

**STEELE COUNTY
OWATONNA, MINNESOTA**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2015

**STEELE COUNTY
OWATONNA, MINNESOTA
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INTRODUCTORY SECTION

**STEELE COUNTY
OWATONNA, MINNESOTA
ORGANIZATION
DECEMBER 31, 2015**

Office	Name	Term Expires
Commissioners		
1 st District	James Brady	January 7, 2019
2 nd District	John Glynn	January 7, 2019
3 rd District	Mark Schultz	January 2, 2017
4 th District	James "Corky" Ebeling**	January 2, 2017
5 th District	Nina Huntington*	January 2, 2017
Officers		
Elected		
Attorney	Dan McIntosh	January 7, 2019
Auditor	Laura Ihrke	January 7, 2019
District Court Judge	Karen Duncan	January 7, 2019
District Court Judge	Joseph A. Bueltel	January 7, 2019
Sheriff	Lon Thiele	January 7, 2019
Surveyor	John Hosfield	January 7, 2019
Treasurer	Catherine Piepho	January 7, 2019
Appointed		
Assessor	William Effertz	January 1, 2017
Building Mtc & Grounds Director	Lynn Holthus	Indefinite
Coroner	Dr. Kellyanna Moore	December 31, 2015
County Administrator	Laura Elvebak	Indefinite
Court Administrator	Robin Hoesley	Indefinite
Emergency Management Director	Mike Johnson	Indefinite
Environmental Services	Scott Golberg	Indefinite
Four Seasons/Park and Recreation	Steve Schroht	Indefinite
Highway Engineer	Anita Benson	April 30, 2020
Management Information	John Borger	Indefinite
Planning and Zoning Director	Dale Oolman	Indefinite
Probation Services Director	Tim Schammel	Indefinite
Public Health & CHS Director	Amy Roggenbuck	Indefinite
Recorder	Rick Kvien	Indefinite
Veterans Service Officer	Rene Gillormini	Indefinite

* Chair for 2015

** Vice-Chair for 2015

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of County Commissioners
Steele County
Owatonna, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Steele County, Minnesota (the County), as of and for the year ended December 31, 2015, and the related notes of 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*. 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 business type activities, each major fund, and the aggregate remaining fund information of Steele County as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During fiscal year ended December 31, 2015, the County adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an Amendment of GASB Statement No. 68*. As a result of the implementation of these standards, the County reported a restatement for the change in accounting principle (see Note 8). 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 of the County's proportionate share of the net pension liability, schedule of the County contributions, schedule of funding progress, and budgetary comparison information, as listed in the table of contents, respectively, 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.

Supplementary Information

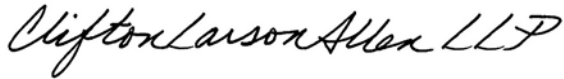
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Steele County's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Board of County Commissioners
Steele County

Other Reporting Required by *Government Auditing Standards*

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



CliftonLarsonAllen LLP

Brainerd, Minnesota
September 15, 2016

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REQUIRED SUPPLEMENTARY INFORMATION

**STEELE COUNTY
OWATONNA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

This section of Steele County's (the County) annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended on December 31, 2015. The management's discussion and analysis (MD&A) is an element of required supplementary information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34. Certain comparative information between the current year, 2015, and the prior year, 2014, is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2015 include the following:

- County-wide net position decreased 5.32 percent over the prior year amount.
- Overall governmental fund-level revenues totaled \$41,707,258 and were \$10,856,921 less than expenditures.
- The operating revenues of the Enterprise Funds were \$2,676,751 and operating expenses were \$1,299,694. Net nonoperating revenues and expenses totaled \$119,014. This resulted in an increase in net position of \$3,810,071 for 2015.
- The General Fund's fund balance increased \$778,597 from the prior year. This increase is due primarily to increased charges for services revenues and transfers in to close out the Social Services Fund.

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.

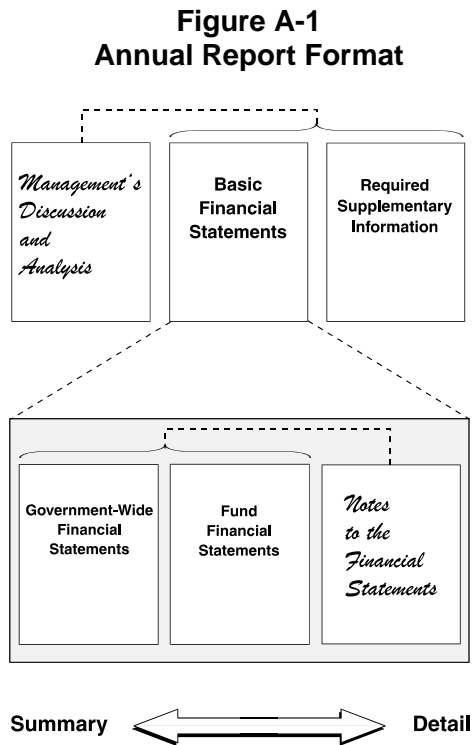
**STEELE COUNTY
OWATONNA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

- 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, human services, and highways and streets were financed in the short term as well as what remains for future spending.
 - Fiduciary funds statements provide information about the financial relationships in which the County acts solely as a trustee or agent for the benefit of others to whom the resources belong.

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

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



**STEELE COUNTY
OWATONNA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

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	Proprietary Funds	Fiduciary Funds
Scope	Entire County's government (except fiduciary funds).	The activities of the County that are not proprietary or fiduciary.	The activities of the County that operate similar to private businesses.	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 net position.	Statement of fiduciary net position.
	Statement of activities.	Statement of revenues, expenditures and changes in fund balance.	Statement of revenues, expenses, and changes in fund net position. Statement of cash flows.	Statement of changes in fiduciary net position.
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.	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 or long-term debt included.	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, and short-term and long-term.	All assets, deferred outflows of resources, liabilities, and 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 the year, regardless of when cash is received or paid.	All revenues and expenses during the year, regardless of when cash is received or paid.

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.

**STEELE COUNTY
OWATONNA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

County-Wide Statements (Continued)

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 and deferred outflows of resources and 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 is an indicator of whether its financial position is improving or deteriorating, respectively.
- 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 two categories:

- Governmental activities – The County's basic services are included here. Property taxes, grants and state aids finance most of these activities.
- Business-type activities – The County's enterprise fund operations are included here. Charges for services 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 Three 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 at the bottom of the governmental funds statements that explain the relationship (or differences) between them.

**STEELE COUNTY
OWATONNA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The County has three kinds of funds (Continued):

- Proprietary funds – The County maintains two proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its solid waste transfer station and Four Seasons Civic Center. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.
- 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.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Position

The County's net position was \$95,738,729 on December 31, 2015 (see Table A-1).

Table A-1
The County's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and Other Assets	\$ 41,109,770	\$ 45,439,652	\$ 5,237,181	\$ 1,980,332	\$ 46,346,951	\$ 47,419,984
Capital and Noncurrent Assets	74,676,220	72,593,624	6,639,580	6,694,100	81,315,800	79,287,724
Total Assets	<u>115,785,990</u>	<u>118,033,276</u>	<u>11,876,761</u>	<u>8,674,432</u>	<u>127,662,751</u>	<u>126,707,708</u>
Deferred Outflows of Resources	1,763,460	-	47,785	-	1,811,245	-
Current Liabilities	3,922,497	4,589,766	235,965	112,786	4,158,462	4,702,552
Long-Term Liabilities	24,966,891	17,838,441	2,652,176	3,049,090	27,619,067	20,887,531
Total Liabilities	<u>28,889,388</u>	<u>22,428,207</u>	<u>2,888,141</u>	<u>3,161,876</u>	<u>31,777,529</u>	<u>25,590,083</u>
Deferred Inflows of Resources	1,890,859	-	66,879	-	1,957,738	-
Net Position						
Net Investment in Capital Assets	62,213,858	58,056,140	6,639,580	6,694,100	68,853,438	64,750,240
Restricted	3,663,689	4,217,080	-	-	3,663,689	4,217,080
Unrestricted	20,891,656	33,331,849	2,329,946	(1,181,544)	23,221,602	32,150,305
Total Net Position	<u>\$ 86,769,203</u>	<u>\$ 95,605,069</u>	<u>\$ 8,969,526</u>	<u>\$ 5,512,556</u>	<u>\$ 95,738,729</u>	<u>\$ 101,117,625</u>

**STEELE COUNTY
OWATONNA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)

Changes in Net Position

The County-wide total revenues were \$44,482,548 for the year ended December 31, 2015. Property taxes, charges for services, and intergovernmental revenues, including grants and contributions, accounted for 92.7 percent of total revenue for the year (see Table A-2).

Table A-2
Change in Net Position

	Governmental Activities		Total % Change	Business-Type Activities		Total % Change	Total		Total % Change
	2015	2014		2015	2014		2015	2014	
REVENUES									
<u>Program Revenues</u>									
Charges for Services	\$ 7,938,237	\$ 6,478,208	22.5 %	\$ 2,647,041	\$ 2,194,535	20.6 %	\$ 10,585,278	\$ 8,672,743	22.1 %
Operating Grants and Contributions	3,492,482	8,902,045	(60.8)	-	13,188	(100.0)	3,492,482	8,915,233	(60.8)
Capital Grants and Contributions	3,766,440	4,243,684	(11.2)	-	-	-	3,766,440	4,243,684	(11.2)
<u>General Revenues</u>									
Property Taxes	21,344,003	20,736,779	2.9	-	-	-	21,344,003	20,736,779	2.9
Unrestricted State Aid	2,066,448	1,907,698	8.3	-	-	-	2,066,448	1,907,698	8.3
Investment Earnings (Loss)	334,554	624,554	(46.4)	2,212	2,105	5.1	336,766	626,659	(46.3)
Other	430,619	1,740,919	(75.3)	2,460,512	133,276	1746.2	2,891,131	1,874,195	54.3
Total Revenues	<u>39,372,783</u>	<u>44,633,887</u>	<u>(11.8)</u>	<u>5,109,765</u>	<u>2,343,104</u>	<u>118.1</u>	<u>44,482,548</u>	<u>46,976,991</u>	<u>(5.3)</u>
EXPENSES									
General Government	7,659,712	7,369,945	3.9	-	-	-	7,659,712	7,369,945	3.9
Public Safety	9,647,418	9,328,946	3.4	-	-	-	9,647,418	9,328,946	3.4
Highways and Streets	8,668,512	7,344,256	18.0	-	-	-	8,668,512	7,344,256	18.0
Sanitation	848,519	870,883	(2.6)	642,751	1,457,786	(55.9)	1,491,270	2,328,669	(36.0)
Human Services	8,052,482	10,685,046	(24.6)	-	-	-	8,052,482	10,685,046	(24.6)
Health	2,205,107	1,822,514	21.0	-	-	-	2,205,107	1,822,514	21.0
Culture and Recreation	229,058	212,582	7.8	656,943	665,628	(1.3)	886,001	878,210	0.9
Conservation of Natural Resources	812,844	706,417	15.1	-	-	-	812,844	706,417	15.1
Interest	616,050	707,321	(12.9)	-	-	-	616,050	707,321	(12.9)
Total Expenses	<u>38,739,702</u>	<u>39,047,910</u>	<u>(0.8)</u>	<u>1,299,694</u>	<u>2,123,414</u>	<u>(38.8)</u>	<u>40,039,396</u>	<u>41,171,324</u>	<u>(2.7)</u>
CHANGE IN NET POSTION	633,081	5,585,977	(88.7)	3,810,071	219,690	1634.3	4,443,152	5,805,667	(23.5)
Net Position - Beginning of Year	95,605,069	90,019,092	6.2	5,512,556	5,292,866	4.2	101,117,625	95,311,958	6.1
Change in Accounting Principle (See Note 8)	(9,468,947)	-	(100.0)	(353,101)	-	(100.0)	(9,822,048)	-	(100.0)
Net Position - Beginning of Year - Restated	<u>86,136,122</u>	<u>90,019,092</u>	<u>(4.3)</u>	<u>5,159,455</u>	<u>5,292,866</u>	<u>(2.5)</u>	<u>91,295,577</u>	<u>95,311,958</u>	<u>(4.2)</u>
NET POSTION - END OF YEAR	<u>\$ 86,769,203</u>	<u>\$ 95,605,069</u>	<u>(9.2)</u>	<u>\$ 8,969,526</u>	<u>\$ 5,512,556</u>	<u>62.7</u>	<u>\$ 95,738,729</u>	<u>\$ 101,117,625</u>	<u>(5.3)</u>

Total governmental activities revenues surpassed expenses, increasing net position \$4,443,152. The increase relates primarily to positive budgetary results in multiple areas.

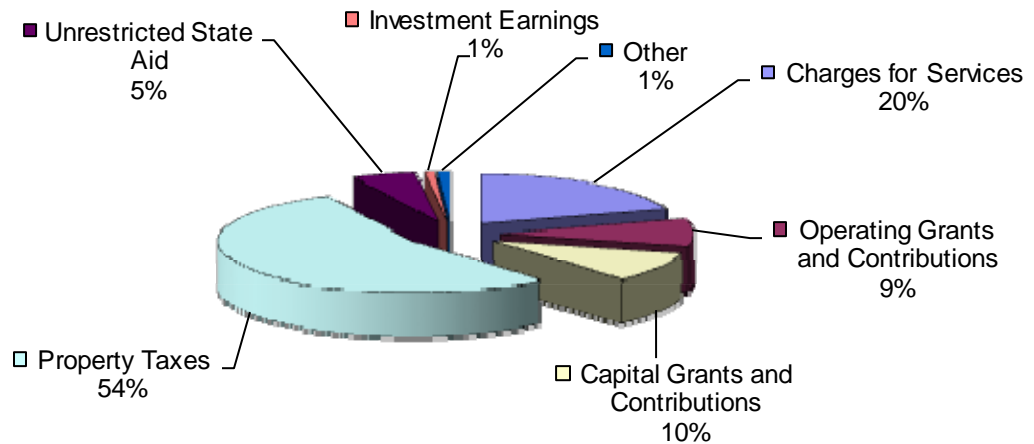
**STEELE COUNTY
OWATONNA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)

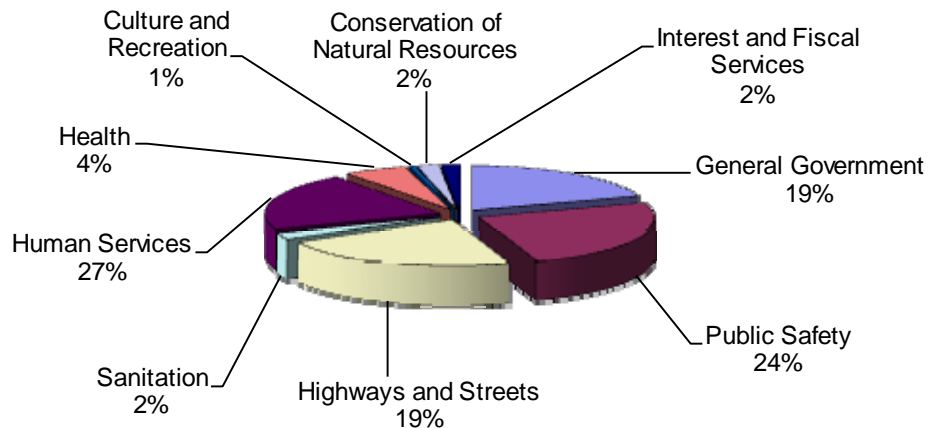
The County-wide cost of all governmental activities this year was \$38,739,702 (see Table A-3).

- Some of the cost was paid by the users of the County's programs (\$7,938,237).
- The federal and state governments subsidized certain programs with grants and contributions (\$7,258,922).
- The remainder of the County's governmental activities costs however, was paid for by County taxpayers and the taxpayers of our state (see Table A-2).

**Figure A-3
Governmental Activities Revenues by Source 2015**



**Figure A-4
Governmental Activities Expenses by Function 2015**



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**STEELE COUNTY
OWATONNA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)

Table A-3
Expenses and Net (Revenue) Cost of Services

	Total Cost of Services		Percentage Change	Net (Revenue) Cost of Services		Percentage Change
	2015	2014		2015	2014	
GOVERNMENTAL ACTIVITIES						
General Government	\$ 7,659,712	\$ 7,369,945	3.9 %	\$ 6,134,818	\$ 6,429,936	(4.6)%
Public Safety	9,647,418	9,328,946	3.4	6,706,281	6,568,192	2.1
Highways and Streets	8,668,512	7,344,256	18.0	1,242,397	195,582	535.2
Sanitation	848,519	870,883	(2.6)	27,993	(48,345)	157.9
Human Services	8,052,482	10,685,046	(24.6)	7,750,937	4,505,066	72.0
Health	2,205,107	1,822,514	21.0	600,690	407,425	47.4
Culture and Recreation	229,058	212,582	7.8	217,273	201,978	7.6
Conservation of Natural Resources	812,844	706,417	15.1	246,104	456,818	(46.1)
Interest	616,050	707,321	(12.9)	616,050	707,321	(12.9)
Total	<u>\$ 38,739,702</u>	<u>\$ 39,047,910</u>	(0.8)	<u>\$ 23,542,543</u>	<u>\$ 19,423,973</u>	21.2
	Total Cost of Services		Percentage Change	Net (Revenue) Cost of Services		Percentage Change
	2015	2014		2015	2014	
BUSINESS-TYPE ACTIVITIES						
Solid Waste	\$ 642,751	\$ 1,457,786	(55.9)	\$ (1,644,675)	\$ (376,963)	(336.3)
Four Seasons Civic Center	656,943	665,628	(1.3)	297,328	292,654	1.6
Total	<u>\$ 1,299,694</u>	<u>\$ 2,123,414</u>	(38.8)	<u>\$ (1,347,347)</u>	<u>\$ (84,309)</u>	(1498.1)

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 2015, its governmental funds reported a combined fund balance of \$28,359,438.

Revenues for the County's governmental funds were \$41,707,258, while total expenditures were \$52,564,179.

GENERAL FUND

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

**STEELE COUNTY
OWATONNA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund revenues:

Table A-4
General Fund Revenues

	Year Ended		Change	
	December 31, 2015	December 31, 2014	Increase (Decrease)	Percent
Taxes	\$ 16,533,927	\$ 12,690,141	\$ 3,843,786	30.3 %
Intergovernmental	2,887,000	2,516,551	370,449	14.7
Charges for Services	4,901,289	4,513,564	387,725	8.6
Interest	332,184	622,483	(290,299)	(46.6)
Insurance Dividend	209,033	238,184	(29,151)	(12.2)
Miscellaneous and Other	1,442,748	971,054	471,694	48.6
Total General Fund Revenues	<u>\$ 26,306,181</u>	<u>\$ 21,551,977</u>	<u>\$ 4,754,204</u>	22.1

Total General Fund revenue increased by \$4,754,204, or 22 percent, from the previous year. The increase relates primarily to tax revenue increases as a result of the human services levy now accounted for in the General Fund and then appropriated out to Minnesota Prairie.

The following schedule presents a summary of General Fund expenditures:

Table A-5
General Fund Expenditures

	Year Ended		Change	
	December 31, 2015	December 31, 2014	Increase (Decrease)	Percent
General Government	\$ 7,623,639	\$ 7,075,811	\$ 547,828	7.7 %
Public Safety	8,992,049	8,840,278	151,771	1.7
Sanitation	845,795	871,004	(25,209)	(2.9)
Health and Human Services	5,737,030	1,836,359	3,900,671	212.4
Culture and Recreation	228,070	211,879	16,191	7.6
Conservation	522,117	573,713	(51,596)	(9.0)
Debt Service	151,699	151,699	-	-
Total Expenditures	<u>\$ 24,100,399</u>	<u>\$ 19,560,743</u>	<u>\$ 4,539,656</u>	23.2

**STEELE COUNTY
OWATONNA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

OTHER MAJOR FUNDS ANALYSIS

The Road and Bridge Fund had total fund balance of \$9,980,309 at the end of the current fiscal year. The fund balance of the Road and Bridge Fund increased \$863,932 due primarily to the new sales tax collected during the year.

The Social Services Fund was closed out during the year with a transfer out to General Fund of \$882,440. The operations of this fund have been moved to a separate entity.

The Ditch Fund had total deficit fund balance of \$390,720 at the end of the current fiscal year. The fund balance deficit of the Ditch Fund decreased \$125,552 primarily due to special assessment and intergovernmental revenue exceeding current year ditch repairs.

The Community Wellness Fund had total deficit fund balance of \$848,721 at the end of the current fiscal year. The fund balance of the Community Wellness Fund decreased \$1,015,862 due to the additional contribution to Steele County Communities for a Lifetime.

The Debt Service Fund had total fund balance of \$1,210,205 at the end of the current fiscal year. The fund balance of the Debt Service Fund increased \$151,851 due to tax revenue and intergovernmental revenue exceeding the scheduled repayment of debt.

The Capital Projects Fund had total fund balance of \$522,923 at the end of the current fiscal year. The fund balance of the Capital Projects Fund decreased \$44,499 during the current fiscal year due primarily to spend down of prior year transfers in.

The Solid Waste Fund had total net position of \$6,030,808 at the end of the current fiscal year. The net position of the Solid Waste Fund increased \$1,455,967 during the current year, due primarily to an increased collection of service fees in 2015 offset by a restatement in beginning net position for the implementation of new GASB standard relating to pensions.

The Four Seasons Civic Center Fund had total net position of \$2,938,718 at the end of the current fiscal year. The net position of the Four Seasons Civic Center Fund increased \$2,001,003 during the current fiscal year, after the adjustment for GASB 68.

GENERAL FUND BUDGETARY HIGHLIGHTS

- The County Board approved budget amendments between departments within the General Fund during the year.
- Actual revenues were \$1,914,388 more than expected due to unexpected additional charges for services relating to jail operations.
- The actual expenditures were \$649,731 less than expected due primarily to savings in other general government expenditures.

**STEELE COUNTY
OWATONNA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

CAPITAL ASSETS

By the end of 2015, the County had invested approximately \$163,800,000 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.3 to the financial statements.) Total depreciation expense for the year was \$5,777,762 (including the enterprise funds).

Table A-6
The County's Capital Assets

	Governmental Activities		Percent Change	Business-Type Activities		Percent Change	Total		Percent Change
	2015	2014		2015	2014		2015	2014	
Land	\$ 3,529,228	\$ 3,287,964	7.3 %	\$ 451,250	\$ 451,250	- %	\$ 3,980,478	\$ 3,739,214	6.5 %
Construction-in-Progress	1,415,896	4,492,761	(68.5)	348,669	-	100.0	1,764,565	4,492,761	(60.7)
Infrastructure	111,067,734	101,912,334	9.0	-	-	-	111,067,734	101,912,334	9.0
Buildings	21,983,109	21,946,774	0.2	5,821,356	5,821,356	-	27,804,465	27,768,130	0.1
Improvements Other than Buildings	9,499,407	9,012,170	5.4	208,438	158,367	31.6	9,707,845	9,170,537	5.9
Landfill	-	-	-	6,235,330	6,211,154	0.4	6,235,330	6,211,154	0.4
Machinery, Equipment, and Vehicles	1,323,599	1,323,599	-	1,915,217	1,838,164	4.2	3,238,816	3,161,763	2.4
Less: Accumulated Depreciation	(74,142,753)	(69,381,978)	6.9	(8,340,680)	(7,786,191)	7.1	(82,483,433)	(77,168,169)	6.9
Total	<u>\$ 74,676,220</u>	<u>\$ 72,593,624</u>	2.9	<u>\$ 6,639,580</u>	<u>\$ 6,694,100</u>	(0.8)	<u>\$ 81,315,800</u>	<u>\$ 79,287,724</u>	2.6

LONG-TERM LIABILITIES

At year-end, the County had \$18,488,249 in long-term liabilities outstanding.

- The County's governmental activities total debt decreased \$2,012,369, due primarily to the repayment of bonds according to the repayment schedules.

Table A-7
The County's Long-Term Liabilities

	2015	2014	Percentage Change
GOVERNMENTAL ACTIVITIES			
General Obligation Bonds	\$ 12,433,338	\$ 14,386,520	(13.6)%
Revenue Bonds	2,930,000	3,060,000	(4.2)
General Obligation Notes	134,833	150,964	(10.7)
Loans Payable	880,810	947,870	(7.1)
Compensated Absences Payable	1,185,803	1,119,278	5.9
Other Postemployment Benefits Payable	923,465	835,986	10.5
Total Governmental Activities	<u>\$ 18,488,249</u>	<u>\$ 20,500,618</u>	(9.8)
BUSINESS-TYPE ACTIVITIES			
Closure and Postclosure	\$ 2,231,772	\$ 2,982,604	(25.2)
Compensated Absences Payable	61,628	52,571	17.2
Other Postemployment Benefits Payable	49,946	32,315	54.6
Total Business-Type Activities	<u>\$ 2,343,346</u>	<u>\$ 3,067,490</u>	(23.6)

**STEELE COUNTY
OWATONNA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when deciding the fiscal year 2016 budget, tax rates and charges for service fees. Some of the factors included revenues expected from other revenue sources (i.e. State of Minnesota), the County's financial policies, their capital improvement plan as well as other projected forecasts. These factors were considered when the budget and levy were set at \$49,929,947 and \$22,439,153, respectively.

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 Laura Ihrke, County Auditor or Cathy Piepho, County Treasurer at (507) 444-7422.

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**STEELE COUNTY
OWATONNA, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and Pooled Investments	\$ 25,846,224	\$ 2,518,134	\$ 28,364,358
Petty Cash and Change Funds	3,400	320	3,720
Cash with Escrow Agent	-	2,204,856	2,204,856
Taxes Receivable			
Current	108,396	-	108,396
Delinquent	236,901	-	236,901
Special Assessments Receivable			
Delinquent	29,876	-	29,876
Noncurrent	426,043	-	426,043
Accounts Receivable - Net	234,470	248,255	482,725
Accrued Interest Receivable	144,943	4	144,947
Internal Balances	(5,267)	5,267	-
Due from Other Governments	2,992,409	29,118	3,021,527
Loans Receivable	737,681	17,800	755,481
Inventories	161,491	213,427	374,918
Investment in Joint Venture	4,636,362	-	4,636,362
Restricted Assets			
Cash and Pooled Investments	705,114	-	705,114
Net Investment in Sales-Type Lease	4,851,727	-	4,851,727
Non-Depreciable Capital Assets			
Land	3,529,228	451,250	3,980,478
Construction-in-Progress	1,415,896	348,669	1,764,565
Depreciable Capital Assets			
Building (Net)	14,138,200	3,188,537	17,326,737
Improvements Other than Buildings (Net)	20,666	132,245	152,911
Machinery, Vehicles, Furniture and Equipment (Net)	3,541,037	625,117	4,166,154
Landfill (Net)	-	1,893,762	1,893,762
Infrastructure (Net)	52,031,193	-	52,031,193
Total Assets	115,785,990	11,876,761	127,662,751
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related	1,657,652	47,785	1,705,437
Loss on Refunding	105,808	-	105,808
Total Deferred Outflows of Resources	1,763,460	47,785	1,811,245

See accompanying Notes to Financial Statements.

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
LIABILITIES			
Accounts Payable	\$ 487,536	\$ 107,855	\$ 595,391
Salaries Payable	182,653	6,506	189,159
Accrued Payroll Taxes Payable	28,049	972	29,021
Contracts Payable	213,649	74,262	287,911
Due to Other Governments	107,416	24,800	132,216
Accrued Interest Payable	77,908	-	77,908
Compensated Absences Payable - Due Within One Year	415,031	21,570	436,601
General Obligation Bonds Payable - Due Within One Year	2,135,000	-	2,135,000
Loans Payable - Due Within One Year	123,963	-	123,963
Revenue Bonds Payable - Due Within One Year	135,000	-	135,000
G.O. Taxable Wastewater Revenue Notes - Due Within One Year	16,292	-	16,292
Compensated Absences Payable - Due in More than One Year	770,772	40,058	810,830
Other Postemployment Benefits Payable - Due in More than One Year	923,465	49,946	973,411
General Obligation Bonds Payable - Due in More than One Year	10,298,338	-	10,298,338
Loans Payable - Due in More than One Year	756,847	-	756,847
Estimated Liability for Landfill Closure/Postclosure - Due in More than One Year	-	2,231,772	2,231,772
Revenue Bonds Payable - Due in More than One Year	2,795,000	-	2,795,000
G.O. Taxable Wastewater Revenue Notes - Due in More than One Year	118,541	-	118,541
Net Pension Liability	9,303,928	330,400	9,634,328
Total Liabilities	28,889,388	2,888,141	31,777,529
DEFERRED INFLOWS OF RESOURCES			
Pension Related	1,890,859	66,879	1,957,738
NET POSITION			
Net Investment in Capital Assets	62,213,858	6,639,580	68,853,438
Restricted For:			
General Government	584,021	-	584,021
Debt Service	1,161,073	-	1,161,073
Steele County Communities for a Lifetime	705,114	-	705,114
Transportation State Aid	201,924	-	201,924
Conservation of Natural Resources	1,011,557	-	1,011,557
Unrestricted	20,891,656	2,329,946	23,221,602
Total Net Position	\$ 86,769,203	\$ 8,969,526	\$ 95,738,729

**STEELE COUNTY
OWATONNA, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015**

FUNCTIONS/PROGRAMS	Expenses	Program Revenue		
		Fees, Charges Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
General Government	\$ 7,659,712	\$ 1,427,172	\$ 97,722	\$ -
Public Safety	9,647,418	2,705,251	235,886	-
Highways and Streets	8,668,512	1,367,994	2,291,681	3,766,440
Sanitation	848,519	622,714	197,812	-
Human Services	8,052,482	168,945	132,600	-
Health	2,205,107	1,137,622	466,795	-
Culture and Recreation	229,058	11,785	-	-
Conservation of Natural Resources	812,844	496,754	69,986	-
Interest	616,050	-	-	-
Total Governmental Activities	38,739,702	7,938,237	3,492,482	3,766,440
BUSINESS-TYPE ACTIVITIES				
Solid Waste	642,751	2,287,426	-	-
Four Seasons Civic Center	656,943	359,615	-	-
Total Business-Type Activities	1,299,694	2,647,041	-	-
Total Primary Government	\$ 40,039,396	\$ 10,585,278	\$ 3,492,482	\$ 3,766,440

GENERAL REVENUES

Taxes

Property Taxes

Sales Taxes

Gravel Taxes

Wheelage Taxes

Mortgage Registry and Deed Taxes

Grants and Contributions not Restricted
for a Particular Purpose

Gifts and Contributions

Investment Earnings

Miscellaneous

Gain on Sale of Capital Assets

TRANSFERS

Total General Revenues

CHANGE IN NET POSITION

Net Position - Beginning of Year

Change in Accounting Principle

Net Position - Beginning of Year, As Restated

NET POSITION - END OF YEAR

See accompanying Notes to Financial Statements.

<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-Type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (6,134,818)	\$ -	\$ (6,134,818)
(6,706,281)	-	(6,706,281)
(1,242,397)	-	(1,242,397)
(27,993)	-	(27,993)
(7,750,937)	-	(7,750,937)
(600,690)	-	(600,690)
(217,273)	-	(217,273)
(246,104)	-	(246,104)
(616,050)	-	(616,050)
<u>(23,542,543)</u>	<u>-</u>	<u>(23,542,543)</u>
-	1,644,675	1,644,675
<u>-</u>	<u>(297,328)</u>	<u>(297,328)</u>
<u>-</u>	<u>1,347,347</u>	<u>1,347,347</u>
(23,542,543)	1,347,347	(22,195,196)
21,344,003	-	21,344,003
1,523,501	-	1,523,501
47,505	-	47,505
361,169	-	361,169
28,059	-	28,059
2,066,448	-	2,066,448
305	100,000	100,305
334,554	2,212	336,766
716,080	29,710	745,790
68,000	16,802	84,802
<u>(2,314,000)</u>	<u>2,314,000</u>	<u>-</u>
<u>24,175,624</u>	<u>2,462,724</u>	<u>26,638,348</u>
633,081	3,810,071	4,443,152
95,605,069	5,512,556	101,117,625
<u>(9,468,947)</u>	<u>(353,101)</u>	<u>(9,822,048)</u>
<u>86,136,122</u>	<u>5,159,455</u>	<u>91,295,577</u>
<u>\$ 86,769,203</u>	<u>\$ 8,969,526</u>	<u>\$ 95,738,729</u>

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FUND FINANCIAL STATEMENTS

**STEELE COUNTY
OWATONNA, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	General	Road and Bridge	Social Services
ASSETS			
Cash and Pooled Investments	\$ 12,978,733	\$ 8,795,103	\$ -
Petty Cash and Change Funds	3,350	50	-
Restricted Investments	-	-	-
Taxes Receivable			
Current	83,554	12,264	-
Delinquent	179,001	29,124	-
Special Assessments Receivable			
Delinquent	23,858	-	-
Deferred	-	-	-
Accounts Receivable	233,351	1,119	-
Accrued Interest Receivable	143,217	-	-
Loans Receivable	737,681	-	-
Due from Other Funds	1,329	9,465	-
Due from Other Governments	762,616	2,208,297	-
Inventories	-	161,491	-
Advances to Other Funds	4,229,000	-	-
Net Investment in Sales-Type Lease	-	-	-
	\$ 19,375,690	\$ 11,216,913	\$ -
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 358,091	\$ 101,299	\$ -
Salaries Payable	159,202	23,451	-
Accrued Payroll Taxes	24,494	3,555	-
Contracts Payable	-	213,649	-
Due to Other Funds	15,187	874	-
Due to Other Governments	47,050	19,393	-
Advance from Other Funds	-	-	-
	604,024	362,221	-
DEFERRED INFLOWS OF RESOURCES			
Unavailable Taxes	179,001	29,124	-
Unavailable Special Assessments	23,858	-	-
Unavailable Loans	388,007	-	-
Unavailable Grants	20,015	845,259	-
Unavailable Revenues	275,343	-	-
Unavailable Lease	-	-	-
	886,224	874,383	-

See accompanying Notes to Financial Statements.

Ditch	Community Wellness	Debt Service	Capital Projects	Total Governmental Funds
\$ 703,649	\$ 1,644,439	\$ 1,197,627	\$ 526,673	\$ 25,846,224
-	-	-	-	3,400
-	705,114	-	-	705,114
-	-	12,578	-	108,396
-	-	28,776	-	236,901
6,018	-	-	-	29,876
426,043	-	-	-	426,043
-	-	-	-	234,470
-	1,726	-	-	144,943
-	-	-	-	737,681
-	-	-	-	10,794
21,496	-	-	-	2,992,409
-	-	-	-	161,491
-	-	-	-	4,229,000
-	4,851,727	-	-	4,851,727
<u>\$ 1,157,206</u>	<u>\$ 7,203,006</u>	<u>\$ 1,238,981</u>	<u>\$ 526,673</u>	<u>\$ 40,718,469</u>

\$ 24,396	\$ -	\$ -	\$ 3,750	\$ 487,536
-	-	-	-	182,653
-	-	-	-	28,049
-	-	-	-	213,649
-	-	-	-	16,061
40,973	-	-	-	107,416
1,029,000	3,200,000	-	-	4,229,000
1,094,369	3,200,000	-	3,750	5,264,364
6,018	-	28,776	-	242,919
426,043	-	-	-	449,901
-	-	-	-	388,007
-	-	-	-	865,274
21,496	-	-	-	296,839
-	4,851,727	-	-	4,851,727
453,557	4,851,727	28,776	-	7,094,667

**STEELE COUNTY
OWATONNA, MINNESOTA
BALANCE SHEET (CONTINUED)
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

FUND BALANCES	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>
Nonspendable for			
Ag Society Loans Receivable	\$ 349,674	\$ -	\$ -
Inventories	-	161,491	-
Advances to Other Funds	4,229,000	-	-
Restricted for			
Tree Memorial	653	-	-
Recorder Technology	281,096	-	-
Recorder Compliance Fund	205,292	-	-
Missing Heirs	1,000	-	-
CWP Loans	492,803	-	-
Natural Resources Block Grant	64,103	-	-
U of M Extension	6,610	-	-
Veterans Donation	1,840	-	-
Sheriff Drug & Alcohol Forfeiture	7,127	-	-
Sheriff Handgun	88,013	-	-
State Aid Projects	-	140,412	-
Steele County Communities for a Lifetime	-	-	-
Debt Services	-	-	-
Bixby Project	60,034	-	-
Committed for			
Capital Equipment Purchases	-	-	-
Assigned for			
Sealcoating Maintenance	-	33,200	-
Bridges, Roads & Streets	-	9,423,358	-
Compensated Absences	963,956	221,848	-
Unassigned	<u>11,134,241</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>17,885,442</u>	<u>9,980,309</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 19,375,690</u>	<u>\$ 11,216,913</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.

<u>Ditch</u>	<u>Community Wellness</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 349,674
-	-	-	-	161,491
-	-	-	-	4,229,000
-	-	-	-	653
-	-	-	-	281,096
-	-	-	-	205,292
-	-	-	-	1,000
-	-	-	-	492,803
-	-	-	-	64,103
-	-	-	-	6,610
-	-	-	-	1,840
-	-	-	-	7,127
-	-	-	-	88,013
-	-	-	-	140,412
-	705,114	-	-	705,114
-	-	1,210,205	-	1,210,205
-	-	-	-	60,034
-	-	-	522,923	522,923
-	-	-	-	33,200
-	-	-	-	9,423,358
-	-	-	-	1,185,804
<u>(390,720)</u>	<u>(1,553,835)</u>	<u>-</u>	<u>-</u>	<u>9,189,686</u>
<u>(390,720)</u>	<u>(848,721)</u>	<u>1,210,205</u>	<u>522,923</u>	<u>28,359,438</u>
<u>\$ 1,157,206</u>	<u>\$ 7,203,006</u>	<u>\$ 1,238,981</u>	<u>\$ 526,673</u>	<u>\$ 40,718,469</u>

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

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS	\$ 28,359,438
Total net position reported for governmental activities in the statement of net position is 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.	74,676,220
Other long-term assets (deferred inflows of resources) are not available to pay for current-period expenditures and, therefore, are reported as deferred inflows in the governmental funds.	7,094,667
The loss on refunding is reported as a deferred outflow of resources on the statement on net position and amortized over the life of the bond.	105,808
The net pension liability and related inflows and outflows of resources are recorded only on the statement of net position. Balances at year-end are:	
Net Pension Liability	(9,303,928)
Deferred Outflows of Resources Related to Pensions	1,657,652
Deferred Inflows of Resources Related to Pensions	(1,890,859)
Investment in joint ventures are reported in governmental activities and are not financial resources. Therefore, they are not reported in the governmental funds.	4,636,362
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
General Obligation Bonds and Premium	\$ (12,433,338)
Revenue Bonds	(2,930,000)
General Obligation Taxable Wastewater Revenue Notes	(134,833)
Loans Payable	(880,810)
Compensated Absences	(1,185,803)
Other Postemployment Benefits Payable	(923,465)
Accrued Interest Payable	(77,908)
	(18,566,157)
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 86,769,203

See accompanying Notes to Financial Statements.

**STEELE COUNTY
OWATONNA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2015**

	General	Road and Bridge	Social Services
REVENUES			
Taxes	\$ 16,533,927	\$ 4,339,919	\$ -
Special Assessments	-	-	-
Licenses and Permits	139,723	-	-
Intergovernmental	2,887,000	5,786,732	-
Charges for Services	4,901,289	1,735,184	-
Fines and Forfeits	13,546	-	-
Investment Earnings	332,184	-	-
Insurance Dividend	209,033	-	-
Miscellaneous	1,289,479	49,713	-
Total Revenues	26,306,181	11,911,548	-
EXPENDITURES			
CURRENT			
General Government	6,895,763	-	-
Public Safety	8,965,520	-	-
Highways and Streets	-	9,864,714	-
Sanitation	845,795	-	-
Human Services	3,616,773	-	3,099,945
Health	2,120,257	-	-
Culture and Recreation	228,070	-	-
Conservation of Natural Resources	522,117	-	-
CAPITAL OUTLAY			
General Government	727,876	-	-
Public Safety	26,529	-	-
Highways and Streets	-	1,169,712	-
DEBT SERVICE			
Principal	137,652	-	-
Interest	14,047	-	-
Administrative (Fiscal) Charges	-	-	-
Total Expenditures	24,100,399	11,034,426	3,099,945
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,205,782	877,122	(3,099,945)
OTHER FINANCING SOURCES (USES)			
Transfers In	882,440	56,086	-
Transfers Out	(2,370,086)	-	(882,440)
Loans and G.O. Notes Issued	54,461	-	-
Proceeds from Sale of Assets	6,000	62,000	-
Proceeds from Sale of Bonds	-	-	-
Premium on Bonds	-	-	-
Total Other Financing Sources (Uses)	(1,427,185)	118,086	(882,440)
NET CHANGE IN FUND BALANCES	778,597	995,208	(3,982,385)
Fund Balances (Deficit) - Beginning of Year	17,106,845	9,116,377	3,982,385
DECREASE IN INVENTORIES	-	(131,276)	-
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 17,885,442</u>	<u>\$ 9,980,309</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.

Ditch	Community Wellness	Debt Service	Capital Projects	Total Governmental Funds
\$ -	\$ -	\$ 2,485,537	\$ -	\$ 23,359,383
419,132	-	-	-	419,132
-	-	-	-	139,723
45,910	-	233,468	-	8,953,110
-	-	-	-	6,636,473
-	-	-	-	13,546
2,348	-	-	-	334,532
-	-	-	-	209,033
7	303,127	-	-	1,642,326
<u>467,397</u>	<u>303,127</u>	<u>2,719,005</u>	<u>-</u>	<u>41,707,258</u>
-	-	-	-	6,895,763
-	-	-	-	8,965,520
-	-	-	-	9,864,714
-	-	-	-	845,795
-	1,046,323	-	-	7,763,041
-	-	-	-	2,120,257
-	-	-	-	228,070
341,845	-	-	-	863,962
-	-	-	-	727,876
-	-	-	44,499	71,028
-	-	-	-	1,169,712
-	130,000	11,950,000	-	12,217,652
-	142,666	567,777	-	724,490
-	-	106,299	-	106,299
<u>341,845</u>	<u>1,318,989</u>	<u>12,624,076</u>	<u>44,499</u>	<u>52,564,179</u>
125,552	(1,015,862)	(9,905,071)	(44,499)	(10,856,921)
-	-	-	-	938,526
-	-	-	-	(3,252,526)
-	-	-	-	54,461
-	-	-	-	68,000
-	-	9,720,000	-	9,720,000
-	-	336,922	-	336,922
<u>-</u>	<u>-</u>	<u>10,056,922</u>	<u>-</u>	<u>7,865,383</u>
125,552	(1,015,862)	151,851	(44,499)	(2,991,538)
(516,272)	167,141	1,058,354	567,422	31,482,252
-	-	-	-	(131,276)
<u>\$ (390,720)</u>	<u>\$ (848,721)</u>	<u>\$ 1,210,205</u>	<u>\$ 522,923</u>	<u>\$ 28,359,438</u>

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**STEELE COUNTY
OWATONNA, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES – GOVERNMENT ACTIVITIES
YEAR ENDED DECEMBER 31, 2015**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (2,991,538)

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

Governmental funds report capital outlays 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		
Asset Adjustments	\$ 7,257,091	
Current Year Depreciation	<u>(5,127,583)</u>	2,129,508

In the statement of activities, only the gain or loss on the disposal of capital assets are reported whereas in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net position differs from the change in fund balance by the net cost of the capital assets disposed of. (46,912)

Governmental funds report pension contribution as expenditures when made. However, in the statement of activities, pension expense is the cost of the benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and the investment experience.

Pension Expense	(68,188)
-----------------	----------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. (163,844)

At the fund level, under the modified accrual basis, distributions of joint venture equity interest are recorded as revenue. In the statement of net position, an asset is reported for the equity interest in joint ventures and distributions (decreases) and increases in joint venture equity are reported in the statement of activities. The change in net position differs from the changes in fund balance by the increases and decreases in the investment in joint venture. (239,879)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. The proceeds for debt issuance are:

Clean Water Partnership Loans	(54,461)	
General Obligation Bonds	<u>(9,720,000)</u>	(9,774,461)

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

Principal Repayments:		
General Obligation Bonds	11,950,000	
Revenue Bonds	130,000	
Clean Water Partnership	121,521	
General Obligation Taxable Wastewater Revenue Notes	<u>16,131</u>	12,217,652

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	27,033	
Amortization of Bond Premiums and Loss of Refunding	(171,010)	
Change in Compensated Absences	(66,525)	
Change in Other Postemployment Benefits Payable	(87,479)	
Change in Inventories	<u>(131,276)</u>	<u>(429,257)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 633,081

**STEELE COUNTY
OWATONNA, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2015**

	Business-Type Activities - Enterprise Funds		
	Solid Waste	Four Seasons Civic Center	Totals
ASSETS			
CURRENT ASSETS			
Cash and Pooled Investments	\$ 2,472,586	\$ 45,548	\$ 2,518,134
Petty Cash and Change Funds	250	70	320
Accounts Receivable (Net)	203,090	45,165	248,255
Accrued Interest Receivable	-	4	4
Loans Receivable	-	17,800	17,800
Due from Other Funds	-	6,683	6,683
Due from Other Governments	48	29,070	29,118
Inventories	213,427	-	213,427
Total Current Assets	<u>2,889,401</u>	<u>144,340</u>	<u>3,033,741</u>
Restricted Assets			
Cash and Pooled Investments	2,204,856	-	2,204,856
NONCURRENT ASSETS			
Non-Depreciable Capital Assets			
Land	451,250	-	451,250
Construction-in-Progress	348,669	-	348,669
Depreciable Capital Assets - Net of Accumulated Depreciation			
Buildings	218,217	2,970,320	3,188,537
Improvements Other than Buildings	74,194	58,051	132,245
Machinery, Vehicles, Furniture and Equipment	589,434	35,683	625,117
Landfill	1,893,762	-	1,893,762
Total Noncurrent Assets	<u>3,575,526</u>	<u>3,064,054</u>	<u>6,639,580</u>
Total Assets	8,669,783	3,208,394	11,878,177
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related	28,003	19,782	47,785

See accompanying Notes to Financial Statements.

	Business-Type Activities - Enterprise Funds		
	Solid Waste	Four Seasons Civic Center	Totals
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	\$ 55,401	\$ 52,454	\$ 107,855
Contracts Payable	74,262	-	74,262
Salaries Payable	3,554	2,952	6,506
Accrued Payroll Taxes	537	435	972
Compensated Absences Payable - Due Within One Year	7,627	13,943	21,570
Due to Other Funds	465	951	1,416
Due to Other Governments	24,800	-	24,800
Total Current Liabilities	<u>166,646</u>	<u>70,735</u>	<u>237,381</u>
NONCURRENT LIABILITIES			
Compensated Absences - Due in More Than One Year	14,164	25,894	40,058
Estimated Liability for Landfill Closure/ Postclosure	2,231,772	-	2,231,772
Other Postemployment Benefits Payable Due in More Than One Year	20,783	29,163	49,946
Net Pension Liability	194,286	136,114	330,400
Total Noncurrent Liabilities	<u>2,461,005</u>	<u>191,171</u>	<u>2,652,176</u>
Total Liabilities	2,627,651	261,906	2,889,557
DEFERRED INFLOWS OF RESOURCES			
Pension Related	39,327	27,552	66,879
NET POSITION			
Net Investment in Capital Assets Unrestricted	3,575,526 <u>2,455,282</u>	3,064,054 <u>(125,336)</u>	6,639,580 <u>2,329,946</u>
Total Net Position	<u>\$ 6,030,808</u>	<u>\$ 2,938,718</u>	<u>\$ 8,969,526</u>

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**STEELE COUNTY
OWATONNA, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2015**

	Business-Type Activities - Enterprise Funds		
	Solid Waste	Four Seasons Civic Center	Totals
OPERATING REVENUES			
Charges for Services	\$ 2,263,397	\$ 383,644	\$ 2,647,041
Miscellaneous	24,029	5,681	29,710
Total Operating Revenues	<u>2,287,426</u>	<u>389,325</u>	<u>2,676,751</u>
OPERATING EXPENSES			
Personal Services	314,775	214,887	529,662
Employee Benefits and Payroll Taxes	44,933	34,696	79,629
Other Services and Charges	122,824	267,253	390,077
Waste Management	(349,853)	-	(349,853)
Depreciation and Amortization	510,072	140,107	650,179
Total Operating Expenses	<u>642,751</u>	<u>656,943</u>	<u>1,299,694</u>
OPERATING INCOME (LOSS)	1,644,675	(267,618)	1,377,057
NONOPERATING REVENUES (EXPENSES)			
Investment Income	2,154	58	2,212
Gifts and Contributions	-	100,000	100,000
Gain on Sale/Disposal of Capital Assets	16,802	-	16,802
Total Nonoperating Revenues (Expenses)	<u>18,956</u>	<u>100,058</u>	<u>119,014</u>
INCOME (LOSS) BEFORE TRANSFERS	1,663,631	(167,560)	1,496,071
OPERATING TRANSFERS			
Transfers In	-	2,314,000	2,314,000
CHANGES IN NET POSITION	1,663,631	2,146,440	3,810,071
Net Position - Beginning of Year	4,574,841	937,715	5,512,556
Change in Accounting Principle	(207,664)	(145,437)	(353,101)
Net Position - Beginning of Year, as Restated	<u>4,367,177</u>	<u>792,278</u>	<u>5,159,455</u>
NET POSITION - END OF YEAR	<u>\$ 6,030,808</u>	<u>\$ 2,938,718</u>	<u>\$ 8,969,526</u>

See accompanying Notes to Financial Statements.

**STEELE COUNTY
OWATONNA, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2015**

	Business-Type Activities - Enterprise Funds		
	Solid Waste	Four Seasons Civic Center	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 2,287,143	\$ 361,236	\$ 2,648,379
Payments to Suppliers	(523,681)	(235,604)	(759,285)
Payments to Employees	(294,935)	(231,502)	(526,437)
Net Cash Provided (Used) by Operating Activities	1,468,527	(105,870)	1,362,657
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfer In	-	2,314,000	2,314,000
Advance from Other Funds	-	(2,314,000)	(2,314,000)
Contributions	-	100,000	100,000
Net Cash Provided (Used) by Noncapital Financing Activities	-	100,000	100,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from Sale of Capital Assets	16,802	-	16,802
Purchases of Capital Assets	(545,588)	(50,071)	(595,659)
Net Cash Provided (Used) by Capital and Related Financing Activities	(528,786)	(50,071)	(578,857)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Earnings Received	2,154	60	2,214
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	941,895	(55,881)	886,014
Cash and Cash Equivalents - Beginning of Year	3,735,797	101,499	3,837,296
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,677,692	\$ 45,618	\$ 4,723,310

See accompanying Notes to Financial Statements.

**STEELE COUNTY
OWATONNA, MINNESOTA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2015**

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Solid Waste</u>	<u>Four Seasons Civic Center</u>	<u>Totals</u>
CASH AND CASH EQUIVALENTS			
Cash and Pooled Investments	\$ 2,472,586	\$ 45,548	\$ 2,518,134
Petty Cash and Change Funds	250	70	320
Restricted Cash and Pooled Investments	2,204,856	-	2,204,856
Total Cash and Cash Equivalents	<u>\$ 4,677,692</u>	<u>\$ 45,618</u>	<u>\$ 4,723,310</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES			
Operating Income (Loss)	\$ 1,644,675	\$ (267,618)	\$ 1,377,057
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation and Amortization	510,072	140,107	650,179
Adjustment for Pension Expense	(2,054)	(1,553)	(3,607)
(Increase) Decrease in Assets:			
Accounts Receivable	(30,146)	(2,466)	(32,612)
Loans Receivable	-	(17,800)	(17,800)
Due from Other Governments	(48)	(4,620)	(4,668)
Due from Other Funds	-	(3,203)	(3,203)
Inventory	29,911	-	29,911
Increase (Decrease) in Liabilities:			
Accounts Payable	12,084	46,682	58,766
Contracts Payable	74,262	-	74,262
Salaries Payable	(7,960)	(5,235)	(13,195)
Accrued Payroll Taxes	(563)	(731)	(1,294)
Compensated Absences Payable	(3,902)	12,959	9,057
Other Postemployment Benefits Payable	4,990	12,641	17,631
Due to Other Funds	(13,432)	(15,033)	(28,465)
Due to Other Governments	1,470	-	1,470
Landfill Closure Liability	(750,832)	-	(750,832)
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,468,527</u>	<u>\$ (105,870)</u>	<u>\$ 1,362,657</u>

See accompanying Notes to Financial Statements.

**STEELE COUNTY
OWATONNA, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2015**

	Private Purpose Trust	Agency
ASSETS		
Cash and Pooled Investments	\$ 280,833	\$ 1,385,152
Prepaid Items	-	25,845
Accrued Interest Receivable	48	-
Accounts Receivable	-	45,452
Due From Other Governments	-	41,594
	<u>\$ 280,881</u>	<u>\$ 1,498,043</u>
LIABILITIES		
Accounts Payable	\$ 7,448	\$ 18,085
Funds Held in Trust	-	157,669
Salaries Payable	-	72,776
Due to Other Governments	231	1,249,513
	<u>\$ 7,679</u>	<u>\$ 1,498,043</u>
NET POSITION		
Total Net Position	<u>\$ 273,202</u>	

See accompanying Notes to Financial Statements.

**STEELE COUNTY
OWATONNA, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUST FUND
DECEMBER 31, 2015**

ADDITIONS	
Investment Earnings	\$ 860
DEDUCTIONS	
Payments in Accordance with Trust Agreements	<u>173</u>
CHANGE IN NET POSITION	687
Net Position - Beginning of the Year	<u>272,515</u>
NET POSITION - END OF YEAR	<u><u>\$ 273,202</u></u>

See accompanying Notes to Financial Statements.

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**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Steele County's (the County) financial statements are prepared in accordance with generally accepted accounting principles (GAAP). 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

Steele County, Minnesota was established February 20, 1855, and is an organized county having the powers, duties, and privileges granted counties by Minnesota Statutes chapter 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Steele 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 is not required to include any component units. 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 Auditor, elected on a County-wide basis, serves as the clerk of the Board but has no vote.

Joint Ventures

The County participates in several joint ventures which are described in Note 7.C and jointly governed organizations which are described in Note 7.D.

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 and its component units, if applicable. 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. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

1. Government-Wide Statements (Continued)

In the government-wide statement of net position, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities and different business-type activity 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. Separate statements for each fund category--governmental, proprietary, and fiduciary--are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. All governmental and enterprise funds are reported as major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department that is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways. Property taxes and intergovernmental revenues are the primary revenue sources that fund these projects.

The Social Services Special Revenue Fund is used to account for economic assistance and community social services programs which are funded primarily by property taxes and intergovernmental revenues.

The Ditch Special Revenue Fund is used to account for the cost of constructing and maintaining an agricultural drainage ditch system. Financing is provided by special assessments levied against benefited property.

The Community Wellness Special Revenue Fund is used to account for the County's investment in Steele County Communities for a Lifetime joint venture.

The Debt Service Fund is used to account for accumulation of resources for, and the payment of principal, interest, and related costs of general long-term debt which are financed by property tax revenue restricted through bond documents.

The Capital Projects Fund is used to account for financial resources to be used for capital acquisition, construction, or improvement of capital facilities. Financing is provided by bonds issued by the County, state aid, and levy dollars.

The County reports the following major enterprise funds:

The Solid Waste Fund is used to account for the operation, maintenance, and development of the County solid waste landfill.

The Four Seasons Civic Center Fund is used to account for the County's civic center.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

Private Purpose Trust Fund accounts for the external pooled and non-pooled investments held on behalf of external participants.

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, proprietary fund 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. Steele 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.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

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

1. Cash and Cash Equivalents

The County has defined cash and cash equivalents 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 cash equivalent because the County can deposit or effectively withdraw cash at any time without prior notice or penalty.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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, 2015, based on market prices. 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 has purchased specific investments for cemetery and other trust funds, which are accounted for in the Private Purpose Trust Fund.

Steele 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, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

Included in total cash and pooled investments are the assets held for Steele County in external investment pools. For financial reporting purposes, the portion of the total cash and investments, which is not Steele County's, is reported in the private purpose trust and agency funds. Assets in the pool are reported at fair value based on quoted market prices. The pool is not subject to regulatory oversight and the fair value of the position in the pool is the same as the pool shares. Fair value amounts are determined at year-end. The County has not provided or obtained any legally binding guarantees to support the value of the pool.

3. Receivables and Payables

Activity 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 portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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)

3. Receivables and Payables (Continued)

All receivables are shown net of an allowance for uncollectibles.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

Significant portions of special assessments receivable are not expected to be collected within one year due to the nature of the receivable. The County uses the specific identification method for determining the allowance for uncollectibles. As of December 31, 2015, no allowance was deemed necessary.

4. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Reported inventories are classified as nonspendable fund balance to indicate that they do not constitute available spendable resources. Inventories in proprietary funds and at the government-wide level are recorded as expenses when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net position 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, applicable laws and regulations limit their use.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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)

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 applicable governmental or business-type activities column in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. In the case of the initial capitalization of general infrastructure reported in governmental activities, the County chose to include all such items acquired since 1980. The County was able to record the capital assets at historic cost dating back to 1980.

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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the County did not have any capitalized interest.

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

Assets	Years
Buildings	25-75
Building Improvements	20-30
Public Domain Infrastructure	25-75
Furniture, Equipment, and Vehicles	3-15

7. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual vacation 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, proprietary, and fiduciary fund 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.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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)

8. Deferred Outflows of Resources

The County reports decreases in net position or fund balance, that relate to future periods as deferred outflows of resources in a separate section of its government-wide or governmental fund balance sheet. 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 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 first type of 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. More detailed information about pension related deferred inflows of resources can be found in Note 4 to the financial statements.

10. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are amortized over the life of the bonds. 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.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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. Fund Balance

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned, and unassigned fund balances. Nonspendable portions of fund balance relate to prepaids, inventories, and long term receivables, as applicable. 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. The County Treasurer is delegated to assign fund balance and their intended uses. Unassigned fund balance is the residual classification for the County's general fund and includes all spendable amounts not contained in other classifications.

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 purpose 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.

12. Net Position

The net position represents the difference between assets and liabilities in the government-wide and proprietary financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the assets. Net position is reported as restricted in the government-wide financial statement when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The government-wide statement of net position reports \$3,425,922 of restricted net position.

13. 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.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues

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

1. Imposed Nonexchange Transactions

Imposed nonexchange transactions result from assessments by governments on nongovernmental entities and individuals. Property taxes, fines and penalties, and property forfeitures are imposed nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes were levied, to the extent they are collected in the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes receivable but not available are reported as deferred revenue and will be recognized as revenue in the fiscal year that they become available. Fines and penalties and property forfeitures are recognized in the period received.

2. Intergovernmental

Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose. The provider government establishes purpose restrictions and also may establish time requirements. Federal and State grants mandating the County perform particular programs are government-mandated nonexchange transactions. Revenues are recognized when eligibility and time requirements are met and the funds become measurable and available.

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

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

3. Exchange Transactions

Special assessments levied against benefiting properties are recognized under the modified accrual basis when available to finance current expenditures. Other revenues, such as licenses and permits, charges for services, and investment income are recognized as revenue when earned.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Equity

The following major funds had deficit fund balance as of December 31, 2015:

Ditch Special Revenue Fund	\$ 390,720
Community Wellness Fund	848,721

The Ditch Fund's deficit will be eliminated with future special assessment levies against benefited properties. The Community Wellness deficit will be eliminated with future contributions from Steele County Communities for a Lifetime.

Excess of Expenditures over Budget

The following major fund had expenditures in excess of budget for the year ended December 31, 2015:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
Road & Bridge	\$ 8,778,902	\$ 11,034,426	\$ 2,255,524

The additional expenditures were financed by greater than anticipated revenues.

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Steele 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, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Custodial Credit Risk – Deposits

In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County's Investment Policy addresses custodial credit risk and refers to Minnesota Statutes for deposits allowed.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledge must equal 110 percent of the deposits not covered by insurance or corporate surety bonds. Authorized collateral includes: 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 letters of credit issue 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, at an account at a trust department of a commercial bank or other financial institution not owned, or controlled by the depository.

The County's deposits in banks at December 31, 2015 totaled \$288,521. All deposits as of December 31, 2015 were fully insured with FDIC insurance.

Investments

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;
- (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.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

As of December 31, 2015, the County had the following investments (modified duration is in years):

Investment Type	Fair Value	Modified Duration	Concentration of Credit Risk
Corporate	\$ 402,472	4.40	1.4 %
Federal Home Loan Mortgage Corporation	705,280	0.46	2.4
Federal National Mortgage Association	1,237,784	2.68	4.3
Municipal Bonds	14,250,179	2.32	49.0
Negotiable Certificates of Deposit	8,734,280	2.58	30.0
Governmental National Mortgage Association	32,673	1.88	0.1
Money Market Mutual Fund	3,731,472	N/A	12.8
Total	\$ 29,094,140		

No individual issuers of negotiable certificates of deposit or municipal bonds exceeded five percent of the County's investments.

Interest Rate Risk

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The County's policy on interest rate risk is to stagger the maturities to meet cash flow requirements thereby avoiding the need to sell securities in the open market, invest in primarily short-term securities, liquid asset funds, money market mutual funds, or similar investment pools, and limiting the core of the investment portfolio to no greater than five years in accordance with the County's cash requirements.

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.

Minnesota Statutes restrict the types of investments that the County may invest in. The County's investment policy mirrors state statutes. The County's investments in federal home loan bank notes, federal home loan mortgage corporations notes, federal national mortgage association notes, and federal farm credit notes were all rated AAA by Moody's and AA+ by Standard & Poor's. The County's investments in governmental national mortgage association notes were not rated by Moody's or Standard & Poor's; however, these investments are explicitly backed by the federal government. The County's investments in municipal bonds are rated as follows by Moody's: \$1,350,058 A2, \$2,090,291 AA1, \$2,089,178 AA2, \$3,649,411 AA3, and \$1,329,185 AAA. Standard & Poor's rated the remaining securities as follows: \$1,006,719 AAA, 1,506,443 AA, \$199,260 AA-, and \$1,029,635 AA+. The County's investment in Federal National Mortgage Association notes of \$1,237,784 are rated AA+ by S&P. The County's investments in negotiable certificates of deposit and the MAGIC Fund do not have ratings.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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 the County's investment in a single issuer. The County's policy regarding concentration risk is that no more than fifteen percent of an investment, in any one issue, is the recommended threshold except for U.S. Government securities and U.S. Government Agencies. More than five percent of the County's investments are held with various agencies. See the table above for specific concentrations of credit risk.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of failure by the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2015, none of the County's investments were subject to custodial credit risk.

Balance Sheet Presentation

The County's total cash and investments at December 31, 2015 consisted of:

Governmental and Enterprise Funds		
Cash and Pooled Investments	\$	26,818,613
Petty Cash and Change Funds		3,720
Cash and Pooled Investments - Restricted		4,455,715
Fiduciary Funds		
Cemetery Investment Trust Fund		280,833
Agency Funds Cash		1,385,152
Total Cash and Investments	\$	<u>32,944,033</u>
Deposits	\$	288,521
Petty Cash and Change Funds		3,720
MAGIC External Investment Pool		3,557,652
Investments		<u>29,094,140</u>
Total Cash and Investments	\$	<u>32,944,033</u>

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Loans Receivable

The County has made loans to individuals under a sewer improvement loan program. Repayment of these loans is over ten years, with interest at two percent. Delinquent sewer improvement loans are added to the special assessment tax rolls. The funds for the sewer improvement revolving loan program were originally received from the State of Minnesota in the form of a loan to the County.

The County has made two loans to the Steele County Agricultural Society for replacement of a horse barn at the fairgrounds. Repayment of these loans is over ten to sixteen years, with interest at 2.5 and 3.0 percent.

In addition, the County has made a loan to Owatonna School District #761 for improvements to the locker rooms at Four Seasons. Repayment of this loan is over four years, with interest at 3.0 percent.

Of these loans receivable, \$106,337 of the outstanding \$755,481 balance is expected to be collected within the coming year.

Activity in these loans is as follows for the year ended December 31, 2015:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Collections</u>	<u>Ending Balance</u>
Sewer Improvement Loans	\$ 461,160	\$ 54,461	\$ 127,614	\$ 388,007
Economic Development Loans	419,746	-	70,072	349,674
Four Seasons Loans	-	17,800	-	17,800
Total	<u>\$ 880,906</u>	<u>\$ 72,261</u>	<u>\$ 197,686</u>	<u>\$ 755,481</u>

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Receivables

	County Receivable	Amounts Not Received During the Period of Availability
Taxes	\$ 345,297	\$ 242,919
Special Assessments	455,919	449,901
Accounts	482,725	82,519
Loans Receivable	755,481	388,007
Interest	144,947	-
Net Investment in Sales-Type Lease	4,851,727	4,851,727
Due from Other Governments	2,992,409	1,079,594
	<u>\$ 10,028,505</u>	<u>\$ 7,094,667</u>
Total	<u>\$ 10,028,505</u>	<u>\$ 7,094,667</u>

Significant portions of the taxes, special assessments, advances, net investment in sales-type lease, and loans receivable are not expected to be collected within one year due to the nature of the receivables.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets

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

Governmental Activities

	Beginning Balance	Additions and Transfers	Deletions and Transfers	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land and Right of Way	\$ 3,287,964	\$ 241,264	\$ -	\$ 3,529,228
Construction-in-Progress	4,492,761	6,078,535	9,155,400	1,415,896
Total Capital Assets, Not Being Depreciated:	7,780,725	6,319,799	9,155,400	4,945,124
Capital Assets, Being Depreciated				
Buildings	21,946,774	36,335	-	21,983,109
Land Improvements	1,323,599	-	-	1,323,599
Machinery, Furniture, and Equipment	9,012,170	900,957	413,720	9,499,407
Infrastructure	101,912,334	9,155,400	-	111,067,734
Total Capital Assets, Being Depreciated	134,194,877	10,092,692	413,720	143,873,849
Less Accumulated Depreciation for				
Buildings	7,384,503	460,406	-	7,844,909
Land Improvements	1,291,399	11,534	-	1,302,933
Machinery, Furniture, and Equipment	5,556,054	769,124	366,808	5,958,370
Infrastructure	55,150,022	3,886,519	-	59,036,541
Total Accumulated Depreciation	69,381,978	5,127,583	366,808	74,142,753
Total Capital Assets, Being Depreciated, Net	64,812,899	4,965,109	46,912	69,731,096
Governmental Activities Capital Assets, Net	<u>\$ 72,593,624</u>	<u>\$ 11,284,908</u>	<u>\$ 9,202,312</u>	<u>\$ 74,676,220</u>

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

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

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land and Right of Way	\$ 451,250	\$ -	\$ -	\$ 451,250
Construction in Progress	-	348,669	-	348,669
Total Capital Assets, Not Being Depreciated:	451,250	348,669	-	799,919
Capital Assets, Being Depreciated				
Buildings	5,821,356	-	-	5,821,356
Improvements Other than Buildings	158,367	50,071	-	208,438
Landfill	6,211,154	24,176	-	6,235,330
Machinery, Furniture, and Equipment	1,838,164	192,540	115,487	1,915,217
Total Capital Assets, Being Depreciated	14,029,041	266,787	115,487	14,180,341
Less Accumulated Depreciation For				
Buildings	2,491,030	141,789	-	2,632,819
Improvements Other than Buildings	56,007	20,186	-	76,193
Landfill	3,995,343	346,225	-	4,341,568
Machinery, Furniture, and Equipment	1,243,811	141,979	95,690	1,290,100
Total Accumulated Depreciation	7,786,191	650,179	95,690	8,340,680
Total Capital Assets, Being Depreciated, Net	6,242,850	(383,392)	19,797	5,839,661
Business-Type Activities Capital Assets, Net	\$ 6,694,100	\$ (34,723)	\$ 19,797	\$ 6,639,580

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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	\$ 391,247
Public Safety	568,446
Highways and Streets, Including Depreciation of Infrastructure Assets	4,167,133
Culture and Recreation	703
Conservation of Natural Resources	54
Total Depreciation Expense - Governmental Activities	<u>\$ 5,127,583</u>
Business-Type Activities	
Solid Waste	\$ 510,072
Four Seasons Civic Center	140,107
Total Depreciation Expense - Business-Type Activities	<u>\$ 650,179</u>

5. Net Investment in Sales-Type Lease

Effective October 31, 2010, Steele County entered into a Lease and Purchase Agreement with Steele County Communities for a Lifetime, Inc. for capital assets of the preexisting Cedarview Care Center. This agreement provides that SCCL shall pay the County the purchase price during the purchase window (June 1, 2015 to June 1, 2030). The purchase price and lease payments consist of the following components:

- a) Cash component of \$2,000,000. This was scheduled to begin payment in 2015 however SCCL did not begin payments to the County. These payments have been deferred until future notice.
- b) Interest component of Prime plus 2 percent, not to exceed 8 percent, on the unpaid cash component beginning June 1, 2015. This has also been deferred with no formal revised agreements signed as of the issuance of this audit.
- c) Bond component of the principal on the 2005B bonds, plus interest accrued thereon to the purchase date. See also Note 3.C.1.

Title to the capital assets will remain with Steele County until full payment of the purchase price is received, at which time the title will transfer to SCCL. There were no executory costs, allowances for uncollectible minimum lease payments, unguaranteed residual values, or unearned revenue. A lease receivable of \$4,851,727 is recorded in the Community Wellness Special Revenue Fund at December 31, 2015.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	Reason
General Fund	Road & Bridge	\$ 874	Phone, Postage, and Unemployment Benefit Reimbursement
	Four Seasons	176	Phone and Postage Reimbursement
	Solid Waste	279	Bank Fee and Postage Reimbursement
Total Due to General Fund		<u>1,329</u>	
Road & Bridge	General	8,504	Snow Removal
	Four Seasons	775	Snow Removal
	Solid Waste	186	Labor and Equipment
Total Due to Road & Bridge Fund		<u>9,465</u>	
Four Seasons	General	<u>6,683</u>	Ice Rental
Total Due To/From Other Funds		<u><u>\$ 17,477</u></u>	

2. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount	Reason
General	Ditch	\$ 1,029,000	Cash Flows
			Remodeling of Cedarview Nursing Home and Operational Support for Steele County Communities for a Lifetime
	Community Wellness	<u>3,200,000</u>	
Total Advances from General Fund		<u><u>\$ 4,229,000</u></u>	

The advances are not expected to be repaid within one year.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables, and Transfers

3. Transfers

	Amount	Description
Transfers to Road and Bridge Fund from General Fund	\$ 56,086	Reimbursement for Insurance
Transfers to General Fund from Social Services Fund	882,440	To Close Out Social Services Fund
Transfers to Four Seasons Fund from General Fund	<u>2,314,000</u>	To Forgive Debt Advances
Total Interfund Transfers	<u><u>\$ 3,252,526</u></u>	

C. Liabilities

1. Long-Term Debt

The County issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the County. The County issued new general obligation bonds in 2015.

2005 Health Care Facilities Refunding Bonds

On September 27, 2005, the County issued \$3,545,000 in Gross Revenue Health Care Crossover Refunding Bonds, Series 2005B. The proceeds were used to "crossover refund" the callable maturities of the County's Gross Revenue Health Care Facilities Bonds, Series 2000; maturities 2011 through 2030, inclusive was paid off on June 1, 2010, at a price of Par plus accrued interest. The bonds were issued pursuant to Minnesota Statutes.

2007 General Obligation Forward Refunding Bonds

On November 1, 2007, the County issued \$4,560,000 in General Obligation Forward Refunding Bonds, Series 2007A. The proceeds were used to prepay the 1998 General Obligation bond maturities. The bonds were issued pursuant to Minnesota Statutes.

2015A General Obligation Refunding Bonds

On October 29, 2015, the County issued \$9,720,000 in General Obligation Refunding Bonds, Series 2015A for the current refunding of the Series 2005A General Obligations Jail Crossover Refunding Bonds maturing in 2024 and the Series 2009A General Obligation Bonds maturing in 2017. The total cash flow savings to the County attributable to the refunding on these bonds was \$1,098,535 with a net present value of approximately \$1,099,158.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

1. Long-Term Debt (Continued)

Conduit Debt

On December 29, 2010, the County issued revenue bonds with the proceeds loaned to Steele County Communities of a Lifetime, Inc. (SCCL) for the construction of Koda Living Community, a new eighty-bed nursing facility to be constructed on the Owatonna Health Campus. On September 29, 2011, SCCL closed on the financing to refund the Series 2010 Bonds. The total amount financed was \$15,000,000 of which \$10,000,000 was issued by Steele County and the remaining \$5,000,000 by the City of Owatonna. The aggregate outstanding amount on December 31, 2015 is \$14,674,172. SCCL has gone into forbearance on this bond and was making interest only payments during 2015.

These bonds are secured by the property financed and are payable solely from pledged revenues in accordance with the terms of the indenture. The bonds do not constitute a debt or indebtedness of the County or a charge against the general credit or taxing powers of the County. The bonds do not constitute indebtedness, pecuniary liability, general or moral obligation or pledge of faith or credit or any taxing power. Accordingly, these bonds have not been included or reported in the accompanying financial statements.

Governmental Activities

Types of Indebtedness	Final Maturity	Annual Installment Amounts	Interest Rates (%)	Original Issued Amount	Outstanding Balance December 31, 2015
2015A General Obligation Refunding Bonds	2024	\$610,000 - \$1,755,000	1.75 - 3.00	\$ 9,720,000	\$ 9,720,000
General Obligation Bonds 2007A Forward Refunding Bond	2020	\$235,000 - \$500,000	5.00	4,560,000	2,270,000
Total General Obligation Bonds				<u>\$ 14,280,000</u>	11,990,000
Plus: Unamortized Premium					443,338
Total General Obligation Bonds, Net					<u>\$ 12,433,338</u>
2005B Gross Revenue Health Care Facilities Refunding Bonds	2030	\$115,000 - \$270,000	4.00 - 5.00	\$ 3,545,000	\$ 2,930,000
2012 General Obligation Taxable Wastewater Revenue Notes	2023	\$8,376 - \$10,315	1.00	175,989	134,833
Clean Water Partnership Loan	2020	\$57,538	2.00	1,368,540	880,810
Total Other Debt				<u>\$ 5,089,529</u>	<u>\$ 3,945,643</u>

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

2. Debt Service Requirements

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

Governmental Activities

Year Ending December 31,	General Obligation Bonds		Lease Revenue Bonds	
	Principal	Interest	Principal	Interest
2016	\$ 2,135,000	\$ 326,470	\$ 135,000	\$ 137,190
2017	2,185,000	270,832	145,000	130,890
2018	1,065,000	195,892	150,000	124,140
2019	1,110,000	154,050	160,000	116,933
2020	1,460,000	110,482	165,000	109,376
2021-2025	4,035,000	196,719	955,000	419,515
2026-2030	-	-	1,220,000	158,475
Total	<u>\$ 11,990,000</u>	<u>\$ 1,254,445</u>	<u>\$ 2,930,000</u>	<u>\$ 1,196,519</u>

Year Ending December 31,	Clean Water Partnership Loan		General Obligation Notes	
	Principal	Interest	Principal	Interest
2016	\$ 123,963	\$ 23,701	\$ 16,292	\$ 1,308
2017	193,575	19,860	16,456	1,144
2018	164,692	15,941	16,621	979
2019	132,611	12,965	16,787	813
2020	134,276	10,272	16,956	644
2021-2025	131,693	4,437	51,722	907
Total	<u>\$ 880,810</u>	<u>\$ 87,176</u>	<u>\$ 134,833</u>	<u>\$ 5,795</u>

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

3. Long-Term Liability Activity

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

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds	\$ 14,220,000	\$ 9,720,000	\$ 11,950,000	\$ 11,990,000	\$ 2,135,000
Revenue Bonds	3,060,000	-	130,000	2,930,000	135,000
General Obligation Taxable Wastewater Revenue Notes	150,964	-	16,131	134,833	16,292
Clean Water Partnership Loan	947,870	54,461	121,521	880,810	123,963
Compensated Absences	1,119,278	1,011,256	944,731	1,185,803	415,031
Other Postemployment Benefits	835,986	194,128	106,649	923,465	-
	<u>20,334,098</u>	<u>10,979,845</u>	<u>13,269,032</u>	<u>18,044,911</u>	<u>2,825,286</u>
Governmental Activity Long-Term Liabilities	20,334,098	10,979,845	13,269,032	18,044,911	2,825,286
Bond Premium	166,520	336,922	60,104	443,338	-
	<u>166,520</u>	<u>336,922</u>	<u>60,104</u>	<u>443,338</u>	<u>-</u>
Net Long-Term Liabilities	<u>\$ 20,500,618</u>	<u>\$ 11,316,767</u>	<u>\$ 13,329,136</u>	<u>\$ 18,488,249</u>	<u>\$ 2,825,286</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
BUSINESS-TYPE ACTIVITIES					
Closure/Postclosure	\$ 2,982,604	\$ -	\$ 750,832	\$ 2,231,772	\$ -
Compensated Absences	52,571	44,102	35,045	61,628	21,570
Other Postemployment Benefits	32,315	23,399	5,768	49,946	-
	<u>3,067,490</u>	<u>67,501</u>	<u>791,645</u>	<u>2,343,346</u>	<u>21,570</u>
Business-Type Activities Long-Term Liabilities	<u>\$ 3,067,490</u>	<u>\$ 67,501</u>	<u>\$ 791,645</u>	<u>\$ 2,343,346</u>	<u>\$ 21,570</u>

In prior years, for the governmental activities, other long-term liabilities have generally been liquidated by the general, road and bridge, and social services funds.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

4. Other Long-Term Liabilities

Clean Water Partnership Loan Payable

The County participates in a revolving loan program that resulted in entering into three loan agreements with the Minnesota Pollution Control Agency for financing septic systems. The loans are secured by special assessments placed on the individual parcels requesting repair of septic systems. The loans bear interest at two percent. The first loan, totaling \$611,776, will be repaid in twenty equal semi-annual installments beginning December 15, 2008. The second loan totaling \$598,169 will be repaid in twenty equal semi-annual installments beginning June 15, 2012. The third loan totaling up to \$700,000 will be repaid in twenty equal semi-annual installments beginning December 15, 2015. Only \$342,061 of the third loan has been drawn by the County as of December 31, 2015.

General Obligation Taxable Wastewater Revenue Notes

In 2012, the County entered into an agreement with Minnesota Public Facilities Authority (PFA) for the small communities' wastewater treatment program. The project consists of a grant of \$205,815 and a note for \$205,815. The note bears interest at one percent. As of December 2015, the County has borrowed \$175,989 of this note. Repayment of the loan began in 2013 with semi-annual installments of ranging from \$8,627 to \$10,400.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

4. Other Long-Term Liabilities (Continued)

Closure and Postclosure Care Cost - Solid Waste Enterprise Fund

State and federal laws and regulations require the County to place a final cover on its landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$2,231,772 reported as landfill closure and postclosure care liability at December 31, 2015, represents the cumulative amount reported to date based on the use of approximately 75 percent of the estimated permitted capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$781,991 as the remaining estimated capacity is filled.

These amounts are based on what it would cost to perform all closure and postclosure care in 2015. The County expects to close the landfill in 2040. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The County is in compliance with these requirements, and, at December 31, 2015, investments of \$2,204,857 are held for these purposes. These are reported as restricted assets on the statement of net position. The County expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

5. Operating Lease

The County leases space from Industrial Properties, LLC for the Highway facilities. The total cost for this lease was \$186,510 for the year ending December 31, 2015. Future minimum lease obligations include \$187,560 due in 2016.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of Steele County are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Public Employees Police and Fire Fund (PEPFF)

The PEPFF, 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. Public Employees Correctional Fund (PECF)

The Local Government Correctional Fund, 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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

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

1. GERS Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 % of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based upon years of service and average high-five salary.

2. PEPFF Benefits

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

3. PECF Benefits

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

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

C. Contributions

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

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The County was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The County contributions to the GERF for the year ended December 31, 2015, were \$616,105. The County contributions were equal to the required contributions as set by state statute.

2. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2015. The County was required to contribute 16.20% of pay for PEPFF members in calendar year 2015. The County contributions to the PEPFF for the year ended December 31, 2015, were \$210,200. The County contributions were equal to the required contributions as set by state statute.

3. PECF Contributions

In calendar year 2015, plan members were required to contribute 5.83% of their annual covered salary. The County was required to contribute 8.75% of pay for PECF members in calendar year 2015. The County contributions to the PECF for the year ended December 31, 2015, were \$192,416. The County contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. GERF Pension Costs

At December 31, 2015, the County reported a liability of \$7,949,985 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion share was .1534%.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs (Continued)

For the year ended December 31, 2015, the County recognized pension expense of \$656,902 for its proportionate share of the GERF's pension expense.

At December 31, 2015, the County reported its proportionate share of the GERF'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	\$ -	\$ 400,814
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	752,588	-
Changes in Proportion and Differences Between County Contributions and Proportionate Share of Contributions	-	1,208,432
County Contributions Subsequent to the Measurement Date	321,567	-
Total	<u>\$ 1,074,155</u>	<u>\$ 1,609,246</u>

\$321,567 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	\$ (348,268)
2017	(348,268)
2018	(348,268)
2019	188,146

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. PEPFF Pension Costs

At December 31, 2015, the County reported a liability of \$1,511,191 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was .1330%.

For the year ended December 31, 2015, the County recognized pension expense of \$253,214 for its proportionate share of the PEPFF's pension expense. The County also recognized \$11,970 for the year ended December 31, 2015, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

At December 31, 2015, the County reported its proportionate share of the PEPFF'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	\$ -	\$ 245,066
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	263,300	-
Changes in Proportion and Differences Between County Contributions and Proportionate Share of Contributions	-	36,001
County Contributions Subsequent to the Measurement Date	113,875	-
Total	<u>\$ 377,175</u>	<u>\$ 281,067</u>

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. PEPFF Pension Costs (Continued)

\$113,875 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	\$ 9,612
2017	9,612
2018	9,612
2019	9,612
Thereafter	(56,215)

3. PECF Pension Costs

At December 31, 2015, the County reported a liability of \$173,152 for its proportionate share of the PECF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 1.12%.

For the year ended December 31, 2015, the County recognized pension expense of \$186,484 for its proportionate share of the PECF's pension expense.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

3. PECF Pension Costs (Continued)

At December 31, 2015, the County reported its proportionate share of the PECF'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	\$ -	\$ 66,293
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	144,334	-
Changes in Proportion and Differences Between County Contributions and Proportionate Share of Contributions	-	1,132
County Contributions Subsequent to the Measurement Date	109,773	-
Total	<u>\$ 254,107</u>	<u>\$ 67,425</u>

\$109,773 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	\$ 13,609
2017	13,609
2018	13,609
2019	36,082

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

<u>Assumptions</u>	
Inflation	2.75% per Year
Active Member Payroll Growth	3.50% per Year
Investment Rate of Return	7.90% per Year

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% effective every January 1st until 2034, then 2.5% for GERP and PEPFF, and 2.5% for all years (PECF).

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for PEPFF was for the period July 1, 2004, through June 30, 2009. Experience studies have not been prepared for the PECF, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2015: the discount rate was changed from 8.0% through June 30, 2017 and 8.5% thereafter to 8.0% for all years, the inflation assumption was changed from 3.0% to 2.75%, the payroll growth assumption was changed from 3.75% to 3.5%, assumed increases in member salaries were decreased by 0.25% at all ages and the assumed postretirement benefit increase rate was changed from 1.0% per year through 2026 and 2.5% thereafter to 1.0% per year through 2034 and 2.5% per year thereafter.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

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

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

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

G. Pension Liability Sensitivity

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

Description	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
<u>GERF Discount Rate</u>	6.90%	7.90%	8.90%
County's Proportionate Share of the GERP Net Pension Liability	\$ 12,500,201	\$ 7,949,985	\$ 4,192,204
County's Proportionate Share of the PEPFF Net Pension Liability	2,945,325	1,511,191	326,345
County's Proportionate Share of the PECF Net Pension Liability (Asset)	1,205,859	173,152	(653,430)

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

I. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes Chapter 353D.03, specifies 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. 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 of the assets in each member's account annually.

Total contributions made by the County for the years ending December 31, 2015, 2014, and 2013 were \$6,530, \$4,774, and \$4,711, respectively, equal to the contractually required contributions for each year as set by state statute.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The County operates a single-employer retiree benefit plan (“the Plan”) that provides health insurance to eligible employees and their spouses through the County’s health insurance plan. There are 253 active participants and 8 retired participants. Benefit and eligibility provisions are established through negotiations between the County and various unions representing County employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

B. Funding Policy

Contribution requirements are negotiated between the County and collective bargaining unit representatives. The County contributes a single sum payment to a Health Care Savings Plan based on years of service and hourly rate for elected officials. There are no other subsidized postemployment medical, dental or life benefits for 2015. For 2015, the County contributed \$112,417 to the plan.

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual Required Contribution (ARC)	\$ 235,231
Interest on Net OPEB Obligation	34,732
Adjustment to ARC	<u>(52,436)</u>
Annual OPEB Cost	217,527
Contributions during the year	<u>(112,417)</u>
Increase in Net OPEB Obligation	105,110
Net OPEB - Beginning of the Year	<u>868,301</u>
Net OPEB - End of the Year	<u><u>\$ 973,411</u></u>

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

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

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

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2013	\$ 245,040	\$ 101,712	41.5 %	\$ 726,922
December 31, 2014	220,758	79,379	36.0	868,301
December 31, 2015	217,527	112,417	51.7	973,411

D. Funded Status and Funding Progress

Funded Status

The County has not placed any assets in an irrevocable trust for future benefits. Therefore, the actual value of assets is zero.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2014	\$ -	\$ 1,524,056	\$ 1,524,056	-	\$ 12,677,910	12.0 %

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

D. Funded Status and Funding Progress (Continued)

Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 7.5%, reduced by decrements to an ultimate rate of 5% after ten years. The UAAL is being amortized as a level percentage of projected payrolls on a 30-year closed basis. The remaining amortization period at December 31, 2015 was 25 years.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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) to protect against liabilities from workers' compensation and property and casualty. The County purchases commercial insurance for other risks of loss. There were no significant reductions in insurance from the previous year or settlements in excess of insurance for any of the past three years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$490,000 per claim in 2015. 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.

NOTE 7 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS

A. Contingent Liabilities

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

B. Construction Commitments

The County has active construction projects as of December 31, 2015. The projects are for the construction and maintenance of various roads and bridges. The County has spent \$5,943,036 to date, with a remaining commitment at year-end of \$212,574.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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

C. Joint Ventures

South Central Human Relations Center

Steele County is a participant with Dodge and Waseca Counties in a joint venture to contract with the South Central Human Relations Center (a nonprofit corporation) for mental health services. On dissolution of the corporation, net position shall be divided in proportion to the contributions made by all participants. The counties are obligated by contract to provide financial support annually based on population and usage factors. No financial support payments were made to this entity during 2015. Complete financial statements can be obtained from the administrative office at 610 Florence Avenue, Owatonna, Minnesota 55060.

Consolidated Dispatch

Steele County is a participant with Rice County, the City of Faribault, the City of Northfield, and the City of Owatonna in the Consolidated Dispatch joint venture to provide enhanced 911 services to public safety entities in their service area. On dissolution, net position will be distributed in proportion to the total contributions made by all the participants. Beginning in 2002, annual operating costs are split between the two county participants on a per capita basis, using the most recent census figures. Total payments made to this entity during 2015 were \$658,475. Complete financial statements can be obtained from the Steele County Administrator's Office at 630 Florence Avenue, Owatonna, Minnesota 55060.

South Country Health Alliance

South Country Health Alliance (SCHA) was created by a joint powers agreement between Brown, Dodge, Freeborn, Goodhue, Kanabec, Mower, Sibley, Steele, Wabasha, and Waseca Counties on July 24, 1998, under Minnesota Statutes §471.59. The agreement was in accordance with Section 256B.692, which allows the formation of a board of directors to operate, control, and manage all matters concerning the participating member counties' health care functions, referred to as county-based purchasing.

The purpose of SCHA is to improve the social and health outcomes of its clients and all citizens of its member counties by better coordinating social service, public health and medical services, and promoting the achievement of public health goals. The SCHA is authorized to provide prepaid comprehensive health maintenance services to persons enrolled under Medicaid and General Assistance Medical Care in each of the member counties.

Each member county has an explicit and measurable right to its share of the total capital surplus of the SCHA. Gains and losses are allocated annually to all members based on the percentage of their utilization. The County's equity interest in the SCHA at December 31, 2015 was \$4,636,362. The equity interest is reported as an investment in joint venture on the government-wide statement of net position. Changes in equity are included in the government-wide statement of activities as Human Services.

Complete financial statements for the SCHA may be obtained from SCHA.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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

C. Joint Ventures (Continued)

Steele County Communities for a Lifetime, Inc.

Steele County Communities for a Lifetime, Inc. (SCCL) is a Minnesota nonprofit corporation that operates a 108-bed skilled nursing facility and a 50-unit assisted living facility in Owatonna, Minnesota. During 2009, Steele County and Benedictine Health System (BHS), a Minnesota nonprofit corporation and tax-exempt organization entered into an agreement to create SCCL. Steele County and BHS are equal corporate members of SCCL and will share equally in any profits or losses generated by the entity. Steele County has entered into a lease and purchase agreement with SCCL which is discussed in detail in Note 3 A.5.

As part of the initial master agreement, effective October 31, 2010, each member has agreed to complete an investment into SCCL totaling \$1,000,000. As of December 31, 2015, the County has paid a total of \$3,000,000.

Each member has an explicit and measurable right to its share of the total capital surplus of the SCCL. The County's equity interest in the SCCL at December 31, 2015 was \$0. The equity interest is reported as an investment in joint venture on the government-wide statement of net position. Changes in equity are included in the government-wide statement of activities as Human Services.

Complete financial statements for SCCL may be obtained from SCCL.

Minnesota Prairie County Alliance

Minnesota Prairie County Alliance is a multi-county human services delivery authority that was created by a joint powers agreement between Dodge, Waseca, and Steele Counties effective June 1, 2014, under Minnesota Statutes §§402A.35 and 471.59.

The joint powers board consists of two representatives from each member county. Each member county contributes an annual amount based on a formula involving population and relative proportion of each member county's estimated market value. During 2015, Steele County contributed \$3,616,773. On dissolution, net position will be distributed in proportion to operating formula used to determine contributions. Complete financial statements can be obtained from the administrative office at 630 Florence Avenue, Owatonna, Minnesota 55060.

D. Jointly Governed Organizations

Steele 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. The County made no payments to this entity in 2015.

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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

D. Jointly Governed Organizations (Continued)

2. Southeastern Minnesota Community Action Council

The Southeastern Minnesota Community Action Council provides various elder care programs on behalf of member counties. The County made no payments to this entity in 2015.

3. South Central Drug Investigations

South Central Drug Investigations provides drug investigation services for member organizations. The County paid \$13,000 to this entity in 2015.

4. Southeastern Minnesota Private Industry Council

The Southeastern Minnesota Private Industry Council provides various job training services to member counties. The County made no payments to this entity in 2015.

5. Southeast Minnesota Water Resources Board

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

6. 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 made no payments to this entity in 2015.

NOTE 8 CHANGE IN ACCOUNTING PRINCIPLE

During the year ended December 31, 2015, the County adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. These pronouncements require the restatement of the December 31, 2014, net position of the governmental activities and business type activities as shown below.

	Net Position as Previously Stated	Cumulative Affect of Application of GASB 68 Net Pension Liability	Deferred Outflow of Resources for County Contributions Made to the Plans During Measurement Period (7/1/14 - 12/31/14)	Net Position As Restated
Governmental Activities	\$ 95,605,069	\$ (10,016,423)	\$ 547,476	\$ 86,136,122
Business Type Activities	5,512,556	(366,440)	13,339	5,159,455
Solid Waste	4,574,841	(215,479)	7,815	4,367,177
Four Seasons Civic Center	937,715	(150,961)	5,524	792,278

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

**STEELE COUNTY
OWATONNA, MINNESOTA
SCHEDULE OF THE COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
DECEMBER 31, 2015**

	<u>Measurement Date June 30, 2015</u>
PERA - GERF	
County's Proportion of the Net Pension Liability	0.1534%
County's Proportionate Share of the Net Pension Liability	7,949,985
County's Covered-Employee Payroll	8,665,124
County's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	91.75%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.20%
 PERA - PEPFF	
County's Proportion of the Net Pension Liability	0.1330%
County's Proportionate Share of the Net Pension Liability	1,511,191
County's Covered-Employee Payroll	1,223,553
County's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	123.51%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.60%
 PERA - PECF	
County's Proportion of the Net Pension Liability	1.1200%
County's Proportionate Share of the Net Pension Liability	173,152
County's Covered-Employee Payroll	2,018,597
County's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	8.58%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	96.90%

NOTE: Amounts prior to the measurement date of June 30, 2015 are not available.

**STEELE COUNTY
OWATONNA, MINNESOTA
SCHEDULE OF THE COUNTY CONTRIBUTIONS
DECEMBER 31, 2015**

	<u>2015</u>	<u>2014</u>
PERA - GERF		
Contractually Required Contribution	\$ 616,105	\$ 731,729
Contributions in Relation to the Contractually Required Contribution	<u>(616,105)</u>	<u>(731,729)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
 County's Covered-Employee Payroll	 \$ 8,187,493	 \$ 10,092,827
 Contributions as a Percentage of Covered Employee Payroll	 7.50%	 7.25%
PERA - PEPFF		
Contractually Required Contribution	\$ 210,200	\$ 187,179
Contributions in Relation to the Contractually Required Contribution	<u>(210,200)</u>	<u>(187,179)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
 County's Covered-Employee Payroll	 \$ 1,297,530	 \$ 1,223,393
 Contributions as a Percentage of Covered Employee Payroll	 16.20%	 15.30%
PERA - PECF		
Contractually Required Contribution	\$ 192,416	\$ 175,742
Contributions in Relation to the Contractually Required Contribution	<u>(192,416)</u>	<u>(175,742)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
 County's Covered-Employee Payroll	 \$ 2,199,124	 \$ 2,008,480
 Contributions as a Percentage of Covered Employee Payroll	 8.75%	 8.75%

NOTE: Amounts prior to 2014 are not available.

**STEELE COUNTY
OWATONNA, MINNESOTA
SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS
DECEMBER 31, 2015**

The funding progress for the County follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2010	\$ -	\$ 1,620,475	\$ 1,620,475	- %	\$ 11,605,685	14.0 %
1/1/2012	-	1,766,257	1,766,257	-	11,713,579	15.1
1/1/2014	-	1,524,056	1,524,056	-	12,677,910	12.0

**STEELE COUNTY
OWATONNA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 16,456,395	\$ 16,316,297	\$ 16,533,927	\$ 217,630
Licenses and Permits	137,000	137,000	139,723	2,723
Intergovernmental	2,794,543	2,794,543	2,887,000	92,457
Charges for Services	3,926,677	3,997,850	4,901,289	903,439
Fines and Forfeits	36,000	36,000	13,546	(22,454)
Investment Earnings	200,000	200,000	332,184	132,184
Insurance Dividend	200,000	200,000	209,033	9,033
Miscellaneous	689,478	710,103	1,289,479	579,376
Total Revenues	<u>24,440,093</u>	<u>24,391,793</u>	<u>26,306,181</u>	<u>1,914,388</u>
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Commissioners	217,175	217,175	218,158	(983)
Courts	311,000	311,000	480,834	(169,834)
County Coordinator	601,800	591,000	579,359	11,641
Human Resources	-	-	42	(42)
County Auditor	489,040	489,040	491,648	(2,608)
County Treasurer	398,635	398,635	329,359	69,276
County Assessor	555,275	561,225	563,622	(2,397)
Elections	33,000	33,000	90	32,910
Data Processing	564,013	564,013	501,951	62,062
Attorney	937,720	937,720	971,812	(34,092)
Law Library	36,000	36,000	22,908	13,092
Recorder	425,000	425,000	444,465	(19,465)
Surveyor	30,000	30,000	20,293	9,707
Planning and Zoning	463,080	463,080	460,531	2,549
Buildings and Plant	985,320	985,320	908,290	77,030
GIS	84,761	77,761	83,225	(5,464)
Veterans Service Officer	179,950	179,950	178,582	1,368
Other	1,022,284	1,030,698	569,671	461,027
Central Services	75,000	75,000	70,923	4,077
Total General Government	<u>7,409,053</u>	<u>7,405,617</u>	<u>6,895,763</u>	<u>509,854</u>
PUBLIC SAFETY				
Sheriff	2,519,525	2,537,525	2,481,928	55,597
Boat and Water Safety	4,555	4,555	3,871	684
Emergency Services	83,195	83,195	74,067	9,128
Coroner	60,000	60,000	62,838	(2,838)
Public Transit	12,480	12,480	14,397	(1,917)
E-911	653,137	645,187	645,187	-
County Jail	4,186,690	4,296,690	4,490,852	(194,162)
Law Enforcement Center	415,800	415,800	371,772	44,028
Community Corrections	878,678	850,178	820,608	29,570
Total Public Safety	<u>8,814,060</u>	<u>8,905,610</u>	<u>8,965,520</u>	<u>(59,910)</u>

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

**STEELE COUNTY
OWATONNA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)
YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES (CONTINUED)				
CURRENT (CONTINUED)				
SANITATION				
Solid Waste	\$ 879,660	\$ 879,660	\$ 845,795	\$ 33,865
HUMAN SERVICES				
Minnesota Prairie	3,612,424	3,612,424	3,616,773	(4,349)
HEALTH				
Nursing Service	2,076,397	2,076,397	2,120,257	(43,860)
Community Health	250	250	-	250
Total Health	<u>2,076,647</u>	<u>2,076,647</u>	<u>2,120,257</u>	<u>(43,610)</u>
CULTURE AND RECREATION				
Historical Society	6,000	6,000	6,000	-
Parks	218,350	218,350	207,410	10,940
Other	12,600	12,600	14,660	(2,060)
Total Culture and Recreation	<u>236,950</u>	<u>236,950</u>	<u>228,070</u>	<u>8,880</u>
CONSERVATION OF NATURAL RESOURCES				
Cooperative Extension	302,419	302,419	297,382	5,037
Soil and Water Conservation	130,376	130,376	130,376	-
Agricultural Society/County Fair	22,500	22,500	22,500	-
Clean Water Loan Program	150,000	150,000	54,462	95,538
Bixby Sewer Project	17,886	17,886	5,078	12,808
Pratt Sewer Project	-	-	12,319	(12,319)
Total Conservation of Natural Resources	<u>623,181</u>	<u>623,181</u>	<u>522,117</u>	<u>101,064</u>
CAPITAL OUTLAY				
General Government	515,000	515,000	727,876	(212,876)
Public Safety	303,000	303,000	26,529	276,471
Total Capital Outlay	<u>818,000</u>	<u>818,000</u>	<u>754,405</u>	<u>63,595</u>
DEBT SERVICE				
Principal	170,714	170,714	137,652	33,062
Interest	21,327	21,327	14,047	7,280
Total Debt Service	<u>192,041</u>	<u>192,041</u>	<u>151,699</u>	<u>40,342</u>
Total Expenditures	<u>24,662,016</u>	<u>24,750,130</u>	<u>24,100,399</u>	<u>649,731</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(221,923)	(358,337)	2,205,782	2,564,119
OTHER FINANCING SOURCES (USES)				
Transfers In	71,923	208,337	882,440	674,103
Transfers Out	-	-	(2,370,086)	(2,370,086)
Loans and G.O. Notes Issued	150,000	150,000	54,461	(95,539)
Proceeds from Sale of Assets	-	-	6,000	6,000
Total Other Financing Sources (Uses)	<u>221,923</u>	<u>358,337</u>	<u>(1,427,185)</u>	<u>(1,785,522)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>778,597</u>	<u>\$ 778,597</u>
Fund Balance - Beginning of Year			<u>17,106,845</u>	
FUND BALANCE - END OF YEAR			<u>\$ 17,885,442</u>	

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

**STEELE COUNTY
OWATONNA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 2,991,056	\$ 2,991,056	\$ 4,339,919	\$ 1,348,863
Intergovernmental	3,319,714	3,319,714	5,786,732	2,467,018
Charges for Services	541,230	541,230	1,735,184	1,193,954
Miscellaneous	15,500	15,500	49,713	34,213
Total Revenues	<u>6,867,500</u>	<u>6,867,500</u>	11,911,548	5,044,048
EXPENDITURES				
CURRENT				
HIGHWAY AND STREETS				
Administration	309,975	309,975	366,889	(56,914)
Maintenance	3,596,152	3,596,152	2,721,092	875,060
Construction	3,263,407	3,263,407	5,994,668	(2,731,261)
Equipment Maintenance and Shop	868,368	868,368	569,255	299,113
Other	194,000	194,000	212,810	(18,810)
Total Highways and Streets	<u>8,231,902</u>	<u>8,231,902</u>	9,864,714	(1,632,812)
CAPITAL OUTLAY				
Highways and Streets	<u>547,000</u>	<u>547,000</u>	1,169,712	(622,712)
Total Expenditures	<u>8,778,902</u>	<u>8,778,902</u>	11,034,426	(2,255,524)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	(1,911,402)	(1,911,402)	877,122	2,788,524
OTHER FINANCING SOURCES (USES)				
Transfers In	1,911,402	1,911,402	56,086	(1,855,316)
Proceeds from Sale of Assets	-	-	62,000	62,000
Total Other Financing Sources	<u>1,911,402</u>	<u>1,911,402</u>	118,086	(1,793,316)
NET CHANGE IN FUND BALANCE				
	<u>\$ -</u>	<u>\$ -</u>	995,208	<u>\$ 995,208</u>
Fund Balance - Beginning of Year			9,116,377	
Decrease in Inventory			<u>(131,276)</u>	
FUND BALANCE - END OF YEAR			<u><u>\$ 9,980,309</u></u>	

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

**STEELE COUNTY
OWATONNA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
CURRENT				
HUMAN SERVICES				
Social Services	-	-	44,081	(44,081)
Income Maintenance	-	-	4,161	(4,161)
Appropriations	-	-	3,051,703	(3,051,703)
Total Expenditures	<u>-</u>	<u>-</u>	<u>3,099,945</u>	<u>(3,099,945)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	(3,099,945)	(3,099,945)
OTHER FINANCING SOURCES (USES)				
Transfers Out	-	-	(882,440)	(882,440)
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>(3,982,385)</u>	<u>\$ (3,982,385)</u>
Fund Balance - Beginning of Year			<u>3,982,385</u>	
FUND BALANCE - END OF YEAR			<u>\$ -</u>	

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

**STEELE COUNTY
OWATONNA, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2015**

NOTE 1 BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Ditch, and Community Wellness Special Revenue Funds, Debt Service Fund, and Capital Projects Fund.

On or before mid-June of each year, all departments and agencies submit requests for appropriations to the County Treasurer so that a budget can be prepared. Before October 31, 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 heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the Board of County Commissioners. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

The following major fund had expenditures in excess of budget for the year ended December 31, 2015:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
Road & Bridge	\$ 8,778,902	\$ 11,034,426	\$ 2,255,524

Encumbrance accounting is employed in governmental funds. Encumbrances outstanding at year-end are reported as commitments of fund balances and do not constitute expenditures or liabilities because the commitments will be re-apportioned and honored during the subsequent year.

SUPPLEMENTARY INFORMATION

**STEELE COUNTY
OWATONNA, MINNESOTA
DESCRIPTION OF FUNDS**

AGENCY FUNDS

The Game and Fish Fund accounts for the sale of game and fish licenses and for the state's share of game and fish fines.

The State Revenue Fund accounts for the collection and transfer of state fees and taxes to the state.

The Taxes and Penalties Fund accounts for the collection of all property taxes, current and delinquent.

The Consolidated Dispatch Fund accounts for the funds associated with the operation of the joint dispatch center.

The Children's Mental Health Collaborative Fund accounts for the receipts and disbursements of the Collaborative.

**STEELE COUNTY
OWATONNA, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2015**

	Balance January 1	Additions	Deductions	Balance December 31
GAME AND FISH				
ASSETS				
Cash and Pooled Investments	\$ 3,480	\$ -	\$ 3,480	\$ -
LIABILITIES				
Due to Other Governments	\$ 3,480	\$ -	\$ 3,480	\$ -
STATE REVENUE				
ASSETS				
Cash and Pooled Investments	\$ 96,120	\$ 1,134,120	\$ 1,150,055	\$ 80,185
Accounts Receivable	1	2,419	-	2,420
Due from Other Governments	-	6	-	6
Total Assets	\$ 96,121	\$ 1,136,545	\$ 1,150,055	\$ 82,611
LIABILITIES				
Due to Other Governments	\$ 96,121	\$ 1,136,545	\$ 1,150,055	\$ 82,611
TAXES AND PENALTIES				
ASSETS				
Cash and Pooled Investments	\$ 470,733	\$ 53,875,041	\$ 53,716,939	\$ 628,835
Accounts Receivable	9,668	43,032	9,668	43,032
Total Assets	\$ 480,401	\$ 53,918,073	\$ 53,726,607	\$ 671,867
LIABILITIES				
Funds Held in Trust	\$ 378,748	\$ 45,056,024	\$ 45,277,103	\$ 157,669
Due to Other Governments	101,653	8,862,049	8,449,504	514,198
Total Liabilities	\$ 480,401	\$ 53,918,073	\$ 53,726,607	\$ 671,867

**STEELE COUNTY
OWATONNA, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)
ALL AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2015**

	Balance January 1	Additions	Deductions	Balance December 31
CONSOLIDATED DISPATCH				
ASSETS				
Cash and Pooled Investments	\$ 618,649	\$ 2,172,042	\$ 2,114,559	\$ 676,132
Prepaid Items	16,274	25,845	16,274	25,845
Due from Other Governments	25,178	41,588	25,178	41,588
Total Assets	<u>\$ 660,101</u>	<u>\$ 2,239,475</u>	<u>\$ 2,156,011</u>	<u>\$ 743,565</u>
LIABILITIES				
Accounts Payable	\$ 11,991	\$ 72,776	\$ 11,991	\$ 72,776
Salaries Payable	43,913	18,085	43,913	18,085
Due to Other Governments	604,197	2,148,614	2,100,107	652,704
Total Liabilities	<u>\$ 660,101</u>	<u>\$ 2,239,475</u>	<u>\$ 2,156,011</u>	<u>\$ 743,565</u>
CHILDREN'S MENTAL HEALTH COLLABORATIVE				
ASSETS				
Cash and Pooled Investments	\$ 197,467	\$ -	\$ 197,467	\$ -
LIABILITIES				
Due to Other Governments	\$ 197,467	\$ -	\$ 197,467	\$ -
TOTAL ALL AGENCY FUNDS				
ASSETS				
Cash and Pooled Investments	\$ 1,386,449	\$ 57,181,203	\$ 57,182,500	\$ 1,385,152
Prepaid Items	16,274	25,845	16,274	25,845
Accounts Receivable	9,669	45,451	9,668	45,452
Due from Other Governments	25,178	41,594	25,178	41,594
Total Assets	<u>\$ 1,437,570</u>	<u>\$ 57,294,093</u>	<u>\$ 57,233,620</u>	<u>\$ 1,498,043</u>
LIABILITIES				
Salaries Payable	\$ 43,913	\$ 18,085	\$ 43,913	\$ 18,085
Funds Held in Trust	378,748	45,056,024	45,277,103	157,669
Accounts Payable	11,991	72,776	11,991	72,776
Due to Other Governments	1,002,918	12,147,208	11,900,613	1,249,513
Total Liabilities	<u>\$ 1,437,570</u>	<u>\$ 57,294,093</u>	<u>\$ 57,233,620</u>	<u>\$ 1,498,043</u>

**STEELE COUNTY
OWATONNA, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUE
YEAR ENDED DECEMBER 31, 2015**

	General Fund	Road and Bridge	Ditch	Debt Service	Total All Funds
SHARED REVENUE					
STATE					
County Program Aid	\$ 1,311,242	\$ 193,344	\$ -	\$ 198,552	\$ 1,703,138
PERA Rate Reimbursement	61,329	-	-	-	61,329
Disparity Reduction Aid	20,092	2,962	-	3,042	26,096
Police Aid	133,591	-	-	-	133,591
Highway Users Tax	-	5,399,133	-	-	5,399,133
Aquatic Invasive Species	18,138	-	-	-	18,138
Market Value Credit	212,934	31,077	-	31,874	275,885
Total Shared Revenue	<u>1,757,326</u>	<u>5,626,516</u>	<u>-</u>	<u>233,468</u>	<u>7,617,310</u>
REIMBURSEMENT FOR SERVICES					
STATE					
Minnesota Department of Human Services	141,721	-	-	-	141,721
PAYMENTS					
Local - Payments in Lieu of Taxes	24,033	-	-	-	24,033
STATE					
Minnesota Department/Board of Corrections	180,659	-	-	-	180,659
Natural Resources	2,315	-	-	-	2,315
Health	183,954	-	-	-	183,954
Veterans Affairs	10,000	-	-	-	10,000
Soil and Water Resources	68,206	-	-	-	68,206
Public Safety	6,892	23,115	10,594	-	40,601
Public Facilities Authority	22,559	-	-	-	22,559
Pollution Control Agency	133,709	-	-	-	133,709
Total State	<u>608,294</u>	<u>23,115</u>	<u>10,594</u>	<u>-</u>	<u>642,003</u>
FEDERAL					
Department of Agriculture	195,370	-	-	-	195,370
Justice	414	-	-	-	414
Education	2,492	-	-	-	2,492
Health and Human Services	120,380	-	-	-	120,380
Homeland Security	25,564	88,146	35,316	-	149,026
Transportation	11,406	48,955	-	-	60,361
Total Federal	<u>355,626</u>	<u>137,101</u>	<u>35,316</u>	<u>-</u>	<u>528,043</u>
Total State and Federal Grants	<u>963,920</u>	<u>160,216</u>	<u>45,910</u>	<u>-</u>	<u>1,170,046</u>
Total Intergovernmental Revenue	<u>\$ 2,887,000</u>	<u>\$ 5,786,732</u>	<u>\$ 45,910</u>	<u>\$ 233,468</u>	<u>\$ 8,953,110</u>

REPORTS RELATED TO *GOVERNMENT AUDITING STANDARDS*

**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
Steele County
Owatonna, 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 business-type activities, each major fund, and the aggregate remaining fund information of Steele County (the County), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Steele County's basic financial statements, and have issued our report thereon dated September 15, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 Steele County's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2015-001, 2015-002, and 2015-003 described in the accompanying schedule of findings and recommendations to be material weaknesses.

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider deficiency 2015-004, described in the accompanying schedule of findings and recommendations, to be a significant deficiency.

Compliance and Other Matters

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

Steele County's Responses to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the 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 Steele County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Brainerd, Minnesota
September 15, 2016

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**STEELE COUNTY
OWATONNA, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2015**

MATERIAL WEAKNESSES – FINANCIAL REPORTING:

2015-001 SEGREGATION OF DUTIES – VARIOUS DEPARTMENTS

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 various 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.

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 some oversight procedures to ensure the internal control policies and procedures are being implemented by County staff.

Client Response: *County management will review accounting functions and segregate them as it deems cost beneficial.*

2015-002 AUDIT ADJUSTMENTS

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, and reporting of receivables, payables, capital assets, and net position.

Condition and Context: As part of the audit, we proposed material audit adjustments for recording of receivables and payables, reclassifications of revenues to the proper accounts, capital asset additions, joint venture investment activity, and closing out the Social Services Fund.

Cause: Not known.

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.

**STEELE COUNTY
OWATONNA, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2015**

MATERIAL WEAKNESSES – FINANCIAL REPORTING (CONTINUED):

2015-002 AUDIT ADJUSTMENTS (CONTINUED)

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.

Client Response: *The County will continue to strive towards reducing and eliminating audit adjustments in the future.*

2015-003 FINANCIAL REPORTING PROCESS

Criteria: County management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statements in accordance applicable accounting and reporting standards.

Condition and Context: As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to the financial statements.

Cause: The County has a limited number of personnel.

Possible Effect: The design of the controls over the financial reporting process would affect the ability of the County to report their financial data consistently with the assertions of management in the financial statements.

Recommendation: We recommend that County management be aware of the responsibilities regarding financial reporting and continue to evaluate the cost/benefit of outsourcing this function. If management chooses to undertake these financial reporting responsibilities, a number of policies, procedures, and reviews will need to be developed and implemented.

Client Response: *The County will continue to work to enhance financial statement preparation and review abilities, including consideration of the cost/benefit of hiring additional finance personnel.*

**STEELE COUNTY
OWATONNA, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2015**

SIGNIFICANT DEFICIENCY – FINANCIAL REPORTING:

2015-004 UNAUTHORIZED BANK SIGNER

Criteria: Upon retirement of County personnel, financial institutions should be notified immediately in order to remove signers that are no longer county employees.

Condition and Context: As part of the audit confirmations received directly from the banks, we noted that a former employee was not removed as a signer on the County's bank accounts at United Prairie Bank, Farmers and Merchants State Bank, and US Bank.

Cause: Retirement of the employee during 2015.

Possible Effect: The County is at an increased risk of misuse or loss of assets.

Recommendation: We recommend County management contact all financial institutions with accounts and ensure proper signers are on file at each institution.

Client Response: *County management will contact each bank to ensure proper account signers are on file.*

**STEELE COUNTY
OWATONNA, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2015**

OTHER ITEMS FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE:

2015-005 DITCH SPECIAL REVENUE FUND NEGATIVE FUND BALANCES

Criteria: Minnesota Statutes §103E.735, subd.1, provides that a fund balance to be used for ditch repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$400,000, whichever is larger.

Condition and Context: Twelve of thirty individual ditch systems had fund balance deficits using a basis of accounting whereby each individual ditch fund recognizes assessments when levied and accounts for its bonds payable.

Cause: Past practice.

Possible Effect: The County is not in compliance with Minnesota Statutes.

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

Client Response: *The County has reviewed the statute, increased current special assessments, and will continue to review future levies for necessary changes in order to ensure future compliance.*

MINNESOTA LEGAL COMPLIANCE PREVIOUSLY REPORTED ITEM RESOLVED:

2014-006 TIMELY PAYMENT OF CLAIMS

Minnesota Statutes §471.425 requires prompt payment of local government bills with the standard timeline of 35 days from the receipt of the invoice.

RESOLUTION

The County has paid all bills within the standard timeline of 35 days from the receipt of the invoice.



INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of County Commissioners
Steele County
Owatonna, 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 of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Steele County (the County), Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's financial statements as listed in the table of contents and have issued our report thereon dated September 15, 2016.

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Steele County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*, except for the item described in detail in the attached Schedule of Findings and Recommendations as finding 2015-005. 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 Steele County's noncompliance with the above-referenced provisions.

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

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 communication is not suitable for any other purpose.

CliftonLarsonAllen LLP
CliftonLarsonAllen LLP

Brainerd, Minnesota
September 15, 2016

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