

STEELE COUNTY

Owatonna, Minnesota

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Year Ended December 31, 2018

STEELE COUNTY

TABLE OF CONTENTS As of and for the Year Ended December 31, 2018

Independent Auditors' Report	i – iii
Required Supplementary Information	
Management's Discussion and Analysis (Unaudited)	iv – xiv
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements	
<i>Governmental Funds</i>	
Balance Sheet – Governmental Funds	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	4
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
<i>Proprietary Fund</i>	
Statement of Net Position – Enterprise Fund	7
Statement of Revenues, Expenses, and Changes in Net Position – Enterprise Fund	8
Statement of Cash Flows – Enterprise Fund	9
<i>Fiduciary Funds</i>	
Statement of Net Position	10
Statement of Changes in Fiduciary Net Position	11
Notes to the Financial Statements	12 – 57
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	58 – 59
Budgetary Comparison Schedule – Road and Bridge Fund	60
Budgetary Comparison Schedule – Ditch Fund	61
Budgetary Comparison Schedule – Community Wellness Fund	62
Schedule of County's Proportionate Share of the Net Pension Liability – PERA General Employees' Retirement Fund	63
Schedule of Employer Contributions – PERA General Employees' Retirement Fund	63
Schedule of County's Proportionate Share of the Net Pension Liability – PERA Police and Fire Fund	64
Schedule of Employer Contributions – PERA Police and Fire Fund	64
Schedule of County's Proportionate Share of the Net Pension Liability – PERA Correctional Fund	65
Schedule of Employer Contributions – PERA Correctional Fund	65
Schedule of Changes in the Total OPEB Liability and Related Ratios	66
Notes to Required Supplementary Information	67 – 72

STEELE COUNTY

TABLE OF CONTENTS As of and for the Year Ended December 31, 2018

Supplementary Information

Agency Funds	73
Combining Statement of Assets and Liabilities – Agency Funds	74
Combining Statement of Changes in Assets and Liabilities – Agency Funds	75 – 76
Schedule of Intergovernmental Revenues	77

Other Reports

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> and <i>Minnesota Legal Compliance</i>	78 – 79
Schedule of Findings and Responses	80 – 82

INDEPENDENT AUDITORS' REPORT

To the County Board of Commissioners
Steele County
Owatonna, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of Steele County, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Steele 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 did not audit the financial statements of the Minnesota Prairie County Alliance or South Country Health Alliance, in which Steele County has equity interests. Such equity interests represent 3.3%, 4.1% and 0%, respectively, of the assets, net position and revenues of Steele County's governmental activities. Those statements were audited by other auditors whose reports have been furnished to us. The statements for South Country Health Alliance were prepared in accordance with the financial reporting provisions of the Department of Health of the State of Minnesota. We have applied audit procedures on the conversion adjustments to the financial statements of South Country Health Alliance, which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for Minnesota Prairie County Alliance and South Country Health Alliance (prior to these conversion adjustments), is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of South Country Health Alliance were not audited in accordance with *Government Auditing Standards*.

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 over financial reporting relevant to Steele 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 Steele County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of Steele County, Minnesota, as of December 31, 2018 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 Matter

As discussed in Note I, Steele County adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective January 1, 2018. Our opinions are not modified with respect to this matter.

As further discussed in Note III.J to the financial statements, net position and fund balance as of December 31, 2017 have been restated to correct material misstatements. Our opinions are not modified with respect to these matters.

Other Matters

The financial statements of Steele County as of December 31, 2017, prior to restatement, were audited by other auditors whose report dated November 26, 2018, expressed unmodified opinions on those statements.

As part of the audit of the December 31, 2018 financial statements, we also audited the adjustments described in Note III that were applied to restate the December 31, 2017 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the December 31, 2017 financial statements of Steele County other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the December 31, 2017 financial statements as a whole.

Required Supplementary Information

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

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 as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2019 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Steele County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Steele County's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 23, 2019

STEELE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED For the Year Ended December 31, 2018

This section of the Steele County's (the County) annual financial report is presented to provide readers with a narrative overview and analysis of the County's financial performance during the fiscal year that ended on December 31, 2018. We encourage readers to consider the information presented in this overview in conjunction with the information contained in the Financial Section (the Basic Financial Statements) and the accompanying notes to those financial statements in order to enhance their understanding of the activities and financial health of Steele County.

Financial Highlights

Key financial highlights for 2018 include the following:

- > County-wide net position increased by \$18,218,480 or 17.4% over the prior year. \$5,328,899 of this change was the result of restatements of the previous year's net position.
- > Overall governmental fund-level revenues totaled \$46,811,801 and were \$5,043,573 more than expenditures.
- > The operating revenues of the Enterprise Fund were \$1,954,486 and operating expenses were \$1,579,815. Net nonoperating revenues and expenses totaled (\$3,811). This resulted an increase in net position of \$370,860 for 2018.
- > The fund balance of the General Fund increased by \$1,809,349 from the prior year.

Overview of the Financial Statements

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

- > The first two statements are County-wide financial statements which provide both short-term and long-term information about the County's overall financial status.
- > The remaining statements are fund financial statements which focus on individual parts of the County, reporting the County's operations in more detail than the County-wide statements.
 - The governmental funds statements tell how basic services such as general government, 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.

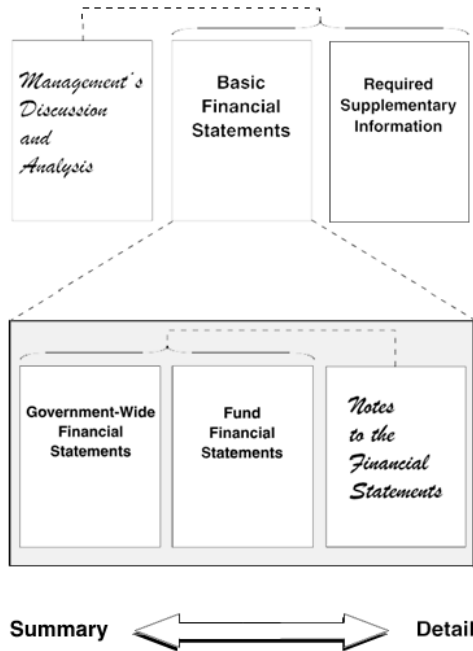
The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

STEELE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED For the Year Ended December 31, 2018

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

**Figure A-1
Annual Report Format**



STEELE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED For the Year Ended December 31, 2018

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.

STEELE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED For the Year Ended December 31, 2018

County-Wide Statements

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

The two County-wide statements report the County's net position and how they have changed. Net position – the difference between the County's assets 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

Fund financial statements provide more detailed information about 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 to be established by state law and by bond covenants.
- > The County establishes other funds to help it control and manage money for a particular purpose (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., grants).

The County has three kinds of funds:

1. 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 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

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED For the Year Ended December 31, 2018

2. Proprietary Funds – The County maintains one proprietary fund. 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 landfill. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.
3. 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 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 total net position on December 31, 2018 was \$122,914,389 (see Table A-1). Governmental assets and deferred outflows of resources of Steele County exceeded its liabilities and deferred inflows of resources at the end of 2018 by \$115,774,474 (net position). Of this amount, \$25,276,389 (unrestricted net position) may be used for the government's ongoing obligations.

Table A-1
Steele County's Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government		% Change 2017-18
	2018	2017	2018	2017	2018	2017	
Assets							
Current Assets	\$ 50,240,762	\$ 40,334,455	\$ 3,146,275	\$ 2,491,361	\$ 53,387,037	\$ 42,825,816	24.7%
Capital and Noncurrent Assets	95,130,454	86,980,014	6,743,751	7,044,012	101,874,205	94,024,026	8.3%
Total Assets	145,371,216	127,314,469	9,890,026	9,535,373	155,261,242	136,849,842	13.5%
Deferred Outflows of Resources	4,741,752	7,308,810	40,988	68,981	4,782,740	7,377,791	(35.2%)
Liabilities							
Current Liabilities	5,077,106	3,530,460	111,134	130,126	5,188,240	3,660,586	41.7%
Long-Term Liabilities	21,326,928	25,348,754	2,613,638	2,634,066	23,940,566	27,982,820	(14.4%)
Total Liabilities	26,404,034	28,879,214	2,724,772	2,764,192	29,128,806	31,643,406	(7.9%)
Deferred Inflows of Resources	7,934,460	7,817,211	66,327	71,107	8,000,787	7,888,318	1.4%
Net Position							
Net Investment in Capital Assets	79,627,266	78,794,161	4,289,678	4,661,796	83,916,944	83,455,957	0.6%
Restricted	10,870,819	4,591,726	-	-	10,870,819	4,591,726	136.7%
Unrestricted	25,276,389	14,540,967	2,850,237	2,107,259	28,126,626	16,648,226	68.9%
Total Net Position	\$ 115,774,474	\$ 97,926,854	\$ 7,139,915	\$ 6,769,055	\$ 122,914,389	\$ 104,695,909	17.4%

The table above does not reflect the restatements of the 2017 governmental activities assets and net position of \$5,328,899.

STEELE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED For the Year Ended December 31, 2018

Changes in Net Position

The County-wide total revenues were \$52,011,290 for the year ended December 31, 2018. Taxes, charges for services, and intergovernmental revenues, including grants and contributions, accounted for 96.2% of total revenue for the year (see Table A-2).

Table A-2

	Governmental Activities		Business-Type Activities		Total Primary Government		% Change 2017-18
	2018	2017	2018	2017	2018	2017	
Revenues							
Program Revenues							
Charges, Fees, Fines & Other	\$ 6,797,779	\$ 7,272,025	\$ 1,943,007	\$ 2,004,096	\$ 8,740,786	\$ 9,276,121	(5.8%)
Operating Grants & Contributions	4,206,450	5,101,891	-	-	4,206,450	5,101,891	(17.6%)
Capital Grants & Contributions	7,803,911	4,130,930	-	-	7,803,911	4,130,930	88.9%
General Revenues							
Taxes (Property and Other)	27,045,858	22,865,074	-	-	27,045,858	22,865,074	18.3%
Unrestricted State Aid	2,294,366	2,109,677	-	-	2,294,366	2,109,677	8.8%
Investment earnings	828,121	500,268	12,061	11,669	840,182	511,937	64.1%
Miscellaneous and Other	1,068,258	4,909,021	11,479	28,494	1,079,737	4,937,515	(78.1%)
Total Revenue	50,044,743	46,888,886	1,966,547	2,044,259	52,011,290	48,933,145	6.3%
Expenses							
General Government	7,937,834	8,680,734	-	-	7,937,834	8,680,734	(8.6%)
Public Safety	10,299,911	12,277,846	-	-	10,299,911	12,277,846	(16.1%)
Highways and Streets	7,922,202	8,092,995	-	-	7,922,202	8,092,995	(2.1%)
Sanitation	701,083	793,344	1,595,687	2,050,602	2,296,770	2,843,946	(19.2%)
Health & Human Services	8,590,329	10,900,307	-	-	8,590,329	10,900,307	(21.2%)
Culture and Recreation	943,494	483,677	-	-	943,494	483,677	95.1%
Conservation of Natural Resources	734,623	886,674	-	-	734,623	886,674	(17.1%)
Interest	396,546	356,081	-	-	396,546	356,081	11.4%
Total Expenses	37,526,022	42,471,658	1,595,687	2,050,602	39,121,709	44,522,260	(12.1%)
Change In Net Position before Transfers	12,518,721	4,417,228	370,860	(6,343)	12,889,581	4,410,885	192.2%
Transfers In (Out)	-	3,088,166	-	(3,088,166)	-	-	0.0%
Change in Net Position	12,518,721	7,505,394	370,860	(3,094,509)	12,889,581	4,410,885	192.2%
Net Position- Beginning of Year	97,926,854	90,421,460	6,769,055	9,863,564	104,695,909	100,285,024	4.4%
Prior Period Restatement	5,328,899	-	-	-	5,328,899	-	-
Net Position- Beginning of Year as Restated	103,255,753	90,421,460	6,769,055	9,863,564	110,024,808	100,285,024	9.7%
Net Position - End of Year	\$115,774,474	\$ 97,926,854	\$ 7,139,915	\$ 6,769,055	\$122,914,389	\$104,695,909	17.4%

Total governmental activities revenues surpassed expenses, increasing net position by \$12,518,721. Reasons for the increase relate to the following activities: road construction projects were delayed till the following year; investment earnings exceeded budget as a result of the economy and other positive budgetary results in multiple areas.

STEELE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED For the Year Ended December 31, 2018

The County-wide cost of all governmental activities this year was \$37,526,022 (see Table A-3).

- > Some of the cost was paid by the users of the County's programs (\$6,797,779).
- > The federal and state governments subsidized certain programs with grants and contributions (\$12,010,361).
- > The remainder of the County's governmental activities costs was paid by County taxpayers and the taxpayers of our state (see Table A-2).

Figure A-3
2018 Governmental Activity Revenues By Source

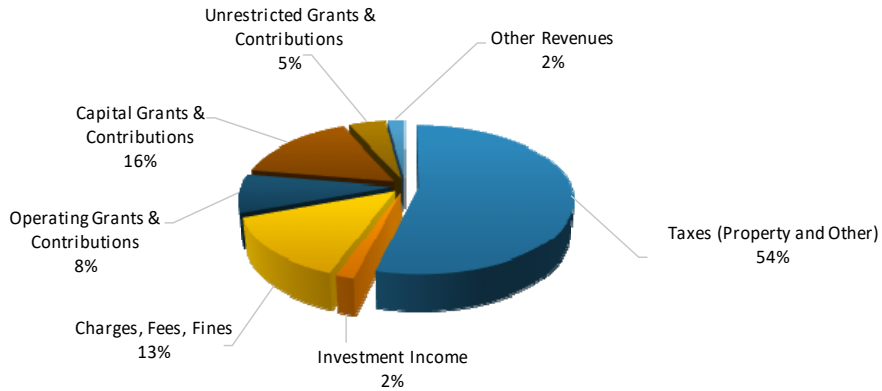
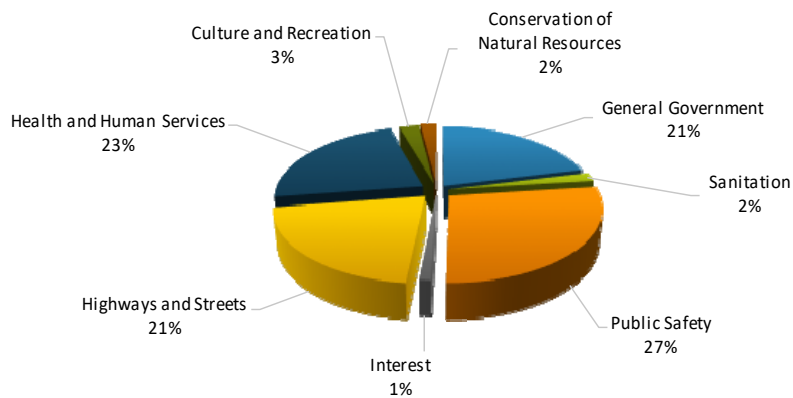


Figure A-4
2018 Governmental Activity Expenditures by Function



STEELE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED For the Year Ended December 31, 2018

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

	Total Cost of Services			Net (Revenue) Cost of Services		
	2018	2017	% Change 2017-18	2018	2017	% Change 2017-18
<i>Governmental Activities</i>						
General Government	\$ 7,937,834	\$ 8,680,734	(8.6%)	\$ 5,778,582	\$ 6,617,689	(12.7%)
Public Safety	10,299,911	12,277,846	(16.1%)	7,378,191	9,612,561	(23.2%)
Highways and Streets	7,922,202	8,092,995	(2.1%)	(2,951,662)	1,371,133	(315.3%)
Sanitation	701,083	793,344	(11.6%)	(18,682)	(22,804)	(18.1%)
Health & Human Services	8,590,329	10,900,307	(21.2%)	7,145,443	7,877,244	(9.3%)
Culture and Recreation	943,494	483,677	95.1%	923,052	441,717	109.0%
Conservation of Natural Resources	734,623	886,674	(17.1%)	66,412	458,320	(85.5%)
Interest	396,546	356,081	11.4%	396,546	(389,048)	(201.9%)
Total	\$ 37,526,022	\$ 42,471,658	(11.6%)	\$ 18,717,882	\$ 25,966,812	(27.9%)
<i>Business-Type Activities</i>						
Solid Waste	\$ 1,595,687	\$ 2,050,602	(22.2%)	\$ (347,320)	\$ 46,506	(846.8%)

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 2018, its government funds reported a combined fund balance of \$42,559,308. Revenues for the County's governmental funds were \$46,811,801, while total expenditures were \$41,768,228.

GENERAL FUND

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

The following schedule presents a summary of General Fund revenues:

**Table A-4
General Fund Revenues**

	Fiscal Year Ending		Increase (Decrease)	% Change 2017-18
	2018	2017		
<i>General Fund Revenues</i>				
Taxes (property and other)	\$ 18,759,928	\$ 17,979,397	\$ 780,531	4.3%
Intergovernmental	3,960,329	3,651,360	308,969	8.5%
Public Charges for Services	4,506,927	4,475,080	31,847	0.7%
Investment Income	757,037	497,396	259,641	52.2%
Miscellaneous and Other	1,696,003	1,692,673	3,330	0.2%
Total Revenue	\$ 29,680,224	\$ 28,295,906	\$ 1,384,318	4.9%

STEELE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED For the Year Ended December 31, 2018

Total General Fund revenue increased by \$1,384,318, or 4.9%, from the previous year. The increase relates primarily to tax revenue increases, additional intergovernmental revenues and interest earnings.

The following schedule presents a summary of General Fund expenditures:

Table A-5
General Fund Expenditures

	Fiscal Year Ending		Increase (Decrease)	% Change 2017-18
	2018	2017		
<i>General Fund Expenditures</i>				
General Government	\$ 7,892,948	\$ 7,750,692	\$ 142,256	1.8%
Public Safety	10,459,902	10,043,335	416,567	4.1%
Health and Human Services	6,648,470	6,281,861	366,609	5.8%
Sanitation	715,049	814,499	(99,450)	(12.2%)
Culture, Recreation, and Education	794,772	760,014	34,758	4.6%
Conservation and Development	513,508	523,749	(10,241)	(2.0%)
Capital Outlay	236,053	258,109	(22,056)	(8.5%)
Debt Service	163,264	197,165	(33,901)	(17.2%)
Total Expenditures	<u>\$ 27,423,966</u>	<u>\$ 26,629,424</u>	<u>\$ 794,542</u>	3.0%

Total General Fund expenditures increased by \$794,542, or 3.0%, from the previous year. This increase relates primary to personnel services increases and changes in contract services.

OTHER MAJOR FUNDS ANALYSIS

The Road and Bridge Fund had a total fund balance of \$14,646,238 at the end of the current fiscal year. The fund balance for the Road and Bridge Fund increased by \$2,822,534 primarily due to the postponement of road construction projects to the subsequent year.

The Ditch Fund had a total deficit fund balance of \$649,005 at the end of the current fiscal year. The fund balance deficit of the Ditch Fund increased by \$197,809 as the amount collected for special assessments exceeded the expenditures for ditch repairs.

The Community Wellness Fund had a total fund balance of \$2,620,131 at the end of the current fiscal year. The fund balance of the Community Wellness Fund decreased by \$98,939, due to bond payments and building maintenance costs of the Park Place/Cedarview property. Additionally, fund balance was restated and increased by \$4,125,000 to correct errors in the 2017 financial statements.

The Debt Service Fund had a total fund balance of \$1,212,926 at the end of the current fiscal year. The fund balance of the Debt Service Fund decreased by \$56,836 due to an unexpected interest payment for the bond that was issued during the year.

STEELE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED For the Year Ended December 31, 2018

The Capital Projects Fund had a total fund balance of \$2,768,556 at the end of the current fiscal year. The fund balance of the Capital Projects Fund increased by \$3,839,725 during the current fiscal year due primarily to the issuance of the \$3.19 million General Obligation CIP bond for the Public Works Facility.

The Solid Waste Fund had a total net position of \$7,139,915 at the end of the current fiscal year. The net position of the Solid Waste Fund increased by \$370,860 mainly due to income exceeding the expenses.

GENERAL FUND BUDGETARY HIGHLIGHTS

- > Actual revenues were \$1,008,738 more than expected due to unbudgeted tax revenue (delinquent tax and penalties), more revenues collected for charges for services and increased investment earnings.
- > The actual expenditures were \$1,257,520 less than expected due primarily to savings in other general government and public safety expenditures.

CAPITAL ASSETS

Steele County's investment in capital assets as of December 31, 2018, totaled \$94,632,632 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure. In comparison to the prior year, the County saw a 3.3% increase in total assets. This increase is mainly due to the construction costs of the Public Works Facility. A breakdown of the capital assets can be seen in Table A-6. Depreciation expense for the year amounted to \$6,543,858. More detailed information about the capital assets can be found in Note III.E of the financial statements.

Table A-6

	Steele County Capital Assets - Net of Accumulated Depreciation						
	Governmental Activities		Business-Type Activities		Total Primary Government		% Change 2017-18
	2018	2017	2018	2017	2018	2017	
Land and Right of Way	\$ 3,665,124	\$ 3,529,228	\$ 451,250	\$ 451,250	\$ 4,116,374	\$ 3,980,478	3.4%
Construction in Progress (CIP)	9,593,320	4,191,732	-	-	9,593,320	4,191,732	128.9%
Buildings	17,319,645	17,565,408	162,036	180,763	17,481,681	17,746,171	(1.5%)
Land Improvements	49,707	57,177	56,392	62,326	106,099	119,503	(11.2%)
Machinery, Equipment & Vehicles	3,839,654	4,021,402	903,383	823,204	4,743,037	4,844,606	(2.1%)
Landfill	-	-	2,716,617	3,144,253	2,716,617	3,144,253	(13.6%)
Infrastructure	55,875,504	57,615,067	-	-	55,875,504	57,615,067	(3.0%)
Total Capital Assets	<u>\$ 90,342,954</u>	<u>\$ 86,980,014</u>	<u>\$ 4,289,678</u>	<u>\$ 4,661,796</u>	<u>\$ 94,632,632</u>	<u>\$ 91,641,810</u>	3.3%

STEELE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED For the Year Ended December 31, 2018

LONG-TERM LIABILITIES

At the end of 2018, the County had outstanding long-term liabilities of \$26,725,821. This is a decrease of 10.3% from the prior year, mainly due to the decrease in the net pension liability. The remaining bonds, notes and loans saw a decrease due to the repayment schedules which was offset with the issuance of the 2018A General Obligation bonds to fund the construction of the Public Works Facility.

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

	2018	2017	% Change 2017-18
<i>Governmental Activities</i>			
General Obligation Bonds	\$ 10,317,894	\$ 7,995,899	29.0%
Revenue Bonds	2,500,000	2,650,000	(5.7%)
Wastewater Revenue Notes	70,932	87,876	(19.3%)
Clean Water Partnership Loans	508,434	641,730	(20.8%)
Compensated Absences Payable	1,287,252	1,206,436	6.7%
Other Post Employment Benefits Payable	653,782	1,126,111	(41.9%)
Net Pension Liability	8,745,573	13,429,000	(34.9%)
Total Governmental Activities	24,083,867	27,137,052	(11.3%)
<i>Business-Type Activities</i>			
Closure and Postclosure	2,384,683	2,341,694	1.8%
Compensated Absences Payable	34,116	32,791	4.0%
Other Post Employment Benefits Payable	14,024	16,861	(16.8%)
Net Pension Liability	209,131	254,197	(17.7%)
Total Business-Type Activities	2,641,954	2,645,543	(0.1%)
Total Primary Government - Long-Term Liabilities	\$ 26,725,821	\$ 29,782,595	(10.3%)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when deciding the fiscal year 2019 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 \$56,435,194 and \$24,785,085, 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 507-444-7400.

STEELE COUNTY

STATEMENT OF NET POSITION
As of December 31, 2018

	Primary Government		
	Governmental Activities	Business- type Activities	Totals
ASSETS			
Cash and investments	\$ 35,289,722	\$ 2,917,530	\$ 38,207,252
Taxes receivable	225,375	-	225,375
Special assessments receivable	589,251	-	589,251
Accounts receivable	307,159	228,908	536,067
Loans receivable	417,769	-	417,769
Interest receivable	194,994	-	194,994
Due from other governmental units	6,703,334	193	6,703,527
Internal balances	356	(356)	-
Inventories and prepaid items	214,710	-	214,710
Property held for sale	2,925,000	-	2,925,000
Restricted cash and investments	3,373,092	2,454,073	5,827,165
Capital assets			
Construction in progress	9,593,320	-	9,593,320
Land	3,665,124	451,250	4,116,374
Other capital assets, net of depreciation	77,084,510	3,838,428	80,922,938
Investment in joint ventures	4,787,500	-	4,787,500
Total Assets	<u>145,371,216</u>	<u>9,890,026</u>	<u>155,261,242</u>
DEFERRED OUTFLOWS OF RESOURCES			
Other postemployment benefit related amounts	42,205	905	43,110
Pension related amounts	4,699,547	40,083	4,739,630
Total Deferred Outflows of Resources	<u>4,741,752</u>	<u>40,988</u>	<u>4,782,740</u>
LIABILITIES			
Accounts payable	1,632,626	52,331	1,684,957
Accrued liabilities	463,739	8,869	472,608
Deposits	24,683	-	24,683
Due to other governments	194,549	21,618	216,167
Unearned revenues	4,570	-	4,570
Noncurrent liabilities			
Due within one year	2,756,939	28,316	2,785,255
Due in more than one year	21,326,928	2,613,638	23,940,566
Total Liabilities	<u>26,404,034</u>	<u>2,724,772</u>	<u>29,128,806</u>
DEFERRED INFLOWS OF RESOURCES			
Grants received in advance of meeting time requirements	166,230	-	166,230
Pension related amounts	7,768,230	66,327	7,834,557
Total Deferred Inflows of Resources	<u>7,934,460</u>	<u>66,327</u>	<u>8,000,787</u>
NET POSITION			
Net investment in capital assets	79,627,266	4,289,678	83,916,944
Restricted for:			
General government	384,193	-	384,193
Recorder equipment	424,213	-	424,213
Public safety	251,945	-	251,945
Highways and streets	7,859,605	-	7,859,605
Conservation of natural resources	759,275	-	759,275
Debt service	1,191,588	-	1,191,588
Unrestricted	25,276,389	2,850,237	28,126,626
TOTAL NET POSITION	<u>\$ 115,774,474</u>	<u>\$ 7,139,915</u>	<u>\$ 122,914,389</u>

See accompanying notes to financial statements.

STEELE COUNTY

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activity	Totals
Governmental Activities							
General government	\$ 7,937,834	\$ 1,747,591	\$ 363,353	\$ 48,308	\$ (5,778,582)	\$ -	\$ (5,778,582)
Public safety	10,299,911	2,644,811	276,909	-	(7,378,191)	-	(7,378,191)
Public works	7,922,202	267,040	2,851,221	7,755,603	2,951,662	-	2,951,662
Sanitation	701,083	667,481	52,284	-	18,682	-	18,682
Health and human services	8,590,329	784,329	660,557	-	(7,145,443)	-	(7,145,443)
Culture, recreation, and education	943,494	20,442	-	-	(923,052)	-	(923,052)
Conservation and development	734,623	666,085	2,126	-	(66,412)	-	(66,412)
Interest and fiscal charges	396,546	-	-	-	(396,546)	-	(396,546)
Total Governmental Activities	<u>37,526,022</u>	<u>6,797,779</u>	<u>4,206,450</u>	<u>7,803,911</u>	<u>(18,717,882)</u>	<u>-</u>	<u>(18,717,882)</u>
Business-type Activity							
Solid waste	<u>1,595,687</u>	<u>1,943,007</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>347,320</u>	<u>347,320</u>
Total Business-type Activity	<u>1,595,687</u>	<u>1,943,007</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>347,320</u>	<u>347,320</u>
Total Primary Government	<u>\$ 39,121,709</u>	<u>\$ 8,740,786</u>	<u>\$ 4,206,450</u>	<u>\$ 7,803,911</u>	<u>(18,717,882)</u>	<u>347,320</u>	<u>(18,370,562)</u>
General Revenues							
Taxes							
Property taxes, levied for general purposes					22,411,000	-	22,411,000
Property taxes, levied for debt service					1,153,546	-	1,153,546
Other taxes					3,481,312	-	3,481,312
Intergovernmental revenues not restricted to specific programs					2,294,366	-	2,294,366
Gifts and contributions					100,590	-	100,590
Investment income					828,121	12,061	840,182
Miscellaneous					<u>967,668</u>	<u>11,479</u>	<u>979,147</u>
Total General Revenues					<u>31,236,603</u>	<u>23,540</u>	<u>31,260,143</u>
Change in Net Position					12,518,721	370,860	12,889,581
NET POSITION - Beginning of Year (as restated for governmental activities)					<u>103,255,753</u>	<u>6,769,055</u>	<u>110,024,808</u>
NET POSITION - END OF YEAR					<u>\$ 115,774,474</u>	<u>\$ 7,139,915</u>	<u>\$ 122,914,389</u>

See accompanying notes to financial statements.

STEELE COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS
As of December 31, 2018

	General Fund	Road & Bridge	Ditch	Community Wellness	Debt Service	Capital Projects	Total Governmental Funds
ASSETS							
Cash and investments	\$ 19,258,398	\$ 14,253,022	\$ 388,355	\$ 67,456	\$ 1,210,147	\$ 112,344	\$ 35,289,722
Receivables							
Taxes	182,287	26,685	-	-	16,403	-	225,375
Special assessments	17,036	-	572,215	-	-	-	589,251
Accounts	304,033	1,501	-	-	-	1,625	307,159
Loans	417,769	-	-	-	-	-	417,769
Interest	194,994	-	-	-	-	-	194,994
Due from other governments	773,364	4,319,060	46,956	-	-	1,563,954	6,703,334
Due from other funds	1,648	38,555	-	-	-	-	40,203
Inventories and prepaid items	25,206	189,504	-	-	-	-	214,710
Property held for sale	-	-	-	2,925,000	-	-	2,925,000
Advances to other funds	2,325,171	-	-	-	-	-	2,325,171
Restricted cash and investments							
Construction account	-	-	-	-	-	3,373,092	3,373,092
TOTAL ASSETS	\$ 23,499,906	\$ 18,828,327	\$ 1,007,526	\$ 2,992,456	\$ 1,226,550	\$ 5,051,015	\$ 52,605,780
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 230,497	\$ 72,187	\$ 95,158	\$ 52,325	\$ -	\$ 50,901	\$ 501,068
Construction contracts payable	-	-	-	-	-	1,131,558	1,131,558
Accrued liabilities	382,418	35,552	-	-	-	-	417,970
Due to other governments	82,156	92,974	19,419	-	-	-	194,549
Due to other funds	20,943	1,292	17,612	-	-	-	39,847
Advances from other funds	-	-	905,171	320,000	-	1,100,000	2,325,171
Deposits	24,683	-	-	-	-	-	24,683
Unearned revenues	4,570	-	-	-	-	-	4,570
Total Liabilities	745,267	202,005	1,037,360	372,325	-	2,282,459	4,639,416
Deferred Inflows of Resources							
Unearned revenues	166,230	-	-	-	-	-	166,230
Unavailable revenues	627,947	3,980,084	619,171	-	13,624	-	5,240,826
Total Deferred Inflows of Resources	794,177	3,980,084	619,171	-	13,624	-	5,407,056
Fund Balances							
Nonspendable	2,243,368	189,504	-	-	-	-	2,432,872
Restricted	1,597,657	3,900,872	-	-	1,212,926	3,161,420	9,872,875
Committed	330,208	332,212	-	-	-	-	662,420
Assigned	1,159,376	10,223,650	-	2,620,131	-	-	14,003,157
Unassigned (deficit)	16,629,853	-	(649,005)	-	-	(392,864)	15,587,984
Total Fund Balances (Deficit)	21,960,462	14,646,238	(649,005)	2,620,131	1,212,926	2,768,556	42,559,308
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 23,499,906	\$ 18,828,327	\$ 1,007,526	\$ 2,992,456	\$ 1,226,550	\$ 5,051,015	\$ 52,605,780

See accompanying notes to the financial statements.

STEELE COUNTY

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
As of December 31, 2018

Total fund balance - governmental funds	\$	42,559,308
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in government activities are not financial resources and therefore are not reported in the fund statements. See Note IV.D.		90,342,954
Delinquent taxes, special assessments and certain accounts receivable are reported as unavailable revenue in the fund financial statements and are recognized as revenue when earned in the government-wide financial statements See Note III.B.		5,240,826
Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts are the net effect of these differences: (Premium)/discount on debt		(522,894)
Some deferred outflows of resources do not relate to current financial resources and are not reported in the governmental funds.		
Deferred outflows - pension related amounts		4,699,547
Deferred outflows - OPEB related amounts		42,205
Some deferred inflows of resources do not relate to current financial resources and are not reported in the governmental funds.		
Deferred inflows - pension related amounts		(7,768,230)
Investments in joint ventures are not financial resources and, therefore, are not reported in the funds.		4,787,500
Long-term liabilities, including bonds and notes payable, are not due in the current period and, therefore, are not reported in the fund statements.		
Long-term liabilities at year end consist of:		
General obligation bonds payable	(9,795,000)	
General obligation note payable	(70,932)	
Revenue bonds payable	(2,500,000)	
Loans payable	(508,434)	
Accrued interest on debt	(45,769)	
Net pension liability	(8,745,573)	
Other postemployment benefits liability	(653,782)	
Vested compensated absences	(1,287,252)	(23,606,742)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$	<u>115,774,474</u>

See accompanying notes to financial statements.

STEELE COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2018

	General Fund	Special Revenue				Debt Service	Capital Projects	Total Governmental Funds
		Road & Bridge	Ditch	Community Wellness				
REVENUES								
Taxes	\$ 18,712,583	\$ 3,408,413	\$ -	\$ -	\$ 1,166,931	\$ 1,033,210	\$ 24,321,137	
Other taxes	47,345	2,756,020	-	-	-	-	2,803,365	
Special assessments	-	-	422,912	-	-	-	422,912	
Intergovernmental	3,960,329	3,581,810	-	-	108,696	3,825,358	11,476,193	
Licenses and permits	141,542	11,094	-	-	-	-	152,636	
Fines and forfeitures	36,036	-	-	-	-	-	36,036	
Public charges for services	4,506,927	247,636	-	-	-	-	4,754,563	
Investment income (including unrealized gains)	757,037	35	3,527	-	-	47,593	808,192	
Miscellaneous	1,518,425	15,585	-	278,175	-	224,582	2,036,767	
Total Revenues	29,680,224	10,020,593	426,439	278,175	1,275,627	5,130,743	46,811,801	
EXPENDITURES								
Current								
General government	7,892,948	-	-	-	-	-	7,892,948	
Public safety	10,459,902	-	-	-	-	-	10,459,902	
Public works	-	6,195,676	-	-	-	-	6,195,676	
Health and human services	6,648,470	-	-	100,198	-	-	6,748,668	
Sanitation	715,049	-	-	-	-	-	715,049	
Culture, recreation, and education	794,772	-	-	-	-	-	794,772	
Conservation and development	513,508	-	228,630	-	-	-	742,138	
Capital Outlay	236,053	211,469	-	-	-	5,998,910	6,446,432	
Debt Service								
Principal retirement	150,240	-	-	150,000	1,065,000	-	1,365,240	
Interest and fiscal charges	13,024	-	-	126,916	267,463	-	407,403	
Total Expenditures	27,423,966	6,407,145	228,630	377,114	1,332,463	5,998,910	41,768,228	
Excess (deficiency) of revenues over expenditures	<u>2,256,258</u>	<u>3,613,448</u>	<u>197,809</u>	<u>(98,939)</u>	<u>(56,836)</u>	<u>(868,167)</u>	<u>5,043,573</u>	
OTHER FINANCING SOURCES (USES)								
Long term debt issued	-	-	-	-	-	3,190,000	3,190,000	
Premium on debt issued	-	-	-	-	-	280,069	280,069	
Transfers in	-	19,086	-	-	-	1,237,823	1,256,909	
Transfers out	(446,909)	(810,000)	-	-	-	-	(1,256,909)	
Total Other Financing Sources (Uses)	(446,909)	(790,914)	-	-	-	4,707,892	3,470,069	
Net change in fund balances	1,809,349	2,822,534	197,809	(98,939)	(56,836)	3,839,725	8,513,642	
FUND BALANCES (DEFICIT) - Beginning of Year (as restated for General Fund and Community Wellness Fund)								
	20,151,113	11,818,629	(846,814)	2,719,070	1,269,762	(1,071,169)	34,040,591	
Increase in inventories	-	5,075	-	-	-	-	5,075	
FUND BALANCES (DEFICIT) - END OF YEAR	\$ 21,960,462	\$ 14,646,238	\$ (649,005)	\$ 2,620,131	\$ 1,212,926	\$ 2,768,556	\$ 42,559,308	

See accompanying notes to the financial statements.

STEELE COUNTY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018

Net change in fund balances - total governmental funds	\$ 8,513,642
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. The following differ in their presentation in the two statements:</p>	
Capital outlay is reported as an expenditure in the fund financial statements but is capitalized in the government-wide financial statements.	6,446,432
Some items reported as capital outlay were not capitalized	(297,076)
Current expenditures capitalized in the government-wide statements	3,132,300
Depreciation is reported in the government-wide statements	(5,911,756)
Net book value of assets disposed of	(6,960)
<p>Delinquent taxes, special assessments and certain accounts receivable are reported as unavailable revenue in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements. This is the amount recognized as revenue on the fund statement that was recognized in the government-wide statement in prior years.</p>	
Taxes receivable	(78,645)
Special assessments	190,730
Due from other governments	3,608,400
Accounts receivable	(56,364)
Interest receivable	24,596
Notes and loans receivable	(135,776)
Leases receivable	(320,000)
<p>Debt issued provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.</p>	
Debt issued	(3,190,000)
Principal payments	1,365,240
<p>The change in inventory is reported as a change in fund balance in the fund financial statements, but is a reduction in expense in the government-wide statements.</p>	
	5,075
<p>Governmental funds report the effect of debt premiums when debt is issued, where as these amounts are reported as deferred inflows of resources and amortized in the statement of activities.</p>	
Deferred charge on refunding of debt	(79,078)
Debt premium	(196,995)
<p>Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These amounts are for the following:</p>	
Compensated absences	(80,816)
Accrued interest on debt	6,864
Net pension liability (and pension related deferred outflows/inflows of resources)	986,625
Other postemployment benefit liability (and related deferred outflows of resources)	514,534
<p>The proportionate share of the change in net position related to joint ventures reported in the statement of activities neither provides or uses current financial resources are not reported in the fund statements.</p>	
	<u>(1,922,251)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u>12,518,721</u>

See accompanying notes to financial statements.

STEELE COUNTY

STATEMENT OF NET POSITION ENTERPRISE FUND As of December 31, 2018

	<u>Solid Waste</u>
ASSETS	
CURRENT ASSETS	
Cash and investments	\$ 2,917,530
Accounts receivable (net)	228,908
Due from other governments	193
Total Current Assets	<u>3,146,631</u>
NONCURRENT ASSETS	
Restricted cash and investments	2,454,073
Capital Assets	
Land	451,250
Property and equipment	10,719,894
Accumulated depreciation	<u>(6,881,466)</u>
Total Noncurrent Assets	<u>6,743,751</u>
Total Assets	<u>9,890,382</u>
DEFERRED OUTFLOWS OF RESOURCES	
OPEB related amounts	905
Pension related amounts	40,083
Total Deferred Outflows of Resources	<u>40,988</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	52,331
Accrued expenses and deposits	8,869
Due to other governments	21,618
Due to other funds	356
Current portion of vested compensated absences	28,316
Total Current Liabilities	<u>111,490</u>
NONCURRENT LIABILITIES	
Vested compensated absences	5,800
Net pension liability	209,131
OPEB liability	14,024
Landfill long-term care costs	2,384,683
Total Noncurrent Liabilities	<u>2,613,638</u>
Total Liabilities	<u>2,725,128</u>
DEFERRED INFLOWS OF RESOURCES	
Pension related amounts	66,327
NET POSITION	
Net investment in capital assets	4,289,678
Unrestricted	<u>2,850,237</u>
TOTAL NET POSITION	<u>\$ 7,139,915</u>

See accompanying notes to financial statements.

STEELE COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION ENTERPRISE FUND

For the Year Ended December 31, 2018

	<u>Solid Waste</u>
OPERATING REVENUES	
Charges for services	\$ 1,943,007
Miscellaneous revenues	<u>11,479</u>
Total Operating Revenues	<u>1,954,486</u>
OPERATING EXPENSES	
Solid waste disposal	454,067
Supervision and labor	342,813
Benefits	29,675
Other services and charges	121,158
Depreciation	<u>632,102</u>
Total Operating Expenses	<u>1,579,815</u>
Operating Income	<u>374,671</u>
NONOPERATING REVENUES (EXPENSES)	
Investment income	12,061
Loss on disposal of capital assets	<u>(15,872)</u>
Total Nonoperating Revenues (Expenses)	<u>(3,811)</u>
Change in Net Position	370,860
NET POSITION – Beginning of Year	<u>6,769,055</u>
NET POSITION – END OF YEAR	<u>\$ 7,139,915</u>

See accompanying notes to financial statements.

STEELE COUNTY

STATEMENT OF CASH FLOWS
ENTERPRISE FUND
For the Year Ended December 31, 2018

	<u>Solid Waste</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,899,322
Cash paid to suppliers for goods and services	(678,381)
Cash paid to employees for services	(285,379)
Net Cash Flows From Operating Activities	<u>935,562</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>12,061</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	<u>(275,856)</u>
Net Change in Cash and Cash Equivalents	671,767
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>4,699,836</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 5,371,603</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income	\$ 374,671
Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities	
Noncash items included in operating income	
Depreciation	632,102
Landfill closure liability	42,989
Change in assets, liabilities, and deferred outflows and inflows of resources	
Receivables	(55,164)
Accounts payable and due to other governments	(36,475)
Accrued expenses	1,969
Due to other funds	160
Post employment retirement benefit liability and related deferrals	(3,742)
Pension related deferrals and liability	<u>(20,948)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 935,562</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS	
Cash and investments per Statement of Net Position	\$ 2,917,530
Noncurrent restricted cash	<u>2,454,073</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 5,371,603</u></u>
NONCASH CAPITAL, INVESTING AND FINANCING ACTIVITIES	
None.	

See accompanying notes to financial statements.

STEELE COUNTY

STATEMENT OF NET POSITION FIDUCIARY FUNDS As of December 31, 2018

	Private Purpose Trust	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and investments	\$ 219,230	\$ 1,972,726
Accounts receivable	-	23,423
Accrued interest receivable	94	-
Due from other governments	-	24,725
Prepaid items	-	38,448
	<u> </u>	<u> </u>
TOTAL ASSETS	<u>219,324</u>	<u>2,059,322</u>
LIABILITIES		
Funds held in trust	-	162,823
Accounts payable	-	19,107
Accrued wages	4,764	39,215
Due to other governments	-	1,838,177
	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>4,764</u>	<u>2,059,322</u>
NET POSITION HELD IN TRUST	<u>\$ 214,560</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

STEELE COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
FIDUCIARY FUND
For the Year Ended December 31, 2018

	<u>Private Purpose Trust</u>
ADDITIONS	
Interest	\$ 2,568
DEDUCTIONS	
Payments in accordance with trust agreements	<u>133</u>
Change in Net Position	2,435
NET POSITION HELD IN TRUST - Beginning of Year	<u>212,125</u>
NET POSITION HELD IN TRUST - END OF YEAR	<u><u>\$ 214,560</u></u>

See accompanying notes to the financial statements.

STEELE COUNTY

INDEX TO NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE	Page
I. Summary of Significant Accounting Policies	13
A. Reporting Entity	13
B. Government-Wide and Fund Financial Statements	13
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation	15
D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity	17
1. Deposits and Investments	17
2. Receivables	18
3. Inventories and Prepaid Items	19
4. Restricted Assets	19
5. Property Held for Sale	19
6. Capital Assets	19
7. Deferred Outflows of Resources	20
8. Compensated Absences	20
9. Long-Term Obligations	20
10. Deferred Inflows of Resources	21
11. Equity Classifications	21
12. Pension	22
13. Postemployment Benefits Other Than Pensions (OPEB)	23
II. Stewardship, Compliance, and Accountability	23
A. Excess Expenditures Over Appropriations	23
B. Deficit Balances	23
III. Detailed Notes on All Funds	24
A. Deposits and Investments	24
B. Receivables	27
C. Restricted Assets	27
D. Property Held for Sale	27
E. Capital Assets	28
F. Interfund Receivables/Payables, Advances and Transfers	30
G. Long-Term Obligations	32
H. Closure and Postclosure Care Cost	36
I. Net Position/Fund Balances	36
J. Restatement of Net Position/Fund Balance	38
IV. Other Information	39
A. Employee Retirement System	39
B. Other Postemployment Benefits	51
C. Risk Management	53
D. Commitments and Contingencies	54
E. Jointly-Governed Organizations	54
F. Joint Ventures	55
G. Tax Abatements	56
H. Effect of New Accounting Standards on Current Period Financial Statements	57
I. Subsequent Event	57

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Steele County, Minnesota (the “County”) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The accepted standard-setting body for establishing governmental accounting and financial reporting principles is the Governmental Accounting Standards Board (GASB).

A. REPORTING ENTITY

The County was established February 20, 1855 and is an organized county having the powers, duties, and privileges granted counties by Minn. Statute ch. 373. 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 of commissioners but has no vote.

This report includes all of the funds of the County. The reporting entity for the County consists of the primary government and its component units. Component units are legally separate organizations for which the primary government is financially accountable or other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading. The County has not identified any organizations that meet this criteria.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

In June 2015, the GASB issued statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*. This standard was implemented January 1, 2018. The beginning balance, as presented in Note III.G, was not restated due to the implementation of this standard, as the impact was not material.

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities, which generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The County does not allocate indirect expenses to functions in the statement of activities. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)

Fund Financial Statements

Financial statements of the County are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund equity, revenues, and expenditures/expenses.

Funds are organized as major funds or nonmajor funds within the governmental and proprietary fund statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the County or meets the following criteria:

- a. Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures of that individual governmental fund or enterprise fund are at least 10 percent of the corresponding total for all governmental funds.
- b. The same element of the individual governmental fund or enterprise fund that met the 10 percent test is at least 5 percent of the corresponding total for all governmental and enterprise funds combined.
- c. In addition, any other governmental or enterprise fund that the County believes is particularly important to financial statement users may be reported as a major fund.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The County reports the following major governmental funds:

General Fund – accounts for the County’s primary operating activities. It is used to account for and report all financial resources except those required to be accounted for in another fund.

Road and Bridge Special Revenue Fund – used to account for and report the proceeds of specific revenue sources that are restricted, committed or assigned to expenditures relating to public works for the establishment, location, vacation, construction, reconstruction, improvement, and maintenance of County state-aid highways, County highways, and County bridges.

Ditch Special Revenue Fund – used to account for and report resources restricted, committed or assigned for the financing of construction and maintenance of the County’s ditches.

Community Wellness Special Revenue Fund – used to account for and report resources restricted, committed or assigned for the operation and maintenance of the County’s investment in property held for sale.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)

Fund Financial Statements (cont.)

Debt Service Fund – used to account for and report financial resources that are restricted, committed, or assigned to expenditure for the payment of general long-term debt principal, interest, and related costs.

Capital Projects Fund – used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Steele County reports the following major enterprise fund:

Solid Waste Fund – accounts for and reports the operation of solid waste activities, including landfill and recycling. The fund also accounts for funds being accumulated for closure and post-closure care costs associated with the landfill.

In addition, Steele County reports the following fund types:

Private-Purpose Trust Fund – used to account for and report any trust arrangement not properly reported in a pension trust fund under which principal and income benefit individuals, private organizations, or other governments.

Cemetery Investment

Agency funds are used to account for assets held by Steele County as an agent for individuals, private organizations, and/or other governmental units.

Taxes and Penalties

State Revenue

Consolidated Dispatch

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide statement of net position and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. 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 are met. Special assessments are recorded as revenue when earned. Unbilled receivables are recorded as revenues when services are provided.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (cont.)

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, The County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

Property taxes are recorded as receivables in the year levied. They are recognized as revenues when collected in the current year and in the first 60 days of the succeeding year.

Intergovernmental aids and grants are recognized as revenues in the period the County is entitled to the resources and the amounts are available. Amounts owed to the County which are not available are recorded as receivables and unavailable revenues. Amounts received before eligibility requirements (excluding time requirements) are met are recorded as liabilities. Amounts received in advance of meeting time requirements are recorded as deferred inflows.

Special assessments are recorded as revenues when they become measurable and available as current assets. Annual installments due in future years are reflected as receivables and unavailable revenues.

Revenues susceptible to accrual include property taxes, miscellaneous taxes, public charges for services, special assessments and interest. Other general revenues such as fines and forfeitures, inspection fees, recreation fees, and miscellaneous revenues are recognized when received in cash or when measurable and available under the criteria described above.

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note. Agency funds follow the accrual basis of accounting and do not have a measurement focus.

The proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for proprietary funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

All Financial Statements

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

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY

1. Deposits and Investments

For purposes of the statement of cash flows, the County considers all highly liquid investments with an initial maturity of three months or less when acquired to be cash equivalents.

Minnesota statutes authorize the County board to designate a depository for public funds and to invest in certificates of deposit. Minnesota statutes require that all deposits be covered by insurance, surety bond, or collateral.

Investments are limited to:

- > Bonds, notes, bills, mortgages, and other securities, which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by Congress, except mortgage-backed securities defined as “high risk” by Minnesota statutes.
- > State and local securities that meet specified bond ratings by a national rating service.
- > Commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less.
- > Mutual fund through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments.
- > Banker’s acceptances of United States banks.
- > Repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts, with certain restrictions.

The County has adopted an investment policy. This policy follows the state statutes for allowable investments and contains the following guidelines:

Custodial Credit Risk - The policy states the full collateralization will be required on all demand deposit accounts, including checking accounts and nonnegotiable certificates of deposits. The County follows state statutes related to this risk.

Credit Risk - The investment policy addresses credit risk through the investment restrictions detailed above.

Concentration of Credit Risk - The policy requires diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Interest Rate Risk - The investment policy specifies the portfolio will be structured so that securities mature as needed for ongoing operations, thereby avoiding the need to sell securities in the open market. The average maturity shall not exceed five years from the date of purchase.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

1. Deposits and Investments (cont.)

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on methods and inputs as outlined in Note III.A. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of municipal accounting funds is generally allocated to the General Fund. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

The County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Statute 471.59. The County's MAGIC portfolio investment is reported at amortized cost. Shares of the County's MAGIC term series investment are purchased to mature upon pre-determined dates and are reported at a net asset value. Financial information for the MAGIC Fund can be obtained online at <https://www.magicfund.org/forms-and-documents/>.

See Note III.A. for further information.

2. Receivables

The County levies and collects property taxes and special assessments for all governmental units within the County. Property tax collections and payments to other governmental units are accounted for in agency funds.

The County is required to distribute the collections to the various governmental units three times each year on a schedule prescribed in Minn. Statute 276.

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

No allowance for uncollectible delinquent taxes has been provided because of the County's demonstrated ability to recover any losses through the sale of the applicable property.

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "due to and from other funds." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

In the governmental fund financial statements, advances to other funds are offset equally by a nonspendable fund balance account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

3. Inventories and Prepaid Items

Inventory, if material, is valued at cost based on first-in, first-out and consists of supplies held for consumption. Reported inventories are offset by nonspendable fund balance in the fund financial statements to indicate they are not available, spendable resources.

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.

4. Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified. The excess of restricted assets over current liabilities payable from restricted assets will be used first for retirement of related long-term debt. The remainder, if generated from earnings, is shown as restricted net position.

5. Property Held for Sale

The County retained title to property upon termination of a lease with Steele County Communities for a Lifetime, Inc. This property is presented at its fair market value and is in the process of being sold in 2019. See subsequent event in Note IV.I.

6. Capital Assets

Government –Wide Statements

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an estimated useful life in excess of one year and an initial cost of \$5,000 or more, except for infrastructure which is capitalized at a threshold of \$100,000 or more. All capital assets are valued at historical cost, or estimated historical cost if actual amounts are unavailable. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Machinery and Equipment	3-15 Years
Improvements	20-30 Years
Buildings	25-75 Years
Roads and Bridges (Infrastructure)	25-75 Years

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

6. Capital Assets (cont.)

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same way as in the government-wide statements.

7. Deferred Outflows of Resources

A deferred outflow of resources represents a consumption of net position/fund balance that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that future time.

8. Compensated Absences

Under terms of employment, employees are granted sick leave and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements.

All vested vacation and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements, and are payable with expendable available resources.

Payments for vacation and sick leave will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave liabilities at December 31, 2018 are determined on the basis of current salary rates and include salary related payments.

9. Long-Term Obligations

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term obligations consist primarily of bonds and notes payable, accrued compensated absences, other post-employment benefits and the net pension liability.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. The face value of debts (plus any premiums) are reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting in proprietary funds is the same as it is in the government-wide statements.

For the government-wide statements and proprietary fund statements, bond premiums and discounts are amortized over the life of the issue using the straight-line method. The balance at year-end is shown as an increase or decrease in the liability section of the statement of net position.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

9. Long-Term Obligations (cont.)

The County has approved the issuance of revenue bonds for the benefit of Steele County Communities for a Lifetime, Inc. The revenue bonds are secured by mortgages or revenue agreements on the associated projects, and do not constitute indebtedness of the County. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The total amount of revenue bonds outstanding at the end of the year is approximately \$9,290,000, made up of one issue.

10. Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

11. Equity Classifications

Government–Wide Statements

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances (excluding unspent bond proceeds) of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – Consists of net position with constraints placed on their use either by: 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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.

Fund Statements

Governmental fund equity is classified as fund balance and displayed as follows:

- a. Nonspendable - Includes fund balance amounts that cannot be spent either because they are not in spendable form or because legal or contractual requirements require them to be maintained intact.
- b. Restricted - Consists of fund balances with constraints placed on their use either by: 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

11. Equity Classifications (cont.)

Fund Statements (cont.)

- c. Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority. Fund balance amounts are committed through a formal action (resolution) of the County Board. This formal action must occur prior to the end of the reporting period, but the amount of the commitment, which will be subject to the constraints, may be determined in the subsequent period. Any changes to the constraints imposed required the same formal action of the County board that originally created the commitment.
- d. Assigned - Includes spendable fund balance amounts that are intended to be used for specific purposes that are not considered restricted or committed. Fund balance may be assigned through the following: 1) the County Board or County Treasurer, who has been delegated that authority by Board resolution and 2) all remaining positive spendable amounts in governmental funds, other than the general fund, that are neither restricted nor committed. Assignments may take place after the end of the reporting period.
- a. Unassigned - Includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those purposes.

Proprietary fund equity is classified the same as in the government-wide statements.

The County considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents / contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the County would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The County Board has approved a minimum fund balance policy. The target is to maintain a General Fund assigned plus unassigned fund balance that does not fall below a minimum of 45%, or exceed a maximum of 55%, of subsequent years' budgeted expenditures. Surpluses will be considered for one-time expenditures that are nonrecurring in nature. At December 31, 2018, the combined assigned and unassigned fund balance in the general fund was approximately 59% of the subsequent year's budgeted expenditures.

12. Pension

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

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

13. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total OPEB liability and OPEB expense, the County's single-employer defined benefit retiree healthcare plan recognizes benefit payments when due and payable in accordance with the benefit terms.

NOTE II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. EXCESS EXPENDITURES OVER APPROPRIATIONS

The following individual funds had 2018 expenditures and other financing uses in excess of appropriations:

Fund	Budgeted Expenditures and Other Financing Uses	Actual Expenditures and Other Financing Uses	Excess Over Budget
Community Wellness	\$ 278,175	\$ 377,114	\$ 98,939
Debt Service	1,259,913	1,332,463	72,550

The County controls expenditures at the department level. Some individual functions experienced expenditures which exceeded appropriations. The detail of those items can be found in the County's year-end budget to actual report.

B. DEFICIT BALANCES

Generally accepted accounting principles require disclosure of individual funds that have deficit balances at year-end.

As of December 31, 2018, the Ditch fund held a deficit balance of \$649,005 due to expenditures in excess of revenues. The deficit is anticipated to be funded with future special assessments.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE III – DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The County maintains a cash and investment pool that is available for use by all funds. Each fund's portion in this pool is displayed on statement of net position and balance sheet as cash and investments.

	Carrying Value	Bank Balance	Associated Risks
Deposits	\$ 1,711,685	\$ 1,711,634	Custodial credit
Negotiable CD's	16,790,376	16,790,376	Custodial credit, credit, concentration of credit, interest rate
MAGIC portfolio	11,370,097	11,497,299	Credit, interest rate
U.S. agencies – implicitly guaranteed	1,065,771	1,065,771	Custodial credit, credit, concentration of credit, interest rate
U.S. agencies – explicitly guaranteed	6,481	6,481	Custodial credit, interest rate
Corporate bonds	396,968	396,968	Custodial credit, credit, concentration of credit, interest rate
Municipal bonds	14,883,070	14,883,070	Custodial credit, credit, concentration of credit, interest rate
Petty cash	1,925	-	N/A
Total Cash and Investments	<u>\$ 46,226,373</u>	<u>\$ 46,351,599</u>	
Reconciliation to financial statements			
Per statement of net position			
Unrestricted cash and investments	\$ 38,207,252		
Restricted cash and investments	5,827,165		
Per statement of net position –			
Fiduciary Funds			
Private purpose trust	219,230		
Agency funds	<u>1,972,726</u>		
Total Cash and Investments	<u>\$ 46,226,373</u>		

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts and \$250,000 for demand deposit amounts (interest-bearing and noninterest bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposits.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

A. DEPOSITS AND INVESTMENTS (cont.)

The Securities Investor Protection Corporation (SIPC), created by the Securities Investor Protection Act of 1970, is an independent government-sponsored corporation (not an agency of the U.S. government). SIPC membership provides account protection up to a maximum of \$500,000 per customer, of which \$250,000 may be in cash. Additionally, through RBC Capital Markets, LLC, accounts have additional securities coverage of up to a firm aggregate of \$400 million, including \$99.5 million for SIPC qualified account.

The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The valuation methods for recurring fair value measurements are as follows:

- > Quoted market prices
- > Matrix pricing models
- > Purchase agreement pricing for property held for sale

Investment Type	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Negotiable CDs	\$ -	\$16,790,376	\$ -	\$16,790,376
U.S. agencies – implicitly guaranteed	-	1,065,771	-	1,065,771
U.S. agencies – explicitly guaranteed	-	6,481	-	6,481
Municipal bonds	-	14,883,070	-	14,883,070
Corporate bonds	-	396,968	-	396,968
Property held for sale	-	2,925,000	-	2,925,000
Totals	<u>\$ -</u>	<u>\$36,067,666</u>	<u>\$ -</u>	<u>\$36,067,666</u>

Custodial Credit Risk

Deposits – Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to the County. The County does not have any deposits exposed to custodial credit risk.

Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of 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. The County does not have any investments exposed to custodial credit risk.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

A. DEPOSITS AND INVESTMENTS (cont.)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

As of December 31, 2018, the County's investments were rated as follows:

Investment Type	Standard & Poor's	Moody's Investor Service
U.S. agencies – implicitly guaranteed	AA+, AA	AAA
Corporate bonds	N/R	AAA
Municipal bonds	AAA, AA+, AA, AA-, A, A-	AAA, AA1, AA2, AA3, A1, A2, A3

The County also had the following unrated investments:

Minnesota Association of Governments Investing for Counties (MAGIC)
Negotiable certificates of deposit

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

No investments were concentrated at more than 5% at December 31, 2018.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment.

As of December 31, 2018, the County's investments were as follows:

Investment Type	Bank Balance	Maturity (in years)		
		Less than 1 year	1 - 5 years	More than 5 years
Negotiable CD's	\$ 16,790,376	\$ 4,438,678	\$ 11,400,572	\$ 951,126
U.S. agencies – implicitly guaranteed	6,481	-	873	5,608
U.S. agencies – explicitly guaranteed	1,065,771	987,329	75,273	3,169
Municipal bonds	14,883,070	2,005,723	12,278,671	598,676
Corporate bonds	396,968	-	396,968	-
MAGIC	11,370,097	11,370,097	-	-
Totals	\$ 44,512,763	\$ 18,801,827	\$ 24,152,357	\$ 1,558,579

See Note I.D.1. for further information on deposit and investment policies.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

B. RECEIVABLES

All receivables are expected to be collected within one year except for \$44,308 of accounts receivable and \$339,414 of loans receivable in the general fund and \$229,579 of special assessments in the ditch fund.

Governmental funds report *unavailable* or *unearned revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *unavailable revenue* and *unearned revenue* reported in the governmental funds were as follows:

	Unearned	Unavailable
Property taxes receivable	\$ -	\$ 175,976
Special assessments receivable	-	589,251
Due from other governments	-	4,098,238
Interest receivable	-	24,596
Loans receivable	-	169,879
Accounts receivable	-	182,886
Grants received in advance	166,230	-
 Total Unavailable/Unearned Revenue for Governmental Funds	 \$ 166,230	 \$ 5,240,826

C. RESTRICTED ASSETS

The construction account is used to report proceeds of bond issuances that are restricted for us in constructions.

The County makes annual contributions to a trust to finance closure and post-closure care of the County landfill. As of December 31, 2018, investments of \$2,454,073 are held for these purposes. See Note III.H.

D. PROPERTY HELD FOR SALE

Property held for sale activity for the year ended December 31, 2018 was as follows:

	1/1/2018	Additions	Deletions	12/31/2018
Property held for sale	\$ 2,925,000	\$ -	\$ -	\$ 2,925,000

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

E. CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital Assets Not Being Depreciated				
Land and right of way	\$ 3,529,228	\$ 135,896	\$ -	\$ 3,665,124
Construction in progress	4,191,732	8,091,044	(2,689,456)	9,593,320
Total Capital Assets Not Being Depreciated	\$ 7,720,960	\$ 8,226,940	\$ (2,689,456)	\$ 13,258,444
Capital Assets Being Depreciated				
Buildings	\$ 29,012,587	\$ 446,026	\$ 3,180	\$ 29,455,433
Improvements	1,349,385	-	1,199,953	149,432
Machinery, furniture and equipment	10,429,512	689,245	867,366	10,251,391
Infrastructure	125,104,817	2,615,401	-	127,720,218
Total Capital Assets Being Depreciated	165,896,301	3,750,672	2,070,499	167,576,474
Less: Accumulated Depreciation for				
Buildings	(11,447,179)	(691,789)	3,180	(12,135,788)
Improvements	(1,292,208)	(7,470)	1,199,953	(99,725)
Machinery, furniture and equipment	(6,408,110)	(857,533)	853,906	(6,411,737)
Infrastructure	(67,489,750)	(4,354,964)	-	(71,844,714)
Total Accumulated Depreciation	(86,637,247)	(5,911,756)	2,057,039	(90,491,964)
Total Capital Assets Being Depreciated, Net of Depreciation	\$ 79,259,054	\$(2,161,084)	\$ 13,460	\$ 77,084,510

Depreciation expense was charged to functions as follows:

Governmental Activities	
General government	\$ 438,546
Public safety	588,049
Health	2,112
Culture and recreation	179,739
Highway	4,703,310
Total Governmental Activities Depreciation Expense	\$ 5,911,756

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

E. CAPITAL ASSETS (cont.)

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

	Beginning Balance	Additions	Deletions	Ending Balance
Business Type Activities				
Capital Assets Not Being Depreciated				
Land and right of way	\$ 451,250	\$ -	\$ -	\$ 451,250
Total Capital Assets Not Being Depreciated	\$ 451,250	\$ -	\$ -	\$ 451,250
Capital Assets Being Depreciated				
Buildings	\$ 426,166	\$ -	\$ -	\$ 426,166
Improvements	104,831	-	-	104,831
Landfill	8,205,530	29,878	-	8,235,408
Machinery, furniture and equipment	1,792,273	330,360	169,144	1,953,489
Total Capital Assets Being Depreciated	10,528,800	360,238	169,144	10,719,894
Less: Accumulated Depreciation for				
Buildings	(245,403)	(18,727)	-	(264,130)
Improvements	(42,505)	(5,934)	-	(48,439)
Landfill	(5,061,277)	(457,514)	-	(5,518,791)
Machinery, furniture and equipment	(969,069)	(149,927)	68,890	(1,050,106)
Total Accumulated Depreciation	(6,318,254)	(632,102)	68,890	(6,881,466)
 Total Capital Assets Being Depreciated, Net of Depreciation	 \$ 4,210,546	 \$ (271,864)	 \$ 100,254	 \$ 3,838,428

Depreciation expense of \$632,102 was charged to the solid waste business-type activities.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

F. INTERFUND RECEIVABLES/PAYABLES, ADVANCES AND TRANSFERS

Interfund Receivables/Payables

The following is a schedule of interfund receivables and payables including any overdrafts on pooled cash and investment accounts:

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge	\$ 1,292
General Fund	Solid Waste	356
Road and Bridge	General Fund	20,943
Road and Bridge	Ditch	17,612
Subtotal - Fund financial statements		40,203
Less: Fund eliminations		(39,847)
Total - Government-Wide Statement of Net Position		\$ 356

All amounts are expected to be repaid within one year.

These interfunds resulted from the time lag between the dates that: (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the statement of net position, interfund balances which are owed within the governmental activities or business-type activities are netted and eliminated.

Advances

The following is a schedule of interfund advances:

Receivable Fund	Payable Fund	Amount	Amount Not Due Within One Year
General Fund	Ditch	\$ 905,171	\$ 905,171
General Fund	Community Wellness	320,000	-
General Fund	Capital Projects	1,100,000	1,100,000
Subtotal - Fund Financial Statements		2,325,171	
Less: Fund eliminations		(2,325,171)	
Total - Government-Wide Statement of Activities		\$ -	

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

F. INTERFUND RECEIVABLES/PAYABLES, ADVANCES AND TRANSFERS (cont.)

Advances (cont.)

The general fund has advanced funds to the ditch fund for cash flow purposes. The advance to the community wellness fund was for operational support for Steele County Communities for a Lifetime, LLC. The amount advanced to the capital projects fund was a capital construction loan. There is no repayment schedule set up for the advances; however, the community wellness fund is anticipated to repay the advance to general fund within one year.

Transfers

The following is a schedule of interfund transfers:

<u>Fund Transferred To</u>	<u>Fund Transferred From</u>	<u>Amount</u>	<u>Principal Purpose</u>
Road and Bridge	General Fund	\$ 19,086	Parking lot repairs
Capital Projects	General Fund	427,823	Courthouse renovations
Capital Projects	Road and Bridge	<u>810,000</u>	Public works facility construction
Subtotal - Fund Financial Statements		1,256,909	
Less: Fund eliminations		<u>(1,256,909)</u>	
Total - Government-Wide Statement of Activities		<u>\$ -</u>	

Generally, transfers are used to: (1) move revenues from the fund that collects them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

G. LONG-TERM OBLIGATIONS

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

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Bonds and notes payable:					
General obligation bonds	\$ 7,670,000	\$ 3,190,000	\$ 1,065,000	\$ 9,795,000	\$ 1,410,000
General obligation note	87,876	-	16,944	70,932	16,787
Revenue bonds	2,650,000	-	150,000	2,500,000	160,000
Clean water partnership loans	641,730	-	133,296	508,434	101,734
Unamortized bond premium	325,899	280,069	83,074	522,894	-
Subtotal	11,375,505	3,470,069	1,448,314	13,397,260	1,688,521
Other Liabilities:					
Other postemployment benefits	1,126,111	92,909	565,238	653,782	-
Compensated absences	1,206,436	1,158,731	1,077,915	1,287,252	1,068,418
Net pension liability	13,429,000	993,304	5,676,731	8,745,573	-
Subtotal	15,761,547	2,244,944	7,319,884	10,686,607	1,068,418
Total Governmental Activities Long-Term Liabilities	\$ 27,137,052	\$ 5,715,013	\$ 8,768,198	\$ 24,083,867	\$ 2,756,939
 Business-Type Activities					
Other postemployment benefits	\$ 16,861	\$ 1,993	\$ 4,830	\$ 14,024	\$ -
Compensated absences	32,791	20,844	19,519	34,116	28,316
Net pension liability	254,197	19,264	64,330	209,131	-
Landfill liability	2,341,694	42,989	-	2,384,683	-
Total Business-type Activities Long-Term Liabilities	\$ 2,645,543	\$ 85,090	\$ 88,679	\$ 2,641,954	\$ 28,316

General Obligation Debt

All general obligation bonds and notes payable are backed by the full faith and credit of the County. General obligation bonds will be retired by future property tax levies accumulated by the debt service fund.

In accordance with Minnesota Statutes, net indebtedness of the County may not exceed 3% of the market value of taxable property within the County's jurisdiction. The debt limit as of December 31, 2018 was approximately \$59 million. General obligation debt outstanding at year-end subject to the debt limit was \$9,866,255.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

G. LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt (cont.)

General obligation debt payable for the County at December 31, 2018, consists of the following:

Governmental Activities General Obligation Bonds	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance December 31, 2018
GO Refunding Bonds	2007	2020	5.00%	\$ 4,560,000	\$ 980,000
GO Refunding Bonds	2015	2024	1.75-3.00%	9,720,000	5,625,000
Capital Improvement Bonds	2018	2026	3.00-4.00%	3,190,000	<u>3,190,000</u>
Total Governmental Activities – General Obligation Bonds					<u>\$ 9,795,000</u>

Debt service requirements to maturity are as follows:

Years	Governmental Activities General Obligation Bonds	
	Principal	Interest
2019	\$ 1,410,000	\$ 269,838
2020	1,610,000	217,438
2021	1,305,000	181,238
2022	1,325,000	151,888
2023	1,350,000	122,138
2024 – 2026	<u>2,795,000</u>	<u>176,400</u>
Totals	<u>\$ 9,795,000</u>	<u>\$ 1,118,940</u>

Notes payable for the County at December 31, 2018, consist of the following:

Governmental Activities General Obligation Note	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance December 31, 2018
MPFA GO Revenue Note	2012	2023	1.00%	\$ 192,281*	<u>\$ 70,932</u>

* Loan is authorized for up to \$205,815. The County has drawn \$192,821 as of December 31, 2018.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

G. LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt (cont.)

Debt service requirements to maturity are as follows:

<u>Years</u>	Governmental Activities General Obligation Note	
	Principal	Interest
2019	\$ 16,787	\$ 813
2020	16,956	644
2021	17,125	475
2022	17,297	303
2023	2,767	129
Totals	\$ 70,932	\$ 2,364

Revenue Bonds

Revenues bonds are payable from revenues derived from Park Place Senior Living LLC. This revenue stream ended in September 2019. See additional information at Note IV.I. Revenue bonds payable for the County at December 31, 2018, consists of the following:

Revenue Bonds	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance December 31, 2018
Gross Revenue Health Care Crossover Refunding Bonds	2005	2030	4.00-5.00%	\$ 3,545,000	\$ 2,500,000

Debt service requirements to maturity are as follows:

<u>Years</u>	Revenue Bonds	
	Principal	Interest
2019	\$ 160,000	\$ 116,933
2020	165,000	109,376
2021	175,000	101,428
2022	180,000	93,085
2023	190,000	84,390
2024 – 2028	1,105,000	272,463
2029 – 2030	525,000	26,625
Totals	\$ 2,500,000	\$ 804,300

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

G. LONG-TERM OBLIGATIONS (cont.)

Clean Water Partnership Loans

The County has entered into agreements with the Minnesota Public Facilities Authority to provide loans for financing septic systems. The loans are secured by special assessments placed on the individuals parcels requesting repaid of septic systems.

<u>Clean Water Partnership Loans</u>	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance December 31, 2018</u>
Loan payable – SRF0190	2012	2021	2.00%	\$ 598,169	\$ 192,107
Loan payable – SRF0259	2017	2026	2.00%	390,847*	<u>316,327</u>
					<u>\$ 508,434</u>

* Loan is authorized for up to \$410,233. The County has drawn \$390,847 as of December 31, 2018.

Debt service requirements to maturity are as follows:

<u>Years</u>	<u>Clean Water Partnership Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 101,734	\$ 10,028
2020	103,779	7,983
2021	105,865	5,897
2022	41,366	4,100
2023	42,197	3,269
2024 – 2026	<u>113,493</u>	<u>4,649</u>
Totals	<u>\$ 508,434</u>	<u>\$ 35,926</u>

Other Debt Information

Estimated payments of compensated absences, other postemployment benefits, and net pension liability are not included in the debt service requirement schedules. These liabilities attributable to governmental activities will be liquidated primarily by the general fund and road and bridge fund for their proportionate shares.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

H. CLOSURE AND POSTCLOSURE CARE COST

State and federal laws and regulations require the County to place a final cover on its landfill site 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 \$2,384,683 reported as landfill closure and postclosure care liability at December 31, 2018, represents the cumulative amount reported to date based on the use of approximately 79% of the estimated permitted capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care costs of \$581,705 as the remaining estimated capacity is filled. The County expects to close the landfill in 2040. The landfill closure and postclosure care liability is based on 2018 costs. Actual costs may be higher due to inflation, changes in technology, or changes in regulation.

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, 2018, investments of \$2,454,073 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.

I. NET POSITION / FUND BALANCES

Net position reported on the government wide statement of net position at December 31, 2018 includes the following:

Net Investment in Capital Assets	
Construction in progress	\$ 9,593,320
Land	3,665,124
Other capital assets, net of accumulated depreciation	77,084,510
Less: related long-term debt outstanding (excluding unspent capital related debt proceeds)	(10,192,794)
Less: Unamortized premium	<u>(522,894)</u>
 Total Net Investment in Capital Assets	 \$ <u>79,627,266</u>

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

I. NET POSITION / FUND BALANCES (cont.)

Governmental fund balances reported on the fund financial statements at December 31, 2018, include the following:

	General Fund	Road and Bridge	Ditch	Community Wellness	Debt Service	Capital Projects	Totals
Nonspendable:							
Inventories and prepaids	\$ 25,206	189,504	\$ -	\$ -	\$ -	\$ -	214,710
Loans receivables	212,991	-	-	-	-	-	212,991
Advances to other funds	2,005,171	-	-	-	-	-	2,005,171
Restricted for:							
Tree memorial	988	-	-	-	-	-	988
Law library	177,000	-	-	-	-	-	177,000
Recorder technology	228,591	-	-	-	-	-	228,591
Recorder compliance fund	195,622	-	-	-	-	-	195,622
Missing heirs	178,735	-	-	-	-	-	178,735
CWP loans	358,663	-	-	-	-	-	358,663
Natural resources block grant	27,445	-	-	-	-	-	27,445
U of M extension	7,521	-	-	-	-	-	7,521
Veterans donation	4,180	-	-	-	-	-	4,180
Sheriff drug and alcohol forfeiture	12,781	-	-	-	-	-	12,781
Sheriff handgun	206,601	-	-	-	-	-	206,601
Sheriff special deputies	5,271	-	-	-	-	-	5,271
SCRAM	27,292	-	-	-	-	-	27,292
County attorney	15,769	-	-	-	-	-	15,769
Bixby project	151,198	-	-	-	-	-	151,198
Highways and streets	-	3,900,872	-	-	-	-	3,900,872
Debt service	-	-	-	-	1,212,926	-	1,212,926
Capital projects	-	-	-	-	-	3,161,420	3,161,420
Committed to:							
Equipment purchases	330,208	332,212	-	-	-	-	662,420
Assigned to:							
Compensated absences	1,119,092	168,160	-	-	-	-	1,287,252
Fairground project	40,284	-	-	-	-	-	40,284
Bridges, roads & streets	-	10,055,490	-	-	-	-	10,055,490
Community wellness	-	-	-	2,620,131	-	-	2,620,131
Unassigned (deficit):	<u>16,629,853</u>	<u>-</u>	<u>(649,005)</u>	<u>-</u>	<u>-</u>	<u>(392,864)</u>	<u>15,587,984</u>
Total Fund Balances (Deficit)	<u>\$21,960,462</u>	<u>\$14,646,238</u>	<u>\$ (649,005)</u>	<u>\$ 2,620,131</u>	<u>\$ 1,212,926</u>	<u>\$ 2,768,556</u>	<u>\$ 42,559,308</u>

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

J. RESTATEMENT OF NET POSITION / FUND BALANCES

Governmental Activities

Governmental activities net position has been restated to correct errors in reporting assets and liabilities as of December 31, 2017. The equity interest in the Minnesota Prairie County Alliance joint venture was not reported in the County's 2017 statement of net position. In addition, the County held title to a property that was held for sale that they obtained through the termination of the Steele County Communities for a Lifetime, Inc. (SCCL) lease that was not reported in the 2017 statement of net position or Community Wellness fund.

Governmental Activities Net Position – December 31, 2017 (as reported)	\$	97,926,854
Add:		
Equity interest in joint venture		2,403,899
Property held for resale		<u>2,925,000</u>
Governmental Activities Net Position – December 31, 2017 (as restated)	\$	<u>103,255,753</u>

General Fund

Upon termination of the SCCL lease, the advance from General fund to the Community Wellness fund was no longer expected to be paid back and should have been written off and recorded as a transfer.

General Fund Balance – December 31, 2017 (as reported)	\$	21,351,113
Less:		
Transfer to Community Wellness Fund		<u>(1,200,000)</u>
Fund Balance – December 31, 2017 (as restated)	\$	<u>20,151,113</u>

Community Wellness

Community Wellness Fund Balance – December 31, 2017 (as reported)	\$	(1,405,930)
Add:		
Transfer from General Fund		1,200,000
Property held for resale		<u>2,925,000</u>
Fund Balance – December 31, 2017 (as restated)	\$	<u>2,719,070</u>

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

NOTE IV – OTHER INFORMATION

A. EMPLOYEES' RETIREMENT SYSTEM

Public Employees Retirement Association (PERA)

General Information About the Pension Plan

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 Plan

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

2. Public Employees Police and Fire Plan

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

3. Local Government Correctional Plan

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

Benefits Provided. PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

1. General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

General Information About the Pension Plan (cont.)

1. General Employees Plan Benefits (cont.)

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. General Employees Plan benefit recipients receive a future annual 1.0 percent increase. If the General Employees Plan is at least 90 percent funded for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

2. Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Police and Fire Plan benefit recipients receive a future annual 1.0 percent increase. An annual adjustment will equal 2.5 percent any time the plan exceeds a 90 percent funded ratio for two consecutive years. If the adjustment is increased to 2.5 percent and the funded ratio falls below 80 percent for one year or 85 percent for two consecutive years, the post-retirement benefit increase will be lowered to one percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase. For retirements after May 31, 2014, the first increase will be delayed two years.

3. Correctional Plan Benefits

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

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Correctional Plan benefit recipients receive a future annual 2.5 percent increase. If the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

General Information About the Pension Plan (cont.)

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

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2018 and the County was required to contribute 7.50 percent for Coordinated Plan members. The County's contributions to the General Employees Fund for the year ended December 31, 2018, were \$672,661. The County's contributions were equal to the required contributions as set by state statute.

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.80 percent of their annual covered salary and the County was required to contribute 16.20 percent of pay for members in fiscal year 2018. The County's contributions to the Police and Fire Fund for the year ended December 31, 2018, were \$258,223. The County's contributions were equal to the required contributions as set by state statute.

3. Correctional Fund Contributions

Plan members were required to contribute 5.83 percent of their annual covered salary and the County was required to contribute 8.75 percent of pay for plan members in fiscal year 2018. The County's contributions to the Correctional Fund for the year ended December 31, 2018, were \$201,761. The County's contributions were equal to the required contributions as set by state statute.

Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2018, the County reported a liability of \$7,173,034 for its proportionate share of the General Employees Fund's net pension liability. The County's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the County totaled \$235,216. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's 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, 2017 through June 30, 2018 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportionate share was .1293 percent which was a decrease of .0051 percent from its proportionate share measured as of June 30, 2017.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Pension Costs (cont.)

1. General Employees Fund Pension Costs (cont.)

County's proportionate share of the net pension liability	\$ 7,173,034
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>235,216</u>
Total	<u>\$ 7,408,250</u>

For the year ended December 31, 2018, the County recognized pension expense of \$145,777 for its proportionate share of the General Employees Plan's pension expense. In addition, the County recognized an additional \$54,852 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2018, the County reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 189,859	\$ 209,206
Changes in actuarial assumptions	685,207	805,967
Net collective difference between projected and actual investment earnings	-	732,970
Changes in proportion	163,963	526,820
Contributions paid to PERA subsequent to the measurement date	<u>340,942</u>	<u>-</u>
Total	<u>\$ 1,379,971</u>	<u>\$ 2,274,963</u>

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Pension Costs (cont.)

1. General Employees Fund Pension Costs (cont.)

\$340,942 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31:</u>	<u>Pension Expense Amounts</u>
2019	\$ (42,061)
2020	(384,055)
2021	(660,106)
2022	(149,712)

2. Police and Fire Fund Pension Costs

At December 31, 2018, the County reported a liability of \$1,598,846 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportionate share was .1500 percent which was the same as the proportionate share measured as of June 30, 2017. The County also recognized \$13,500 for the year ended December 31, 2018 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

For the year ended December 31, 2018, the County recognized pension expense of \$213,474 for its proportionate share of the Police and Fire Plan's pension expense.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Pension Costs (cont.)

2. Police and Fire Fund Pension Costs (cont.)

\$134,098 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31:</u>	<u>Pension Expense Amounts</u>
2019	\$ (5,359)
2020	(79,597)
2021	(191,104)
2022	(612,239)
2023	(5,272)

3. Correctional Plan Pension Costs

At December 31, 2018, the County reported a liability of \$182,825 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportionate share was 1.1116 percent which was an increase of .0316 percent from its proportionate share measured as of June 30, 2017.

For the year ended December 31, 2018, the County recognized pension expense of \$(165,825) for its proportionate share of the Correctional Plan's pension expense.

At December 31, 2018, the County reported its proportionate share of the Correctional Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Pension Costs (cont.)

3. Correctional Plan Pension Costs (cont.)

At December 31, 2018, the County reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 64,442	\$ 392,237
Change of actuarial assumptions	1,987,762	2,353,709
Net collective difference between projected and actual investment earnings	-	334,883
Change in proportion	149,455	14,401
Contributions paid to PERA subsequent to the measurement date	134,098	-
Total	\$ 2,335,757	\$ 3,095,230
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 9,543	\$ 19,542
Change of actuarial assumptions	862,413	2,113,889
Net collective difference between projected and actual investment earnings	-	207,451
Change in proportion	45,058	123,482
Contributions paid to PERA subsequent to the measurement date	106,887	-
Total	\$ 1,023,901	\$ 2,464,364

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Pension Costs (cont.)

3. Correctional Plan Pension Costs (cont.)

\$106,887 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31:</u>	<u>Pension Expense Amounts</u>
2019	\$ 41,164
2020	(859,185)
2021	(691,054)
2022	(38,275)

Actuarial Assumptions

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

Inflation	2.50 percent per year
Active Member Payroll Growth	3.25 percent per year
Investment Rate of Return	7.50 percent

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

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

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Actuarial Assumptions

General Employees Fund

Changes in Plan Provisions

The following changes in actuarial assumptions occurred in 2018:

General Employees Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- > The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- > Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- > Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- > Contribution stabilizer provisions were repealed.
- > Post-retirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019.
- > For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- > Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Actuarial Assumptions (cont.)

Police and Fire Fund

Changes in Actuarial Assumptions:

- > The mortality projection scale was changed from MP-2016 to MP-2017.

Changes in Plan Provisions:

- > Post-retirement benefit increases were changed to 1.0 percent for all years, with no trigger.
- > An end date of July 1, 2048 was added to the existing \$9.0 million state contribution.
- > New annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter until the plan reaches 100 percent funding, or July 1, 2048, if earlier.
- > Member contributions were changed from 10.8 percent to 11.3 percent of pay, effective January 1, 2019 and 11.8 percent of pay, effective January 1, 2020.
- > Employer contributions were changed from 16.20 percent to 16.95 percent of pay, effective January 1, 2019 and 17.70 percent of pay, effective January 1, 2020.
- > Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- > Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- > Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

Correctional Fund

Changes in Actuarial Assumptions:

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

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Actuarial Assumptions (cont.)

Correctional Fund (cont.)

Changes in Plan Provisions:

- > The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- > Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- > Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- > Post-retirement benefit increases were changed from 2.5 percent per year with a provision to reduce to 1.0 percent if the funding status declines to a certain level, to 100 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 2.5 percent, beginning January 1, 2019. If the funding status declines to 85 percent for two consecutive years or 80 percent for one year, the maximum increase will be lowered to 1.5 percent.
- > Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

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

Asset Class	Long-Term Real Rate of Return	Target Allocations
Domestic Stocks	5.10%	36%
International Stocks	5.30	17
Bonds	0.75	20
Alternative Assets	5.90	25
Cash	0.0	2

Discount Rate. The discount rate used to measure the total pension liability in 2018 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

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 one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.50%)	Current Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
County's proportionate share of the General Employees Fund net pension liability:	\$ 11,657,098	\$ 7,173,034	\$ 3,471,567
County's proportionate share of the Police and Fire Fund net pension liability:	3,428,025	1,598,846	86,190
County's proportionate share of the Correctional Fund net pension liability:	1,564,666	182,825	(922,606)

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

NOTES TO THE FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

NOTE IV – OTHER INFORMATION (CONT.)

B. OTHER POSTEMPLOYMENT BENEFITS

General Information about the OPEB Plan

Plan description. The County administers a single-employer defined benefit healthcare plan. The County's other postemployment benefit ("OPEB") plan provides health insurance benefits for eligible retirees and their eligible dependent(s) through the County's group health insurance plan, which covers both active and retired members. The County provides benefits for retirees as required by Minnesota Statute §471.61 subdivision 2b. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits provided. Active employees, who retire from the County and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the County's health benefits program indefinitely. Retirees are required to pay 100% of the total group rate. Since the premium is a blended rate determined on the entire active and retiree population, the retirees, whose costs are statistically higher than the group average, are receiving an implicit rate "subsidy."

Employees covered by benefit terms. At January 1, 2018, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	3
Active plan members	204
	207

Total OPEB Liability

The County's total OPEB liability of \$667,806 was measured as of January 1, 2018, and was determined by an actuarial valuation as of the same date.

Actuarial assumptions and other inputs. The total OPEB liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5 percent
Salary increases	3.0 percent
Healthcare cost trend rates	6.5 percent for 2018, grading to 5.0 percent over 6 years
Retirees' share of benefit-related costs	Varies

The discount rate was based on the 20-year municipal bond yield.

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel).

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE IV – OTHER INFORMATION (cont.)

B. OTHER POSTEMPLOYMENT BENEFITS (cont.)

Changes in the Total OPEB Liability

	Total OPEB Liability (a)
Balance at 12/31/2017	<u>\$ 1,142,972</u>
Change due to implementation of GASB No. 75	<u>(508,947)</u>
Changes for the year:	
Service cost	72,584
Interest	22,318
Benefit payments	<u>(61,121)</u>
Net changes	<u>33,781</u>
Balance at 12/31/2018	<u>\$ 667,806</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.50 percent in 2016 to 3.30 percent in 2018.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease (2.30%)	Discount Rate (3.30%)	1% Increase (4.30%)
Total OPEB liability	\$ 725,856	\$ 667,806	\$ 614,198

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE IV – OTHER INFORMATION (cont.)

B. OTHER POSTEMPLOYMENT BENEFITS (cont.)

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (5.5% Decreasing to 4.0%)	Healthcare Cost Trend Rates (6.5% Decreasing to 5.0%)	1% Increase (7.5% Decreasing to 6.0%)
Total OPEB liability	\$ 588,849	\$ 667,806	\$ 762,238

OPEB Expense and Deferred Outflow of Resources Related to OPEB

For the year ended December 31, 2018, the County recognized OPEB expense of \$94,902. At December 31, 2018, the County reported deferred inflows of resources related to OPEB from the following sources:

\$43,110 reported as deferred outflows of resources related to employer contributions made after the measurement date and before the reporting date will be recognized as a reduction of the total pension liability in the year ended December 31, 2019.

C. RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT) to protect against liabilities from workers compensation and property and casualty. The County purchases commercial insurance to cover all other risks. Settled claims have not exceeded coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

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 claim liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 per claim in 2018. Should workers compensation liabilities of the MCIT workers compensation division exceed its 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. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the liabilities of the property and casualty division exceed its assets, MCIT may assess the County in a method and amount to be determined by MCIT.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE IV – OTHER INFORMATION (cont.)

D. COMMITMENTS AND CONTINGENCIES

From time to time, the County is party to various other pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the County attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the County's financial position or results of operations.

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. The liability and expenditure for claims and judgments are only reported in governmental funds if it has matured. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred.

The County has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

As of December 31, 2018, the County has commitments for construction projects in progress and other contracts of approximately \$2,707,000.

E. JOINTLY-GOVERNED ORGANIZATIONS

Jointly governed organizations are a regional government or multi-governmental arrangement governed by representatives of each creating government. Participants do not retain an ongoing financial interest or responsibility.

Steele County, in conjunction with other local governments, has formed joint powers boards to provide a variety of services. The County appoints at least one member to the following organizations:

- > Minnesota Counties Computer Cooperative
- > Southeastern Minnesota Community Action Council
- > South Central Drug Investigations
- > Southeastern Minnesota Private Industry Council
- > Southeast Minnesota Water Resources Board
- > Southeast Minnesota Regional Radio Board
- > Counties Providing Technology

The County made payments of \$175,000 to Counties Providing Technology during 2018. All other 2018 payments to the jointly-governed organizations were minimal.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

NOTE IV – OTHER INFORMATION (cont.)

F. 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 (SCHRC) (a nonprofit corporation) for mental health services and in-home family 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 2018. In 2018, the corporation experienced a positive change in unrestricted net assets of \$364,481. Complete financial statements for the SCHRC can be obtained from its 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 2018 were \$807,916. Complete financial statements can be obtained from the Steele County Administrator's Office at 630 Florence Avenue, Owatonna, Minnesota 55060.

Minnesota Prairie County Alliance

Effective January 1, 2015, Steele County is a participant with Dodge and Waseca Counties in a joint venture to form a separate joint powers entity known as the Minnesota Prairie County Alliance (MNPrairie) under Minnesota Statutes §471.59 and §402A.35. The purpose of the entity is to administer essential human services programs and services mandated by Minnesota Statutes §402A.10. No county may withdraw from the agreement for five years from the original agreement date. A withdrawing member is allowed to recover their original equity contribution; however, the amount returned will not exceed its proportional share of MNPrairie's fund balance.

MNPrairie is governed by a joint powers board, which consists of two representatives of each member county.

During the year, Steele County made payments of approximately \$4.3 million to MNPrairie. Each county is required to make an annual operating contribution. The operating contribution is based fifty percent on the proportion of each member county's population and fifty percent on each member county's estimated market value. The equity interest at December 31, 2018 is \$2,353,585, down from \$2,403,899 at December 31, 2017. No additional equity was required to be paid in for 2018.

Dodge County is acting as fiscal agent. Complete financial statements for MNPrairie can be obtained from the administrative office at 630 Florence Avenue, Owatonna, Minnesota 55060.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2018

NOTE IV – OTHER INFORMATION (cont.)

F. JOINT VENTURES (cont.)

South Country Health Alliance

South Country Health Alliance (SCHA) was created by a Joint Powers Agreement between Brown, Cass, Crow Wing, Dodge, Freeborn, Goodhue, Kanabec, Morrison, Mower, Sibley, Steele, Todd, Wabasha, Wadena, and Steele counties on July 24, 1998, under Minnesota Statute §471.59. Mower, Freeborn, Cass, and Crow Wing counties have since withdrawn. 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 eleven participating member counties health care functions, referred to as County Based Purchasing.

SCHA is authorized to provide prepaid comprehensive health maintenance services to persons enrolled under Medicaid and General Assistance Medical Care in each of the above listed member counties.

While SCHA was created on July 2, 1998, it did not begin providing health maintenance services until November 1, 2001. At that time, SCHA began coverage of the beneficiaries enrolled under Medicaid and General Assistance Medical Care in the specified counties. Funding is provided from the State of Minnesota based on eligible participants within the member counties. In the event SCHA incurs operating deficits, the member counties would maintain SCHA's reserves to meet statutory and regulatory reserves requirements. Minnesota Statutes require SCHA to maintain capital surplus equal to or greater than one month's expenditures, but less than three months' expenditures. The County has an equity interest in the organization equal to its share of participation. The equity interest at December 31, 2018 is \$2,433,915, down from \$4,305,852 at December 31, 2017. No additional equity was required to be paid in for 2018.

In 2019, member counties will be required to make an equity contribution. Steele County's contribution will be \$2,110,944. SCHA has also received notice that Morrison, Todd and Wadena counties will be withdrawing at the end of 2019.

Complete financial statements for SCHA can be obtained from Steele County Administrator's Office at 630 Florence Avenue, P.O. Box 890, Owatonna, Minnesota 55060-0890.

G. TAX ABATEMENTS

The County has multiple tax increment financing districts, within the City of Owatonna, with local businesses pursuant to Minn. Statutes 469.174-.179 to promote economic development, housing districts for low to moderate income, and redevelopment. The County is currently collecting tax increments that are paid through the property tax collection process. The requirement for businesses to receive the excess tax increments from the County is to perform improvements on the owned property. The increment taxes are based on the increase of the property value after the improvements are made. Aggregate excess tax increment the County paid for the year ended December 31, 2018 was \$424,911.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

NOTE IV – OTHER INFORMATION (cont.)

H. EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved the following:

- > Statement No. 83, *Certain Asset Retirement Obligations*
- > Statement No. 84, *Fiduciary Activities*
- > Statement No. 87, *Leases*
- > Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- > Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- > Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*
- > Statement No. 91, *Conduit Debt Obligations*

When they become effective, application of these standards may restate portions of these financial statements.

I. SUBSEQUENT EVENT

On September 3, 2019, a purchase agreement was executed to sell the property held for sale in the amount of \$2,948,500. Monthly lease payments on the Park Place portion of the property ceased in September 2019 as a result of the relocation of the tenants and pending sale of the property.

REQUIRED SUPPLEMENTARY INFORMATION

STEELE COUNTY

BUDGETARY COMPARISON SCHEDULE GENERAL FUND For the Year Ended December 31, 2018

	Budget Original / Final	Actual	Variance with Budget
REVENUES			
Taxes	\$ 18,391,920	\$ 18,712,583	\$ 320,663
Other taxes	44,000	47,345	3,345
Intergovernmental	4,065,399	3,960,329	(105,070)
Licenses and permits	155,600	141,542	(14,058)
Fines and forfeitures	24,500	36,036	11,536
Public charges for services	4,350,934	4,506,927	155,993
Investment income (including unrealized losses)	210,000	757,037	547,037
Miscellaneous	1,429,133	1,518,425	89,292
TOTAL REVENUES	<u>\$ 28,671,486</u>	<u>\$ 29,680,224</u>	<u>\$ 1,008,738</u>
EXPENDITURES			
General Government			
Commissioners	\$ 244,660	\$ 208,394	\$ 36,266
Court administration	391,550	327,036	64,514
County administration	249,250	239,450	9,800
County auditor / treasurer	980,168	919,212	60,956
Human resources	394,470	366,551	27,919
County assessor	694,365	665,309	29,056
Elections	34,400	55,999	(21,599)
Data processing	498,444	384,481	113,963
Attorney	1,179,230	1,177,705	1,525
Recorder	434,460	522,313	(87,853)
Law library	36,000	19,797	16,203
Surveyor	20,000	16,509	3,491
Planning and zoning	508,220	512,347	(4,127)
Buildings and plant	1,307,670	1,200,401	107,269
GIS	111,470	101,568	9,902
Veterans services	211,470	198,523	12,947
Central services	346,140	340,372	5,768
Other	555,566	636,981	(81,415)
Total General Government	<u>8,197,533</u>	<u>7,892,948</u>	<u>304,585</u>
Public Safety			
Sheriff	3,149,620	2,942,027	207,593
Boat and water safety	4,700	1,335	3,365
Coroner	72,100	76,702	(4,602)
Public transit	4,800	-	4,800
Emergency government	89,700	81,896	7,804
E-911	807,916	807,916	-
County jail	4,888,690	4,530,077	358,613
Community corrections	1,867,825	1,630,326	237,499
Law enforcement center	387,390	389,623	(2,233)
Total Public Safety	<u>11,272,741</u>	<u>10,459,902</u>	<u>812,839</u>

See accompanying notes to required supplementary information.

STEELE COUNTY

BUDGETARY COMPARISON SCHEDULE GENERAL FUND For the Year Ended December 31, 2018

	Budget Original / Final	Actual	Variance with Budget
EXPENDITURES (cont.)			
Health and Human Services			
Minnesota Prairie	\$ 4,278,601	\$ 4,278,601	\$ -
Nursing service	2,613,341	2,369,869	243,472
Community health services	250	-	250
Total Health and Human Services	6,892,192	6,648,470	243,722
Sanitation			
Solid Waste	833,530	715,049	118,481
Total Sanitation	833,530	715,049	118,481
Culture, Recreation, and Education			
Parks	262,970	312,819	(49,849)
Historical society	6,000	6,000	-
Four seasons	490,310	461,789	28,521
Other	18,100	14,164	3,936
Total Culture, Recreation, and Education	777,380	794,772	(17,392)
Conservation and Development			
Cooperative extension	359,624	328,902	30,722
Soil and water conservation	135,000	135,000	-
Agricultural society	39,000	39,000	-
Bixby Sewer Project	17,886	10,606	7,280
Total Conservation and Development	551,510	513,508	38,002
Capital Outlay			
General government	-	230,603	(230,603)
Public safety	-	5,450	(5,450)
Total Capital Outlay	-	236,053	(236,053)
Debt Service			
Principal	145,634	150,240	(4,606)
Interest	10,966	13,024	(2,058)
Total Debt Service	156,600	163,264	(6,664)
TOTAL EXPENDITURES	\$ 28,681,486	\$ 27,423,966	\$ 1,257,520

See accompanying notes to required supplementary information.

STEELE COUNTY

BUDGETARY COMPARISON SCHEDULE ROAD AND BRIDGE FUND For the Year Ended December 31, 2018

	Budget Original / Final	Actual	Variance with Budget
REVENUES			
Taxes	\$ 3,647,800	\$ 3,408,413	\$ (239,387)
Other taxes	2,335,000	2,756,020	421,020
Intergovernmental	5,769,021	3,581,810	(2,187,211)
Public charges for services	824,000	247,636	(576,364)
Interest income	-	35	35
Licenses and permits	12,000	11,094	(906)
Miscellaneous	3,500	15,585	12,085
Total Revenues	12,591,321	10,020,593	(2,570,728)
EXPENDITURES			
Current			
Public works			
Administration	459,193	392,856	66,337
Operation and maintenance	3,948,250	2,822,357	1,125,893
Street construction	7,555,475	2,722,921	4,832,554
Other	220,403	257,542	(37,139)
Capital Outlay			
Highway and streets	530,000	211,469	318,531
Total Expenditures	12,713,321	6,407,145	6,306,176
Excess (deficiency) of revenues over expenditures	(122,000)	3,613,448	3,735,448
OTHER FINANCING SOURCES (USES)			
Transfers in	122,000	19,086	(102,914)
Transfers out	-	(810,000)	(810,000)
	122,000	(790,914)	(912,914)
Net change in fund balances	-	2,822,534	2,822,534
FUND BALANCES - Beginning of Year	11,818,629	11,818,629	-
Increase in inventories	-	5,075	5,075
FUND BALANCES - END OF YEAR	\$ 11,818,629	\$ 14,646,238	\$ 2,827,609

See auditors' report and accompanying notes to required supplementary information.

STEELE COUNTY

BUDGETARY COMPARISON SCHEDULE DITCH FUND

For the Year Ended December 31, 2018

	Budget Original / Final	Actual	Variance with Budget
REVENUES			
Special assessments	\$ -	\$ 422,912	\$ 422,912
Investment income	-	3,527	3,527
Miscellaneous	300,000	-	(300,000)
Total Revenues	<u>300,000</u>	<u>426,439</u>	<u>126,439</u>
EXPENDITURES			
Current			
Conservation and development	<u>300,000</u>	<u>228,630</u>	<u>71,370</u>
Total Expenditures	<u>300,000</u>	<u>228,630</u>	<u>71,370</u>
Net change in fund balances	-	197,809	197,809
FUND BALANCES (DEFICIT) - Beginning of Year	<u>(846,814)</u>	<u>(846,814)</u>	<u>-</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ (846,814)</u>	<u>\$ (649,005)</u>	<u>\$ 197,809</u>

See accompanying notes to required supplementary information.

STEELE COUNTY

BUDGETARY COMPARISON SCHEDULE COMMUNITY WELLNESS FUND For the Year Ended December 31, 2018

	Budget Original / Final	Actual	Variance with Budget
REVENUES			
Miscellaneous	\$ 278,175	\$ 278,175	\$ -
Total Revenues	<u>278,175</u>	<u>278,175</u>	<u>-</u>
EXPENDITURES			
Current			
Health and human services	4,035	100,198	(96,163)
Debt Service			
Principal	150,000	150,000	-
Interest	<u>124,140</u>	<u>126,916</u>	<u>(2,776)</u>
Total Expenditures	<u>278,175</u>	<u>377,114</u>	<u>(98,939)</u>
Net change in fund balances	-	(98,939)	(98,939)
FUND BALANCES - Beginning of Year (as restated)	<u>2,719,070</u>	<u>2,719,070</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 2,719,070</u>	<u>\$ 2,620,131</u>	<u>\$ (98,939)</u>

See accompanying notes to required supplementary information.

STEELE COUNTY

SCHEDULE OF COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
PERA GENERAL EMPLOYEES' RETIREMENT FUND
For the Year Ended December 31, 2018

County Fiscal Year End Date	PERA Fiscal Year End Date (Measurement Date)	County's Proportion of the Net Pension Liability	County's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with County (b)	County's and State's Proportionate Share of the Net Pension Liability Associated with County (a+b)	County's Covered Payroll (c)	County's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/18	6/30/18	0.1293%	\$ 7,173,034	\$ 235,216	\$ 7,408,250	\$ 8,532,121	84.07%	79.50%
12/31/17	6/30/17	0.1344%	8,580,007	107,852	8,687,859	8,360,730	102.62%	75.90%
12/31/16	6/30/16	0.1286%	10,441,682	136,372	10,578,054	7,967,772	131.05%	68.90%
12/31/15	6/30/15	0.1534%	7,949,985	n/a	7,949,985	8,665,124	91.75%	78.20%

SCHEDULE OF EMPLOYER CONTRIBUTIONS -
PERA GENERAL EMPLOYEES' RETIREMENT FUND
For the Year Ended December 31, 2018

County Fiscal Year End Date	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
12/31/18	\$ 672,661	\$ 672,661	\$ -	\$ 8,965,303	7.50%
12/31/17	640,336	640,336	-	8,360,730	7.66%
12/31/16	609,601	609,601	-	8,115,735	7.51%
12/31/15	616,105	616,105	-	8,187,493	7.52%

See accompanying notes to required supplementary information.

STEELE COUNTY

SCHEDULE OF COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
PERA POLICE AND FIRE FUND
For the Year Ended December 31, 2018

County Fiscal Year End Date	PERA Fiscal Year End Date (Measurement Date)	County's Proportion of the Net Pension Liability	County's Proportionate Share of the Net Pension Liability (a)	County's Covered Payroll (b)	County's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/18	6/30/18	0.1500%	\$ 1,598,846	\$ 1,581,023	101.13%	88.80%
12/31/17	6/30/17	0.1500%	2,025,179	1,547,524	130.87%	85.40%
12/31/16	6/30/16	0.1400%	5,618,444	1,344,913	417.76%	63.90%
12/31/15	6/30/15	0.1330%	1,511,191	1,223,553	123.51%	86.60%

SCHEDULE OF EMPLOYER CONTRIBUTIONS -
PERA POLICE AND FIRE FUND
For the Year Ended December 31, 2018

County Fiscal Year End Date	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
12/31/18	\$ 258,223	\$ 258,223	\$ -	\$ 1,593,972	16.20%
12/31/17	248,762	248,762	-	1,547,524	16.07%
12/31/16	234,065	234,065	-	1,444,845	16.20%
12/31/15	210,200	210,200	-	1,297,530	16.20%

See accompanying notes to required supplementary information.

STEELE COUNTY

SCHEDULE OF COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
PERA CORRECTIONAL FUND
For the Year Ended December 31, 2018

County Fiscal Year End Date	PERA Fiscal Year End Date (Measurement Date)	County's Proportion of the Net Pension Liability	County's Proportionate Share of the Net Pension Liability (a)	County's Covered Payroll (b)	County's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/18	6/30/18	1.1116%	\$ 182,825	\$ 2,305,825	7.93%	97.60%
12/31/17	6/30/17	1.0800%	3,078,011	2,115,325	145.51%	67.90%
12/31/16	6/30/16	1.1700%	4,274,174	2,198,788	194.39%	58.20%
12/31/15	6/30/15	1.1200%	173,152	2,018,597	8.58%	96.90%

SCHEDULE OF EMPLOYER CONTRIBUTIONS -
PERA CORRECTIONAL FUND
For the Year Ended December 31, 2018

County Fiscal Year End Date	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
12/31/18	\$ 198,653	\$ 198,653	\$ -	\$ 2,305,825	8.62%
12/31/17	186,847	186,847	-	2,115,325	8.83%
12/31/16	182,191	182,191	-	2,082,175	8.75%
12/31/15	192,416	192,416	-	2,199,124	8.75%

See accompanying notes to required supplementary information.

STEELE COUNTY

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS For the Year Ended December 31, 2018

Total OPEB Liability	
Service cost	\$ 72,584
Interest	22,318
Benefit payments	<u>(61,121)</u>
Net Change in Total OPEB Liability	33,781
Total OPEB Liability - Beginning	<u>634,025</u>
Total OPEB Liability - Ending	<u>\$ 667,806</u>
Covered-employee payroll	\$ 11,555,589
Total OPEB liability as a percentage of covered-employee payroll	5.8%

See accompanying notes to required supplementary information.

STEELE COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION As of and for the Year Ended December 31, 2018

BUDGETARY INFORMATION

Budgetary information is derived from the annual operating budget and is presented using generally accepted accounting principles and the modified accrual basis of accounting.

The budgeted amounts presented are as presented in the original budget and no amendments were adopted during the year. Changes to the overall budget must be approved by board action. Appropriations lapse at year-end unless specifically carried over. Budgets are adopted at the fund level of expenditure.

See Note II. A. for information on funds with excess expenditures over appropriations.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

The amounts determined for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

The County is required to present the last ten fiscal years of data; however, accounting standards allow the presentation of as many years as are available until ten fiscal years are presented. For purposes of these schedules, covered payroll is defined as "pensionable wages."

Changes in Benefit Terms. There were no changes of benefit terms for any participating employer in the PERA.

Changes in Actuarial Assumptions and Plan Provisions:

General Employees Fund

2018 Changes

Changes in Actuarial Assumptions:

- > The mortality projection scale was changed from MP-2015 to MP-2017.
- > The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Changes in Plan Provisions:

- > The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- > Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- > Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- > Contribution stabilizer provisions were repealed.

STEELE COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION As of and for the Year Ended December 31, 2018

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) (cont.)

General Employees Fund (cont.)

Changes in Plan Provisions:

- > Post-retirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019.
- > For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- > Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions:

- > The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and nonvested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.00 percent for vested deferred member liability and 3.00 percent for nonvested deferred member liability.
- > The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

Changes in Plan Provisions:

- > The State's special funding contribution increased from \$6 million to \$16 million.

2016 Changes

Changes in Actuarial Assumptions:

- > The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all years.
- > The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent.
- > Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

STEELE COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION As of and for the Year Ended December 31, 2018

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) (cont.)

General Employees Fund (cont.)

2015 Changes

Changes in Actuarial Assumptions:

- > The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

Changes in Plan Provisions:

- > On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6 million, which meets the special funding situation definition, is due September 2015.

Police and Fire Fund

2018 Changes

Changes in Actuarial Assumptions:

- > The mortality projection scale was changed from MP-2016 to MP-2017.

Changes in Plan Provisions:

- > Post-retirement benefit increases were changed to 1.0 percent for all years, with no trigger.
- > An end date of July 1, 2048 was added to the existing \$9.0 million state contribution.
- > New annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter until the plan reaches 100 percent funding, or July 1, 2048, if earlier.
- > Member contributions were changed from 10.8 percent to 11.3 percent of pay, effective January 1, 2019 and 11.8 percent of pay, effective January 1, 2020.
- > Employer contributions were changed from 16.20 percent to 16.95 percent of pay, effective January 1, 2019 and 17.70 percent of pay, effective January 1, 2020.
- > Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- > Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- > Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

STEELE COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION As of and for the Year Ended December 31, 2018

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) (cont.)

2017 Changes

Changes in Actuarial Assumptions:

- > Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- > Assumed rates of retirement were changed, resulting in fewer retirements.
- > The Combined Service Annuity (CSA) load was 30 percent for vested and nonvested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for nonvested members.
- > The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- > Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- > Assumed percentage of married female members was decreased from 65 percent to 60 percent.
- > Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- > The assumed percentage of female members electing Joint and Survivor annuities was increased.
- > The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.
- > The Single Discount Rate was changed from 5.60 percent per annum to 7.50 percent per annum.

STEELE COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION As of and for the Year Ended December 31, 2018

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) (cont.)

Police and Fire Fund (cont.)

2016 Changes

Changes in Actuarial Assumptions:

- > The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent thereafter to 1.00 percent per year for all future years.
- > The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate changed from 7.90 percent to 5.60 percent.
- > The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 Changes

Changes in Actuarial Assumptions:

- > The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2037 and 2.50 percent per year thereafter.

Changes in Plan Provisions:

- > The post-retirement benefit increase to be paid after attainment of the 90 percent funding threshold was changed, from inflation up to 2.50 percent, to a fixed rate of 2.50 percent.

Correctional Fund

2018 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- > The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- > Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- > Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- > Post-retirement benefit increases were changed from 2.5 percent per year with a provision to reduce to 1.0 percent if the funding status declines to a certain level, to 100 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 2.5 percent, beginning January 1, 2019. If the funding status declines to 85 percent for two consecutive years or 80 percent for one year, the maximum increase will be lowered to 1.5 percent.
- > Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

STEELE COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION As of and for the Year Ended December 31, 2018

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) (cont.)

Correctional Fund (cont.)

2017 Changes

Changes in Actuarial Assumptions:

- > The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to MP-2016).
- > The Combined Service Annuity (CSA) load was 30 percent for vested and nonvested, deferred members. The CSA has been changed to 35 percent for vested members and 1 percent for nonvested members.
- > The Single Discount Rate was changed from 5.31 percent per annum to 5.96 percent per annum.

2016 Changes

Changes in Actuarial Assumptions:

- > The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate changed from 7.90 percent to 5.31 percent.
- > The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

SUPPLEMENTARY INFORMATION

STEELE COUNTY

AGENCY FUNDS
December 31, 2018

Taxes and Penalties – To account for property taxes and penalties collected and distributed to other governmental units and county funds.

State Revenue – Used to account for funds collected on behalf of the State of Minnesota.

Consolidated Dispatch – Used to account for the funds associated with the operations of the joint dispatch center.

STEELE COUNTY

COMBINING STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS
As of December 31, 2018

	<u>Taxes and Penalties</u>	<u>State Revenue</u>	<u>Consolidated Dispatch</u>	<u>Total</u>
ASSETS				
Cash and investments	\$ 727,173	\$ 163,511	\$ 1,082,042	\$ 1,972,726
Accounts receivable	19,944	3,479	-	23,423
Due from other governments	-	33	24,692	24,725
Prepaid items	-	-	38,448	38,448
TOTAL ASSETS	<u>\$ 747,117</u>	<u>\$ 167,023</u>	<u>\$ 1,145,182</u>	<u>\$ 2,059,322</u>
LIABILITIES				
Funds held in trust	\$ 162,823	\$ -	\$ -	\$ 162,823
Accounts payable	-	-	19,107	19,107
Accrued wages	-	-	39,215	39,215
Due to other governments	584,294	167,023	1,086,860	1,838,177
TOTAL LIABILITIES	<u>\$ 747,117</u>	<u>\$ 167,023</u>	<u>\$ 1,145,182</u>	<u>\$ 2,059,322</u>

STEELE COUNTY

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS For the Year Ended December 31, 2018

	Balance Jan. 1, 2018	Additions	Deletions	Balance Dec. 31, 2018
<u>Taxes and Penalties</u>				
Assets:				
Cash and investments	\$ 604,051	\$ 64,974,025	\$ 64,850,903	\$ 727,173
Accounts receivable	<u>17,514</u>	<u>19,944</u>	<u>17,514</u>	<u>19,944</u>
 Total Assets	 <u>\$ 621,565</u>	 <u>\$ 64,993,969</u>	 <u>\$ 64,868,417</u>	 <u>\$ 747,117</u>
Liabilities:				
Funds held in trust	\$ 152,656	\$ 56,137,129	\$ 56,126,962	\$ 162,823
Due to other governments	<u>468,909</u>	<u>8,856,840</u>	<u>8,741,455</u>	<u>584,294</u>
 Total Liabilities	 <u>\$ 621,565</u>	 <u>\$ 64,993,969</u>	 <u>\$ 64,868,417</u>	 <u>\$ 747,117</u>
 <u>State Revenue</u>				
Assets:				
Cash and investments	\$ 145,576	\$ 1,368,726	\$ 1,350,791	\$ 163,511
Accounts Receivable	1,919	3,479	1,919	3,479
Due from other governments	<u>-</u>	<u>33</u>	<u>-</u>	<u>33</u>
 Total Assets	 <u>\$ 147,495</u>	 <u>\$ 1,372,238</u>	 <u>\$ 1,352,710</u>	 <u>\$ 167,023</u>
Liabilities:				
Due to other governments	<u>\$ 147,495</u>	<u>\$ 1,372,238</u>	<u>\$ 1,352,710</u>	<u>\$ 167,023</u>
 <u>Consolidated Dispatch</u>				
Assets:				
Cash and investments	\$ 992,812	\$ 2,759,467	\$ 2,670,237	\$ 1,082,042
Due from other governments	23,260	25,642	24,210	24,692
Prepaid items	<u>20,766</u>	<u>17,682</u>	<u>-</u>	<u>38,448</u>
 Total Assets	 <u>\$ 1,036,838</u>	 <u>\$ 2,802,791</u>	 <u>\$ 2,694,447</u>	 <u>\$ 1,145,182</u>
Liabilities:				
Accounts payable	\$ 5,052	\$ 737,996	\$ 723,941	\$ 19,107
Accrued wages	75,850	39,215	75,850	39,215
Due to other governments	<u>955,936</u>	<u>2,025,580</u>	<u>1,894,656</u>	<u>1,086,860</u>
 Total Liabilities	 <u>\$ 1,036,838</u>	 <u>\$ 2,802,791</u>	 <u>\$ 2,694,447</u>	 <u>\$ 1,145,182</u>

STEELE COUNTY

COMBINING STATEMENT OF CHANGES IN
ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended December 31, 2018

	Balance Jan. 1, 2018	Additions	Deletions	Balance Dec. 31, 2018
<u>Total All Agency Funds</u>				
Assets:				
Cash and investments	\$ 1,742,439	\$ 69,102,218	\$ 68,871,931	\$ 1,972,726
Accounts receivable	19,433	23,423	19,433	23,423
Due from other governments	23,260	25,675	24,210	24,725
Prepaid items	20,766	17,682	-	38,448
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 1,805,898</u>	<u>\$ 69,168,998</u>	<u>\$ 68,915,574</u>	<u>\$ 2,059,322</u>
Liabilities:				
Funds held in trust	\$ 152,656	\$ 56,137,129	\$ 56,126,962	\$ 162,823
Accounts payable	5,052	737,996	723,941	19,107
Accrued wages	75,850	39,215	75,850	39,215
Due to other governments	1,572,340	12,254,658	11,988,821	1,838,177
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>\$ 1,805,898</u>	<u>\$ 69,168,998</u>	<u>\$ 68,915,574</u>	<u>\$ 2,059,322</u>

STEELE COUNTY

SCHEDULE OF INTERGOVERNMENTAL REVENUES For the Year Ended December 31, 2018

	General Fund	Road and Bridge	Debt Service	Capital Projects	Total All Funds
Shared Revenue					
State					
County Program Aid	\$ 1,612,965	\$ 220,547	\$ 95,167	\$ -	\$ 1,928,679
Local Performance Aid	5,156	-	-	-	5,156
PERA Rate Reimbursement	117,711	-	-	-	117,711
Disparity Reduction Aid	22,410	3,064	1,322	-	26,796
Police Aid	196,477	-	-	-	196,477
Highway Users Tax	-	3,329,910	-	-	3,329,910
Aquatic Invasive Species	17,244	-	-	-	17,244
Market Value Credit	208,973	28,289	12,207	-	249,469
Noxious Weed	10,000	-	-	-	10,000
Riparian Protection Aid	93,098	-	-	-	93,098
SCORE	52,284	-	-	-	52,284
Total Shared Revenue	<u>2,336,318</u>	<u>3,581,810</u>	<u>108,696</u>	<u>-</u>	<u>6,026,824</u>
Reimbursement for Services					
State					
Minnesota Department of Natural Resources	10,000	-	-	-	10,000
Local					
MNPrairie County Alliance	9,639	-	-	-	9,639
Local - Payments in Lieu of Taxes	37,457	-	-	-	37,457
Total Reimbursement for Services	<u>57,096</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,096</u>
Grants					
State					
Minnesota Department of					
Corrections	720,116	-	-	-	720,116
Natural Resources	2,015	-	-	-	2,015
Health	420,740	-	-	-	420,740
Water and Soil Resources	5,295	-	-	-	5,295
Public Safety	27,054	-	-	-	27,054
Transportation	-	-	-	3,777,050	3,777,050
Secretary of State	-	-	-	48,308	48,308
Total State	<u>1,175,220</u>	<u>-</u>	<u>-</u>	<u>3,825,358</u>	<u>5,000,578</u>
Federal					
U.S. Department of					
Agriculture	208,765	-	-	-	208,765
Health and Human Services	157,141	-	-	-	157,141
Homeland Security	25,311	-	-	-	25,311
Transportation	478	-	-	-	478
Total Federal	<u>391,695</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>391,695</u>
Total Grants	<u>1,566,915</u>	<u>-</u>	<u>-</u>	<u>3,825,358</u>	<u>5,392,273</u>
TOTAL INTERGOVERNMENTAL REVENUE	<u>\$ 3,960,329</u>	<u>\$ 3,581,810</u>	<u>\$ 108,696</u>	<u>\$ 3,825,358</u>	<u>\$ 11,476,193</u>

OTHER REPORTS

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*
AND *MINNESOTA LEGAL COMPLIANCE*

INDEPENDENT AUDITORS' REPORT

To the County Board of 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, business-type activity, each major fund, and the aggregate remaining fund information of Steele County, Minnesota as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Steele County's basic financial statements, and have issued our report thereon dated October 23, 2019. Our report includes a reference to other auditors who audited the financial statements of the Minnesota Prairie County Alliance and the South Country Health Alliance, in which Steele County has equity interests, as disclosed in our report on the County's financial statements. The financial statements of South Country Health Alliance were not audited in accordance with Government Auditing Standards, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with South Country Health Alliance. Our report disclosed that Steele County restated its December 31, 2017 net position and fund balance to correct material misstatements.

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 responses, we did identify certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2018-001 to be a material weakness.

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 the deficiency described in the accompanying schedule of findings and responses as item 2018-002 to be a significant deficiency.

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. Section 6.65, contains seven 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. Our audit considered all of the listed categories, except that we did not test the provisions for tax increment financing because Steele County does not have any tax increment financing districts.

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*. 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 Response to Finding

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

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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 23, 2019

STEELE COUNTY

SCHEDULE OF FINDINGS AND RESPONSES For the Year Ended December 31, 2018

FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

FINDING 2018-001: MATERIAL WEAKNESS - INTERNAL CONTROL OVER FINANCIAL REPORTING

Repeat of prior year finding 2017-002 and 2017-003

Criteria: County staff should present the auditor with a set of complete financial statements in such a condition that the auditor is not able to identify any material changes as a result of the audit. The County should also present the books and records to the auditor in such a condition that the auditor is not able to identify any material journal entries as a result of the audit procedures.

Condition: The County relies on its external auditors to draft the financial statements. Also there were material misstatements identified which required adjusting journal entries, and the prior year financial statements required restatement, as described in Note III.J. of the County's 2018 financial statements.

Cause: The County has chosen to have the auditors prepare its annual financial statements and certain year-end entries.

Effect: Because of the lack of controls over year-end financial reporting, your financial statements may not contain all of the required disclosures and account balances. In addition, material errors could go undetected.

Recommendation: The County should develop an action plan to ensure all material year-end adjustments are recorded by county staff prior to audit fieldwork. The County should consider whether preparation of materially correct financial statements by county staff is cost effective.

Views of Responsible Officials: The County will create an audit group involving employees in the Auditor's Office, the Highway accountant and Finance to review audit adjustments, propose and make adjustments for next audit year to ensure all material year-end adjustments are recorded by the County staff prior to audit fieldwork. The Finance Office will prepare draft financial statements for the auditor's review.

FINDING 2018-002: SIGNIFICANT DEFICIENCY - INTERNAL CONTROL ENVIRONMENT

Repeat of prior year finding 2017-001

Criteria: A system of internal control should be in place to achieve a higher level of reliability that errors or irregularities in your processes would be discovered by your staff and to provide reasonable assurance that individuals have access to only one phase of the accounting process.

Condition: There is a lack of segregation of duties over the accounts payable/disbursements and payroll cycles.

Cause: The County has not assigned duties to have appropriate controls in place.

Effect: Because of the lack of segregation of duties, the accounting records may be misstated.

STEELE COUNTY

SCHEDULE OF FINDINGS AND RESPONSES For the Year Ended December 31, 2018

FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (cont.)

FINDING 2018-002: SIGNIFICANT DEFICIENCY - INTERNAL CONTROL ENVIRONMENT (cont.)

Recommendation: The County should review access to accounts payable/disbursements and payroll functions to ensure proper segregation exists. The County board should rely heavily on their direct knowledge of the County's operations and day-to-day contact with employees to control and safeguard assets.

Views of Responsible Officials: Auditor and Treasurer will review the internal controls to accounts payable/disbursements and payroll functions and make changes accordingly to ensure proper segregation exists going forward.

STEELE COUNTY

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2018

MINNESOTA LEGAL COMPLIANCE FINDINGS

None noted.