSETS				
Cash and Pooled Investments	\$ 66,199	\$ 960,084	\$ 953,277	\$ 73,006
LIABILITIES				
Due to Other Governments	\$ 66,199	\$ 960,084	\$ 953,277	\$ 73,006
FAMILY CONNECTIONS COLLABORATIVE				
ASSETS				
Cash and Pooled Investments	\$ 418,549	\$ 186,583	\$ 276,930	\$ 328,202
LIABILITIES				
Due to Other Governments	\$ 418,549	\$ 186,583	\$ 276,930	\$ 328,202
TAXES AND PENALTIES				
ASSETS				
Cash and Pooled Investments	\$ 1,167,728	\$ 50,043,284	\$ 50,164,326	\$ 1,046,686
LIABILITIES				
Funds Held in Trust	\$ 1,167,728	\$ 50,043,284	\$ 50,164,326	\$ 1,046,686
SOCIAL WELFARE FUND				
ASSETS				
Cash and Pooled Investments	\$ 177,917	\$ 755,626	\$ 851,877	\$ 81,666
LIABILITIES				
Due to Other Governments	\$ 177,917	\$ 755,626	\$ 851,877	\$ 81,666
TOTAL ALL AGENCY FUNDS				
ASSETS				
Cash and Pooled Investments	\$ 1,830,393	\$ 51,945,577	\$ 52,246,410	\$ 1,529,560
LIABILITIES				
Funds Held in Trust	\$ 1,167,728	\$ 50,043,284	\$ 50,164,326	\$ 1,046,686
Due to Other Governments	662,665	1,902,293	2,082,084	482,874
Total Liabilities	\$ 1,830,393	\$ 51,945,577	\$ 52,246,410	\$ 1,529,560

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUE
YEAR ENDED DECEMBER 31, 2018**

	<u>Governmental Funds</u>
SHARED REVENUE	
STATE	
Highway Users Tax	\$ 6,657,147
County Program Aid	2,170,801
PERA Rate Reimbursement	60,377
Disparity Reduction Aid	174,880
Police Aid	184,152
Enhanced 911	118,766
Market Value Credit	340,058
Riparian Protect Aid	165,780
Aquatic Invasive Species	12,207
	9,884,168
REIMBURSEMENT FOR SERVICES	
STATE	
Minnesota Department of Human Services	2,666,006
PAYMENTS	
LOCAL	
Hormel Foundation	64,848
GRANTS	
STATE	
Minnesota Department/Board of:	
Peace Officers Board	21,054
Corrections	318,010
Health	322,193
Human Services	1,822,975
Soil and Water Resources	56,896
Secretary of State	74,321
Revenue	280
Veteran's Affairs	20,000
Natural Resources	37,943
Pollution Control Agency	181,990
	2,855,662
FEDERAL	
Department of:	
Agriculture	548,381
Education	2,262
Homeland Security	61,359
Health and Human Services	3,795,089
Internal Revenue Service	42,244
	4,449,335
Total Federal	4,449,335
Total State and Federal Grants	7,304,997
Total Intergovernmental Revenue	\$ 19,920,019

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUE
YEAR ENDED DECEMBER 31, 2018**

**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, 2018, 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 24, 2019.

The County's financial statements include the operations of the Mower County Housing and Redevelopment Authority (HRA) for the year ended September 30, 2018. 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 2018-001 through 2018-003 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 24, 2019



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, 2018. 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 \$410,723 in federal awards during the year ended September 30, 2018. 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.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-005 to 2018-006. Our opinion on each major federal program is not modified with respect to these matters.

Mower County's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Mower County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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, 2018.

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 consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-004 to be a material weakness and items 2018-005 to 2018-006 to be significant deficiencies.

Mower County's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Mower County's responses

Board of County Commissioners
Mower County

were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the 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 24, 2019

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2018**

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: *Unmodified*

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
93.563	Child Support Enforcement
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, 2018**

FINANCIAL STATEMENT FINDINGS

2018-001 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 2017-001.

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, 2019

2018-002 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, 2018**

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 2017-002.

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, 2019

2018-003 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 reconciliations for 2018 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 2017-004.

FINANCIAL STATEMENT FINDINGS (CONTINUED):

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2018**

2018-003 BANK RECONCILIATIONS (CONTINUED)

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, 2019

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2018**

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2018-004 CASEFILE REVIEW

Federal Agency: U.S. Department of Health and Human Services
Federal Program Title: Medical Assistance Program (Medicaid Cluster)
CFDA Number: 93.778
Pass-Through Agency: Minnesota Department of Human Services
Pass-Through Numbers: 1805MN5ADM, 1805MN5MAP
Compliance Requirement Affected: Eligibility
Award Period: Year-Ended December 31, 2018

Type of Finding: Material Weakness in Internal Control over Compliance

Criteria: Supervisor review of casefiles should be performed and documented.

Condition and Context: During our testing of the Medical Assistance Program through inquiry and our statistically valid sample, it was noted there was no documented review being performed.

Questioned Costs: Unable to be determined.

Cause: Past practice.

Possible Effect: Errors made in determining eligibility may not be discovered and benefits may be issued to clients who are not eligible.

Repeat Finding: N/A.

Recommendation: We recommend the County review case files on a periodic basis throughout the year.

Views of responsible officials: There is no disagreement with the audit finding.

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2018**

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

2018-005 ELIGIBILITY - ASSETS

Federal Agency: U.S. Department of Health and Human Services
Federal Program Title: Medical Assistance Program (Medicaid Cluster)
CFDA Number: 93.778
Pass-Through Agency: Minnesota Department of Human Services
Pass-Through Numbers: 1805MN5ADM, 1805MN5MAP
Compliance Requirement Affected: Eligibility
Award Period: Year-Ended December 31, 2018

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

Criteria: Asset documentation in the casefile should match the information entered into MAXIS.

Condition and Context: During inquiry and our statistically valid sample testing of case files reviews completed during 2018, it was noted that 1 of 60 casefiles tested had improper documentation of assets in MAXIS.

Questioned Costs: Unable to be determined.

Cause: Lack of review process.

Possible Effect: Errors made in determining eligibility could result in benefits being provided to ineligible clients.

Repeat Finding: N/A.

Recommendation: It is recommended that asset verification be reviewed for each eligible case file.

Views of responsible officials: There is no disagreement with the audit finding.

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2018**

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

2018-006 PROCUREMENT

Federal Agency: U.S. Department of Health and Human Services
Federal Program Title: Medical Assistance Program (Medicaid Cluster)
CFDA Number: 93.778
Pass-Through Agency: Minnesota Department of Human Services
Pass-Through Numbers: 1805MN5ADM, 1805MN5MAP
Compliance Requirement Affected: Procurement
Award Period: Year-Ended December 31, 2018

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

Criteria: Procurement standards require that the entity must maintain record sufficient to detail the history and rationale of the method of procurement.

Condition and Context: During inquiry and our statistically valid sample, it was noted that vendors tested had no supporting documentation and no rationale documented for the method of procurement used.

Questioned Costs: Unable to be determined.

Cause: Past practice.

Possible Effect: The County may make purchases not in compliance with the Uniform Grant Guidance.

Repeat Finding: N/A.

Recommendation: It is recommended that the County retain support and documentation of the rationale of the procurement method as appropriate for the procurement threshold.

Views of responsible officials: There is no disagreement with the audit finding.

OTHER ITEM FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE

No current year items reported.

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2018**

Mower County respectfully submits the following summary schedule of prior audit findings for the year ended December 31, 2017.

Audit period: December 31, 2017.

The findings from the prior audit's schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the prior year.

FINANCIAL STATEMENT FINDINGS

2017 – 001 SEGREGATION OF DUTIES

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

Status: See current year finding 2018-001.

Reason for finding's recurrence: The County has a limited number of personnel within several County departments.

Corrective Action: 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.

2017 – 002 AUDIT ADJUSTMENTS

Condition: 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.

Status: See current year audit finding 2018-002.

Reason for finding's recurrence: The County has a limited number of personnel.

Corrective Action: 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.

2017 – 003 TIMELY DEPOSITS

Condition: 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.

Status: The corrective action was taken.

2017 – 004 BANK RECONCILIATIONS

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2018**

Condition: 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.

Status: See current year finding 2018-003.

Reason for finding's recurrence: Lack of personnel.

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

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2018**

Federal Grantor Pass Through Agency Grant Program Title (Program or Cluster Title)	Federal CFDA Number	Grant Award Numbers	Expenditures	Passed to Subrecipients
U.S. Department of Agriculture				
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Part of SNAP Cluster)	10.561	182MN101S2514	\$ 294,609	\$ -
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children Total Department of Agriculture	10.557	12-700-00061	253,772 <hr/> 548,381	- <hr/> -
U.S. Department of Education				
Passed Through Minnesota Department of Health Special Education-Grants for Infants and Families	84.181	12-700-0061	2,262	-
U.S. Department of Health and Human Services				
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	12-700-0061	40,070	-
Universal Newborn Hearing Screening	93.251	12-700-0061	750	-
PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance Financed in Part by Prevention and Public Health Funds	93.539	68583	5,125	-
Temporary Assistance for Needy Families (Part of TANF Cluster) (Total Temporary Assistance for Needy Families 93.558 \$573,793)	93.558	1801MNTANF	40,093	-
Maternal and Child Health Services Block Grant to the States	93.994	12-700-00061	43,950	-
U.S. Department of Health and Human Services (Continued)				
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	G-1701MNFPS	14,524	-
Temporary Assistance for Needy Families (Part of TANF Cluster) (Total Temporary Assistance for Needy Families 93.558 \$573,793)	93.558	1801MNTANF	533,700	533,700
Child Support Enforcement	93.563	1804MNCEST, 1804MNCSES	929,750	-
Refugee and Entrant Assistance-State Administered Programs	93.566	1801MNRCA	24,663	-
Child Care and Development Block Grant (Part of CCDF Cluster)	93.575	G1801MNCCDF	17,666	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1701MNCWSS	12,461	-
Foster Care Title IV-E	93.658	1801MNFOST	348,362	-
Maternal, Infant, and Early Childhood Home Visiting Grant Program (Part of MIECHV Cluster)	93.870	12-700-0061	193,845	-
Social Services Block Grant	93.667	G-1801MNSOSR	240,597	-
Chafee Foster Care Independence Program	93.674	G-1801MNCILP	1,458	-
Children's Health Insurance Program	93.767	1805MN5R21	326	-
Medical Assistance Program (Part of Medicaid Cluster) Total Department of Health and Human Services	93.778	1805MN5ADM, 1805MN5MAP	1,301,851 <hr/> 3,749,191	- <hr/> 533,700

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)
DECEMBER 31, 2018**

Federal Grantor Pass Through Agency Grant Program Title (Program or Cluster Title)	Federal CFDA Number	Grant Award Numbers	Expenditures	Passed to Subrecipients
U.S. Department of Homeland Security				
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grant	97.042	17AC-ATEL	\$ 26,474	\$ -
Homeland Security Grant Program	97.067	AEMP6-2015	34,885	-
Total Department of Homeland Security			<u>61,359</u>	<u>-</u>
Total Cash Type Federal Awards			<u>\$ 4,361,193</u>	<u>\$ 533,700</u>

Clusters of programs are groupings of closely related programs that share common compliance requirements.
Total expenditures by cluster are:

Temporary Assistance for Need Families (TANF) Cluster	\$ 573,793
CCDF Cluster	17,666
Medicaid Cluster	1,301,851
SNAP Cluster	294,609
MIECHV Cluster	193,845

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, 2018**

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, 2018. The information in this schedule is presented in accordance with the requirement of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the County, it is not intended to and does not present the financial position, changes in net position, or cash flows of the County.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal Grant Revenue Per Schedule of Intergovernmental Revenue	\$ 4,449,335
Revenues included on the Schedule of Intergovernmental Revenue that are not considered Federal Grant Expenditures (Prior Year Deferred Inflows of Resources)	(202,891)
Expenditures above, not included as revenues on the Schedule of Intergovernmental Revenues (Current Year Deferred Inflows of Resources)	<u>114,749</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u><u>\$ 4,361,193</u></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, 2018, 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 24, 2019.

The County's financial statements include the operations of the Mower County Housing and Redevelopment Authority (HRA), for the year ended September 30, 2018. 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 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 the provisions of 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, insofar as they relate to accounting matters.

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 24, 2019