

STEELE COUNTY

Owatonna, Minnesota

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Year Ended December 31, 2019

STEELE COUNTY

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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, 2019, 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 4.9%, 5.9% and 5.3%, 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, 2019 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.

Other Matters

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 September 28, 2020 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 US, LLP

Minneapolis, Minnesota
September 28, 2020

STEELE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED For the Year Ended December 31, 2019

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, 2019. 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 2019 include the following:

- > The assets and deferred outflows of resources of the County's governmental activities exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$126,019,348 (net position). Of this amount, \$26,784,631 (unrestricted net position) may be used to meet the County's ongoing obligations to citizens and creditors.
- > The net position of governmental activities increased by \$10,244,874, or 8.8% over the prior year.
- > The County's total capital assets (net of accumulated depreciation) increased by 7.7% from the prior year. This was the result of the completion the Public Works Facility, the Courthouse roof renovations and additional road projects being completed.
- > The County's long-term liabilities decreased by 14.8% from the prior year. This decrease was primarily from the principal payments made on general obligation debt and payoff of the Community Wellness revenue bonds.
- > Overall, governmental fund-level expenditures exceeded revenues resulting in a decrease in fund balance of \$2,278,505. This decrease is mainly due to the payoff of the Community Wellness Revenue Bonds, costs associated with the completion of the County's Public Works Facility, and the County's capital contribution made to one of its joint powers, South Country Health Alliance (SCHA).
- > The governmental fund balance totaled \$40,280,803 at the end of 2019. Of this amount, \$23,240,112 (57.7%) is classified as either nonspendable, restricted, committed or assigned while \$17,040,691 (42.3%) is unassigned.
- > At the end of 2019, the Park Place/Cedarview Nursing Home sale was finalized and the Community Wellness fund was closed out as of 12/31/2019. The fund closure required a \$69,843 transfer from the General Fund.
- > Operating revenues for the County's Landfill Enterprise Fund were \$1,998,514 and operating expenses were \$1,667,620. Nonoperating revenues totaled \$31,298 from interest income and a gain on disposal of capital assets. This resulted in an increase in net position of \$362,192 for 2019.

STEELE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED For the Year Ended December 31, 2019

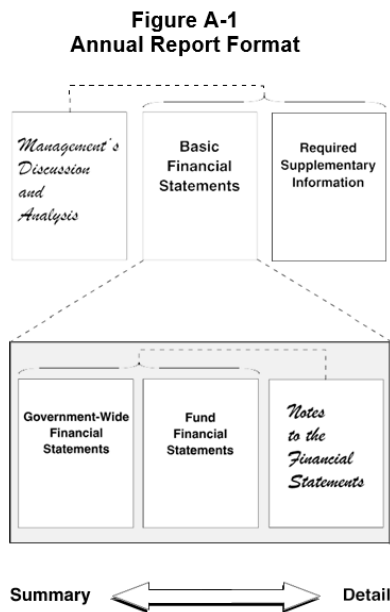
Overview of the Financial Statements

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.

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



STEELE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED For the Year Ended December 31, 2019

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, 2019

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 including public safety, highway, health and human services, and administration. Property taxes, intergovernmental revenues, and public charges for services finance most of these activities.
- > Business-type activities – The County's landfill operations are included here. Charges for services are the primary financing source.

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 can also establish 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

STEELE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED For the Year Ended December 31, 2019

provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.

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

Net Position is derived from a County's assets and deferred outflows of resources less its liabilities and deferred inflows of resources. At year-end, 2019, Steele County's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$133,521,455 as outlined in table A-1 below:

	Governmental Activities		Business Type Activities		Total Primary Government		% Change 2018-19
	2019	2018	2019	2018	2019	2018	
Assets							
Current Assets	\$ 45,326,341	\$ 50,240,762	\$ 3,915,055	\$ 3,146,275	\$ 49,241,396	\$ 53,387,037	(7.8%)
Capital and Noncurrent Assets	105,584,253	95,130,454	6,259,974	6,743,751	111,844,227	101,874,205	9.8%
Total Assets	150,910,594	145,371,216	10,175,029	9,890,026	161,085,623	155,261,242	3.8%
Deferred Outflows of Resources	2,477,527	4,741,752	18,337	40,988	2,495,864	4,782,740	(47.8%)
Liabilities							
Current Liabilities	4,490,492	5,077,106	88,340	111,134	4,578,832	5,188,240	(11.7%)
Long-Term Liabilities	17,309,272	21,326,928	2,561,756	2,613,638	19,871,028	23,940,566	(17.0%)
Total Liabilities	21,799,764	26,404,034	2,650,096	2,724,772	24,449,860	29,128,806	(16.1%)
Deferred Inflows of Resources	5,569,009	7,934,460	41,163	66,327	5,610,172	8,000,787	(29.9%)
Net Position							
Net Investment in Capital Assets	89,074,167	79,627,266	3,742,275	4,289,678	92,816,442	83,916,944	10.6%
Restricted	10,160,550	10,870,819	178,644	-	10,339,194	10,870,819	(4.9%)
Unrestricted	26,784,631	25,276,389	3,581,188	2,850,237	30,365,819	28,126,626	8.0%
Total Net Position	\$ 126,019,348	\$ 115,774,474	\$ 7,502,107	\$ 7,139,915	\$ 133,521,455	\$ 122,914,389	8.6%

STEELE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED For the Year Ended December 31, 2019

Of the County's Net Position:

- > \$92,816,442 (69.5% of total net position) represent the County's investment in long-term (capital) assets less the remaining balances of debt used to finance the acquisition of these assets. The net investment in capital assets is not available to pay the County's current obligations.
- > \$10,339,194 (7.8% of total net position) is subject to external restrictions on how it may be used.
- > \$30,365,819 (22.7% of total net position) is unrestricted. That is, these assets are available to finance the County's day-to-day activities.

In comparison to the prior year:

- > Assets increased by 3.8% due to the increase in capital assets (net of accumulated depreciation) and an increase in the County's investment in joint ventures.
- > Liabilities decreased by 16.1% due to the repayment of general obligation debt and the payoff of the Park Place/Cedarview Revenue Bonds.
- > The County's net of the deferred outflows and deferred inflows of resources increased by 3.2% due to the changes in the County's net pension liability and the related inflows and outflows.
- > Net position increased by 8.6% primary due to the increase in the County's net investment in capital assets and revenues exceeding expenditures during the fiscal year.

STEELE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED For the Year Ended December 31, 2019

Changes in Net Position

The County-wide revenues totaled \$52,197,059 for the year ended December 31, 2019. Taxes, charges for services, and intergovernmental revenues (including grants and contributions) accounted for 94.3% of total revenue for the year (see Table A-2).

Table A-2
Steele County's Change in Net Position

	Governmental Activities		Business Type Activities		Total Primary Government		% Change 2018-19
	2019	2018	2019	2018	2019	2018	
Revenues							
Program Revenues							
Charges, Fees, Fines & Other	\$ 7,159,638	\$ 6,797,779	\$ 1,989,234	\$ 1,943,007	\$ 9,148,872	\$ 8,740,786	4.7%
Operating Grants & Contributions	4,321,096	4,206,450	-	-	4,321,096	4,206,450	2.7%
Capital Grants & Contributions	5,124,488	7,803,911	-	-	5,124,488	7,803,911	(34.3%)
General Revenues							
Property & Other Taxes	28,417,592	27,045,858	-	-	28,417,592	27,045,858	5.1%
Unrestricted Grants	2,230,046	2,294,366	-	-	2,230,046	2,294,366	(2.8%)
Investment Earnings	1,971,640	828,121	12,398	12,061	1,984,038	840,182	136.1%
Miscellaneous	942,747	1,068,258	28,180	11,479	970,927	1,079,737	(10.1%)
Total Revenue	50,167,247	50,044,743	2,029,812	1,966,547	52,197,059	52,011,290	0.4%
Expenditures							
General Government	8,774,015	7,937,834	-	-	8,774,015	7,937,834	10.5%
Public Safety	11,497,978	10,299,911	-	-	11,497,978	10,299,911	11.6%
Road & Bridge	9,730,655	7,922,202	-	-	9,730,655	7,922,202	22.8%
Sanitation	662,671	701,083	1,667,620	1,595,687	2,330,291	2,296,770	1.5%
Health & Human Services	7,117,727	8,590,329	-	-	7,117,727	8,590,329	(17.1%)
Culture and Recreation	986,334	943,494	-	-	986,334	943,494	4.5%
Conservation of Natural Resources	879,852	734,623	-	-	879,852	734,623	19.8%
Interest and Fiscal Charges	273,141	396,546	-	-	273,141	396,546	(31.1%)
Total Expenses	39,922,373	37,526,022	1,667,620	1,595,687	41,589,993	39,121,709	6.3%
Change in Net Position	10,244,874	12,518,721	362,192	370,860	10,607,066	12,889,581	(17.7%)
Net Position - Beginning of Year	115,774,474	97,926,854	7,139,915	6,769,055	122,914,389	104,695,909	17.4%
Prior Period Adjustment	-	5,328,899	-	-	-	5,328,899	(100.0%)
Net Position - Beginning as Restated	115,774,474	103,255,753	7,139,915	6,769,055	122,914,389	110,024,808	11.7%
Net Position - End of Year	\$ 126,019,348	\$ 115,774,474	\$ 7,502,107	\$ 7,139,915	\$ 133,521,455	\$ 122,914,389	8.6%

Governmental activity revenue surpassed expenditures, increasing net position by \$10,244,874. This change is primarily due to budget surpluses in multiple areas. Revenues were consistent in comparison with the prior year, increasing 0.2%, due to increases in tax collections and investment earnings, but a decrease in the amount of capital grants and contributions received related to highway construction projects. Expenditures saw an overall increase of 6.4% due to changes in personnel services, contracted services, and depreciation expense from the prior year.

STEELE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
For the Year Ended December 31, 2019

Figure A-3
Governmental Activities Revenue Sources

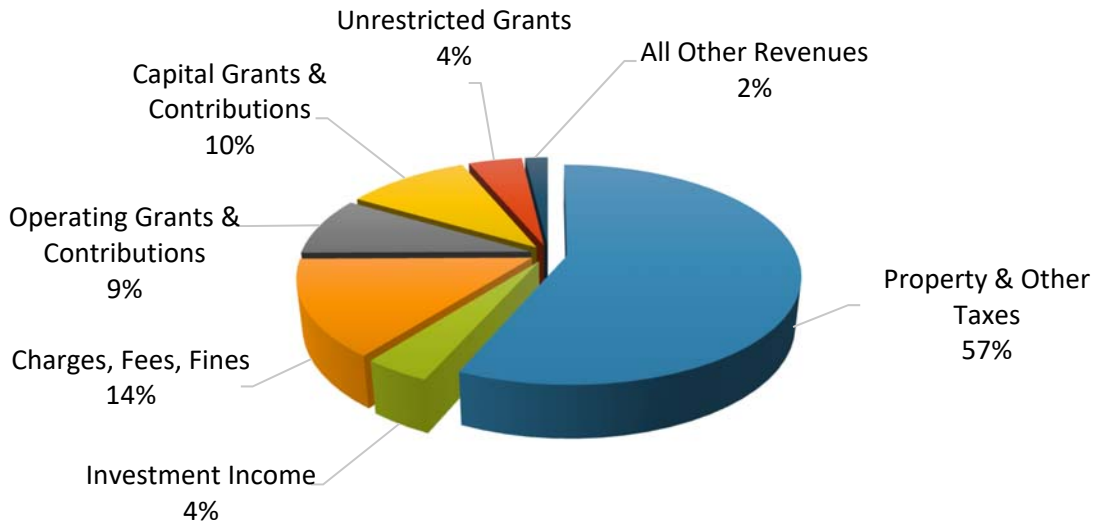
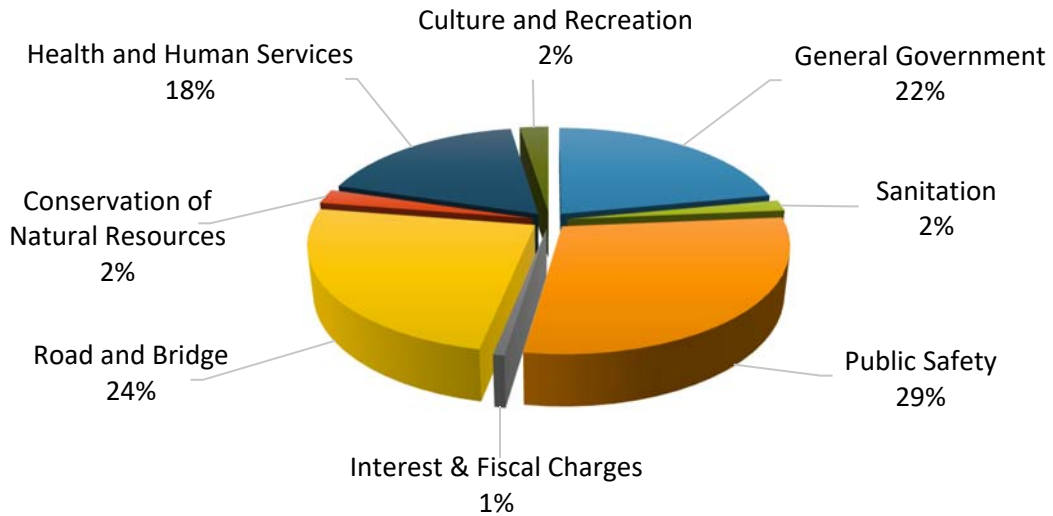


Figure A-4
Governmental Activities Expenditures by Function



STEELE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED For the Year Ended December 31, 2019

Table A-3 presents the cost of each County function, as well as each function's net cost (total cost, less revenues generated by the activities). The net cost of a County function shows the amount of general revenue (property taxes, investment income, or unrestricted grants) that were needed to fund each county function.

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

	2019		2018	
	Total Cost of Services	Net (Revenue) Cost of Services	Total Cost of Services	Net (Revenue) Cost of Services
<i>Governmental Activities</i>				
General Government	\$ 8,774,015	\$ 6,489,506	\$ 7,937,834	\$ 5,778,582
Public Safety	11,497,978	8,951,130	10,299,911	7,378,191
Highways and Streets	9,730,655	746,159	7,922,202	(2,951,662)
Sanitation	662,671	(76,139)	701,083	(18,682)
Health & Human Services	7,117,727	5,417,902	8,590,329	7,145,443
Culture and Recreation	986,334	937,724	943,494	923,052
Conservation of Natural Resources	879,852	577,728	734,623	66,412
Interest	273,141	273,141	396,546	396,546
Total	<u>\$ 39,922,373</u>	<u>\$ 23,317,151</u>	<u>\$ 37,526,022</u>	<u>\$ 18,717,882</u>
<i>Business-Type Activities</i>				
Solid Waste	<u>\$ 1,667,620</u>	<u>\$ (321,614)</u>	<u>\$ 1,595,687</u>	<u>\$ (347,320)</u>

The County-wide cost of all governmental activities this year totaled \$39,922,373. These expenditures were financed from the following sources:

- > \$7,159,638 was paid by the users of the County's programs from fees or other public charges for services.
- > \$9,445,584 was subsidized by the federal and state governments with grants and contributions for certain programs.
- > \$23,317,151 was paid by County taxpayers, investment earnings, unrestricted intergovernmental revenues, and other miscellaneous revenues.

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 2019, its government funds reported a combined fund balance of \$40,280,803, a decrease of \$2,278,505 from the prior year.

STEELE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED For the Year Ended December 31, 2019

GENERAL FUND

The General Fund is the primary operational fund of the County; it includes many of the essential services provided to County residents including public safety, health and human services, recreation, and administration. Table A-4 presents a summary of General Fund revenues:

Table A-4
General Fund Revenues

	Fiscal Year Ending		Increase (Decrease)	% Change 2018-19
	2019	2018		
<u>General Fund Revenues</u>				
Taxes (property and other)	\$ 19,727,777	\$ 18,759,928	\$ 967,849	5.2%
Intergovernmental	4,092,868	3,960,329	132,539	3.3%
Public Charges for Services	4,121,538	4,506,927	(385,389)	(8.6%)
Investment Income	1,959,843	757,037	1,202,806	158.9%
Miscellaneous and Other	1,523,705	1,696,003	(172,298)	(10.2%)
Total Revenue	<u>\$ 31,425,731</u>	<u>\$ 29,680,224</u>	<u>\$ 1,745,507</u>	5.9%

Total General Fund revenues increased by \$1,745,507 or 5.9%, from the previous year. The increase relates primarily to an increase in tax revenue, additional intergovernmental revenues and investment earnings (including unrealized gains).

Table A-5 presents a summary of General Fund expenditures:

Table A-5
General Fund Expenditures

	Fiscal Year Ending		Increase (Decrease)	% Change 2018-19
	2019	2018		
<u>General Fund Expenditures</u>				
General Government	\$ 8,290,024	\$ 7,892,948	\$ 397,076	5.0%
Public Safety	10,736,688	10,459,902	276,786	2.6%
Health and Human Services	7,402,411	6,648,470	753,941	11.3%
Sanitation	646,819	715,049	(68,230)	(9.5%)
Culture, Recreation, and Education	776,313	794,772	(18,459)	(2.3%)
Conservation and Development	516,648	513,508	3,140	0.6%
Capital Outlay	420,278	236,053	184,225	78.0%
Debt Service	147,068	163,264	(16,196)	(9.9%)
Total Expenditures	<u>\$ 28,936,249</u>	<u>\$ 27,423,966</u>	<u>\$ 1,512,283</u>	5.5%

STEELE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED For the Year Ended December 31, 2019

Total General Fund expenditures increased by \$1,512,283, or 5.5%, from the previous year. This increase relates primarily to changes in personnel services (e.g., cost of living adjustments, health insurance, and payroll taxes), and an increase in contract services.

GENERAL FUND BUDGETARY HIGHLIGHTS

- > Actual revenues were \$1,258,311 more than expected due to market conditions yielding higher than budgeted investment income and unrealized gains on investments.
- > The actual expenditures were \$1,265,484 less than expected primarily due to savings in the public safety and health & human service functions due to turnovers in staffing and filling of those positions.
- > The capital contribution to South Country Health Alliance (SCHA) of \$2,110,944 was unbudgeted in 2019.

OTHER MAJOR FUNDS ANALYSIS

Table A-6 presents the fund balance changes of all other funds of the County:

Table A-6						
Other Major Funds Analysis						
	Road & Bridge	Ditch	Community Wellness	Debt Service	Capital Projects	Landfill (Enterprise)
Beginning Fund Balance (Deficit)	\$ 14,646,238	\$ (649,005)	\$ 2,620,131	\$ 1,212,926	\$ 2,768,556	\$ 7,139,915
<i>2019 Activity</i>						
Total Revenues	16,867,167	760,121	197,353	1,681,677	1,136,555	2,029,812
Less: Total Expenditures	(14,016,131)	(266,443)	(2,887,327)	(1,680,987)	(4,583,772)	(1,667,620)
Other Financing Sources (Uses)	2,295	-	69,843	72,551	(58,526)	-
<i>Change in Fund Balance</i>	2,853,331	493,678	(2,620,131)	73,241	(3,505,743)	362,192
Ending Fund Balance (Deficit)	<u>\$ 17,499,569</u>	<u>\$ (155,327)</u>	<u>\$ -</u>	<u>\$ 1,286,167</u>	<u>\$ (737,187)</u>	<u>\$ 7,502,107</u>

The Road and Bridge Fund had a total fund balance of \$17,499,569 at the end of the current fiscal year. The fund balance for the Road and Bridge Fund increased by \$2,853,331 primarily due road projects that carried forward into the next year.

The Ditch Fund had a total fund balance deficit of \$155,327 at the end of the current fiscal year. The fund balance deficit of the Ditch Fund decreased by \$493,678 as the amount collected for special assessments exceeded the expenditures for ditch repairs.

The Community Wellness Fund had a fund balance of zero at the end of the current fiscal year. This fund balance decreased by \$2,620,131, because the County retired the revenue bonds associated with the facility that was sold at the end of 2019.

STEELE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED For the Year Ended December 31, 2019

The Debt Service Fund had a total fund balance of \$1,286,167 at the end of the current fiscal year. This fund balance increased by \$73,241 as the result of remaining bond proceeds left over from the construction of the Public Works Facility.

The Capital Projects Fund had a total fund balance deficit of \$737,187 at the end of the current fiscal year. This fund balance decreased by \$3,505,743 resulting in a deficit during the current fiscal year primarily due to construction costs from the Public Works Facility and the Courthouse roof replacement project.

The Solid Waste Fund had a total net position of \$7,502,107 at the end of the current fiscal year. The net position increased by \$362,192 mainly due to the Landfill's tipping fees exceeding expenses.

CAPITAL ASSETS

Steele County's investment in capital assets as of December 31, 2019, totaled \$101,890,096 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure. A breakdown of the capital assets can be seen in Table A-7 below:

Table A-7
Steele County Capital Assets

	Governmental Activities		Business Type Activities		Total Primary Government		% Change 2018-19
	2019	2018	2019	2018	2019	2018	
Land and Right of Way	\$ 4,203,375	\$ 3,665,124	\$ 451,250	\$ 451,250	\$ 4,654,625	\$ 4,116,374	13.1%
Construction in Progress (CIP)	5,354,331	9,593,320	-	-	5,354,331	9,593,320	(44.2%)
Right-of-Use Asset	138,180	-	-	-	138,180	-	0.0%
Buildings	41,825,281	29,455,433	426,166	426,166	42,251,447	29,881,599	41.4%
Land Improvements	223,740	149,432	104,831	104,831	328,571	254,263	29.2%
Machinery, Equipment & Vehicles	10,582,130	10,251,391	2,056,650	1,953,489	12,638,780	12,204,880	3.6%
Landfill	-	-	8,279,898	8,235,408	8,279,898	8,235,408	0.5%
Infrastructure	132,097,164	127,720,218	-	-	132,097,164	127,720,218	3.4%
Less: Accumulated Depreciation	(96,276,380)	(90,491,964)	(7,576,520)	(6,881,466)	(103,852,900)	(97,373,430)	6.7%
Total Capital Assets (Net)	\$ 98,147,821	\$ 90,342,954	\$ 3,742,275	\$ 4,289,678	\$ 101,890,096	\$ 94,632,632	7.7%

In comparison to the prior year, the County's total capital assets increased by 7.7%. This increase is primarily due to the completion of the County's Public Works Facility, construction costs for the courthouse roofing project, and additional road projects being completed. Depreciation expense for the current year amounted to \$6,814,452. More detailed information about the capital assets can be found in Note III.D of the financial statements.

STEELE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED For the Year Ended December 31, 2019

LONG-TERM LIABILITIES

At the end of 2019, the County had outstanding long-term liabilities of \$22,771,626, as outlined in table A-8 below:

**Table A-8
The County's Long-Term Liabilities**

	2019	2018	% Change 2018-19
<i>Governmental Activities</i>			
General Obligation Bonds	\$ 8,816,703	\$ 10,317,894	(14.5%)
General Obligation Notes	36,282	70,932	(48.8%)
Revenue Bonds	-	2,500,000	(100.0%)
Clean Water Partnership Loans	406,700	508,434	(20.0%)
Licensing Agreement	116,724	-	100.0%
Other Post Employment Benefits Payable	708,346	653,782	8.3%
Compensated Absences Payable	1,363,299	1,287,252	5.9%
Net Pension Liability	8,744,656	8,745,573	(0.0%)
Total Governmental Activities	20,192,710	24,083,867	(16.2%)
<i>Business-Type Activities</i>			
Other Post Employment Benefits Payable	14,911	14,024	6.3%
Compensated Absences Payable	20,675	34,116	(39.4%)
Net Pension Liability	204,275	209,131	(2.3%)
Landfill Liability	2,339,055	2,384,683	(1.9%)
Total Business-Type Activities	2,578,916	2,641,954	(2.4%)
Total Primary Government - Long-Term Liabilities	<u>\$ 22,771,626</u>	<u>\$ 26,725,821</u>	(14.8%)

Long-term liabilities decreased by 14.8% from the prior year, primarily due to the amortization payments made on the general obligation debt and the payoff of the Park Place/Cedarview Nursing Home revenue bonds.

STEELE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED For the Year Ended December 31, 2019

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2020 budget and tax rates. Some of the factors included revenue sources (i.e., fee schedules or additional revenue streams), the County's financial policies, the capital improvement plan, and expected increases in contracted services.

- > The County's General Fund expenditures for 2020 are budgeted to increase 1.8% over 2019.
- > Budgeted Capital Outlay expenditures for 2020 increased 204.7% over 2019 primarily due to County facility upgrades including an HVAC system at the Detention Center and a facility-wide LED lighting conversion.
- > In December of 2019, the budget and levy were set at \$58,213,259 and \$25,697,008, respectively.
- > In early 2020, Steele County was faced with many challenges relating to the COVID-19 pandemic. Many employees began working from home and the full impact of the pandemic has not yet been determined.

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 507-444-7420.

STEELE COUNTY

STATEMENT OF NET POSITION
As of December 31, 2019

	Primary Government		
	Governmental Activities	Business- type Activities	Totals
ASSETS			
Cash and investments	\$ 40,398,815	\$ 3,704,702	\$ 44,103,517
Taxes receivable	249,873	-	249,873
Special assessments receivable	168,223	-	168,223
Accounts receivable	223,147	210,893	434,040
Loans receivable	335,136	-	335,136
Interest receivable	199,992	-	199,992
Due from other governmental units	3,542,334	98	3,542,432
Internal balances	638	(638)	-
Inventories and prepaid items	208,183	-	208,183
Restricted cash and investments	-	2,517,699	2,517,699
Capital assets			
Construction in progress	5,354,331	-	5,354,331
Land	4,203,375	451,250	4,654,625
Other capital assets, net of depreciation	88,590,115	3,291,025	91,881,140
Investment in joint ventures	7,436,432	-	7,436,432
Total Assets	<u>150,910,594</u>	<u>10,175,029</u>	<u>161,085,623</u>
DEFERRED OUTFLOWS OF RESOURCES			
Other postemployment benefit related amounts	17,222	280	17,502
Pension related amounts	2,460,305	18,057	2,478,362
Total Deferred Outflows of Resources	<u>2,477,527</u>	<u>18,337</u>	<u>2,495,864</u>
LIABILITIES			
Accounts payable	691,235	38,150	729,385
Accrued liabilities	506,221	10,338	516,559
Deposits	111,118	-	111,118
Due to other governments	293,048	22,692	315,740
Unearned revenues	5,432	-	5,432
Noncurrent liabilities			
Due within one year	2,883,438	17,160	2,900,598
Due in more than one year	17,309,272	2,561,756	19,871,028
Total Liabilities	<u>21,799,764</u>	<u>2,650,096</u>	<u>24,449,860</u>
DEFERRED INFLOWS OF RESOURCES			
Grants received in advance of meeting time requirements	138,817	-	138,817
Pension related amounts	5,430,192	41,163	5,471,355
Total Deferred Inflows of Resources	<u>5,569,009</u>	<u>41,163</u>	<u>5,610,172</u>
NET POSITION			
Net investment in capital assets	89,074,167	3,742,275	92,816,442
Restricted for:			
General government	408,260	-	408,260
Recorder equipment	250,494	-	250,494
Public safety	295,017	-	295,017
Health	4,264	-	4,264
Highways and streets	7,325,134	-	7,325,134
Conservation of natural resources	600,322	-	600,322
Debt service	1,277,059	-	1,277,059
Landfill	-	178,644	178,644
Unrestricted	26,784,631	3,581,188	30,365,819
TOTAL NET POSITION	<u>\$ 126,019,348</u>	<u>\$ 7,502,107</u>	<u>\$ 133,521,455</u>

See accompanying notes to financial statements.

STEELE COUNTY

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2019

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	\$ 8,774,015	\$ 1,694,470	\$ 522,738	\$ 67,301	\$ (6,489,506)		\$ (6,489,506)
Public safety	11,497,978	2,273,552	273,296	-	(8,951,130)		(8,951,130)
Public works	9,730,655	1,298,806	2,628,503	5,057,187	(746,159)		(746,159)
Sanitation	662,671	607,624	131,186	-	76,139		76,139
Health and human services	7,117,727	963,435	736,390	-	(5,417,902)		(5,417,902)
Culture, recreation, and education	986,334	22,285	26,325	-	(937,724)		(937,724)
Conservation and development	879,852	299,466	2,658	-	(577,728)		(577,728)
Interest and fiscal charges	273,141	-	-	-	(273,141)		(273,141)
Total Governmental Activities	<u>39,922,373</u>	<u>7,159,638</u>	<u>4,321,096</u>	<u>5,124,488</u>	<u>(23,317,151)</u>		<u>(23,317,151)</u>
Business-type Activity							
Solid waste	<u>1,667,620</u>	<u>1,989,234</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 321,614</u>	<u>321,614</u>
Total Primary Government	<u>\$ 41,589,993</u>	<u>\$ 9,148,872</u>	<u>\$ 4,321,096</u>	<u>\$ 5,124,488</u>	<u>(23,317,151)</u>	<u>321,614</u>	<u>(22,995,537)</u>
General Revenues							
Taxes							
Property taxes, levied for general purposes					22,890,479	-	22,890,479
Property taxes, levied for debt service					1,539,866	-	1,539,866
Other taxes					3,987,247	-	3,987,247
Intergovernmental revenues not restricted to specific programs					2,230,046	-	2,230,046
Gifts and contributions					102,829	-	102,829
Investment income					1,971,640	12,398	1,984,038
Gain on disposal of capital assets					16,213	18,900	35,113
Miscellaneous					823,705	9,280	832,985
Total General Revenues					<u>33,562,025</u>	<u>40,578</u>	<u>33,602,603</u>
Change in Net Position					10,244,874	362,192	10,607,066
NET POSITION - Beginning of Year					<u>115,774,474</u>	<u>7,139,915</u>	<u>122,914,389</u>
NET POSITION - END OF YEAR					<u>\$ 126,019,348</u>	<u>\$ 7,502,107</u>	<u>\$ 133,521,455</u>

See accompanying notes to financial statements.

STEELE COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS
As of December 31, 2019

	General Fund	Road & Bridge	Ditch	Community Wellness	Debt Service	Capital Projects	Total Governmental Funds
ASSETS							
Cash and investments	\$ 20,725,981	\$ 17,361,204	\$ 464,032	\$ -	\$ 1,283,630	\$ 563,968	\$ 40,398,815
Receivables							
Taxes	199,974	27,971	-	-	17,591	4,337	249,873
Special assessments	7,313	-	160,910	-	-	-	168,223
Accounts	219,964	137	3,046	-	-	-	223,147
Loans	335,136	-	-	-	-	-	335,136
Interest	199,992	-	-	-	-	-	199,992
Due from other governments	807,649	2,550,903	17,339	-	-	166,443	3,542,334
Due from other funds	357	15,203	-	-	-	-	15,560
Inventories and prepaid items	50,258	157,925	-	-	-	-	208,183
Advances to other funds	1,633,826	-	-	-	-	-	1,633,826
TOTAL ASSETS	\$ 24,180,450	\$ 20,113,343	\$ 645,327	\$ -	\$ 1,301,221	\$ 734,748	\$ 46,975,089
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 216,165	\$ 8,749	\$ 57,023	\$ -	\$ 1,150	\$ 3,423	\$ 286,510
Construction contracts payable	84,469	216,311	-	-	-	103,945	404,725
Accrued liabilities	440,369	42,266	-	-	-	-	482,635
Due to other governments	162,717	98,775	31,556	-	-	-	293,048
Due to other funds	14,922	-	-	-	-	-	14,922
Advances from other funds	-	-	533,826	-	-	1,100,000	1,633,826
Deposits	15,918	-	-	-	-	95,200	111,118
Unearned revenues	5,432	-	-	-	-	-	5,432
Total Liabilities	939,992	366,101	622,405	-	1,150	1,302,568	3,232,216
Deferred Inflows of Resources							
Unearned revenues	138,817	-	-	-	-	-	138,817
Unavailable revenues	714,060	2,247,673	178,249	-	13,904	169,367	3,323,253
Total Deferred Inflows of Resources	852,877	2,247,673	178,249	-	13,904	169,367	3,462,070
Fund Balances							
Nonspendable	1,859,303	157,925	-	-	-	-	2,017,228
Restricted	1,399,556	5,099,460	-	-	1,286,167	-	7,785,183
Committed	-	373,334	-	-	-	-	373,334
Assigned	1,195,517	11,868,850	-	-	-	-	13,064,367
Unassigned (deficit)	17,933,205	-	(155,327)	-	-	(737,187)	17,040,691
Total Fund Balances (Deficit)	22,387,581	17,499,569	(155,327)	-	1,286,167	(737,187)	40,280,803
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 24,180,450	\$ 20,113,343	\$ 645,327	\$ -	\$ 1,301,221	\$ 734,748	\$ 46,975,089

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, 2019

Total fund balance - governmental funds	\$	40,280,803
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 III.D.		98,147,821
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.		3,323,253
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		(431,703)
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		2,460,305
Deferred outflows - OPEB related amounts		17,222
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		(5,430,192)
Investments in joint ventures are not financial resources and, therefore, are not reported in the funds.		7,436,432
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	(8,385,000)	
General obligation note payable	(36,282)	
Loans payable	(406,700)	
Accrued interest on debt	(23,586)	
Licensing agreement	(116,724)	
Net pension liability	(8,744,656)	
Other postemployment benefits liability	(708,346)	
Vested compensated absences	(1,363,299)	(19,784,593)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		\$ 126,019,348

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, 2019

	Special Revenue						Total Governmental Funds
	General Fund	Road & Bridge	Ditch	Community Wellness	Debt Service	Capital Projects	
REVENUES							
Property Taxes	\$ 19,670,556	\$ 2,591,648	\$ -	\$ -	\$ 1,539,586	\$ 736,565	\$ 24,538,355
Other taxes	57,221	3,804,071	-	-	-	-	3,861,292
Special assessments	-	-	755,934	-	-	-	755,934
Intergovernmental	4,092,868	9,175,673	-	-	142,091	290,251	13,700,883
Licenses and permits	156,446	8,640	-	-	-	-	165,086
Fines and forfeitures	24,991	-	-	-	-	-	24,991
Public charges for services	4,121,538	1,246,633	-	-	-	-	5,368,171
Investment income (including unrealized gains)	1,959,843	-	4,187	-	-	35,496	1,999,526
Miscellaneous	1,342,268	40,502	-	197,353	-	74,243	1,654,366
Total Revenues	31,425,731	16,867,167	760,121	197,353	1,681,677	1,136,555	52,068,604
EXPENDITURES							
Current							
General government	8,290,024	-	-	-	-	-	8,290,024
Public safety	10,736,688	-	-	-	-	-	10,736,688
Public works	-	13,517,540	-	-	-	-	13,517,540
Health and human services	7,402,411	-	-	261,275	-	-	7,663,686
Sanitation	646,819	-	-	-	-	-	646,819
Culture, recreation, and education	776,313	-	-	-	-	-	776,313
Conservation and development	516,648	-	266,196	-	-	-	782,844
Capital Outlay	420,278	498,591	-	-	-	4,583,772	5,502,641
Debt Service							
Principal retirement	136,554	-	-	2,500,000	1,410,000	-	4,046,554
Interest and fiscal charges	10,514	-	247	126,052	270,987	-	407,800
Total Expenditures	28,936,249	14,016,131	266,443	2,887,327	1,680,987	4,583,772	52,370,909
Excess (Deficiency) of Revenues Over Expenditures	<u>2,489,482</u>	<u>2,851,036</u>	<u>493,678</u>	<u>(2,689,974)</u>	<u>690</u>	<u>(3,447,217)</u>	<u>(302,305)</u>
OTHER FINANCING SOURCES (USES)							
Capital leases issued	138,180	-	-	-	-	-	138,180
Transfers in	-	5,731	-	69,843	72,551	14,025	162,150
Transfers out	(89,599)	-	-	-	-	(72,551)	(162,150)
Proceeds from sale of capital assets	-	16,213	-	-	-	-	16,213
Total Other Financing Sources (Uses)	48,581	21,944	-	69,843	72,551	(58,526)	154,393
SPECIAL ITEM							
Transfer to SCHA joint venture	(2,110,944)	-	-	-	-	-	(2,110,944)
Net Change in Fund Balances	427,119	2,872,980	493,678	(2,620,131)	73,241	(3,505,743)	(2,258,856)
FUND BALANCES (DEFICIT) - Beginning of Year	21,960,462	14,646,238	(649,005)	2,620,131	1,212,926	2,768,556	42,559,308
Change in inventories	-	(19,649)	-	-	-	-	(19,649)
FUND BALANCES (DEFICIT) - END OF YEAR	\$ 22,387,581	\$ 17,499,569	\$ (155,327)	\$ -	\$ 1,286,167	\$ (737,187)	\$ 40,280,803

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, 2019

Net change in fund balances - total governmental funds	\$ (2,258,856)
<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.	5,502,641
Some items reported as capital outlay were not capitalized	(200,999)
Current expenditures capitalized in the government-wide statements	8,637,348
Depreciation is reported in the government-wide statements	(6,127,287)
Net book value of assets disposed of	(6,836)
<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	17,944
Special assessments	(421,028)
Due from other governments	(1,322,541)
Accounts receivable	(120,568)
Interest receivable	(24,596)
Notes and loans receivable	(46,784)
<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	(138,180)
Principal payments	4,067,840
<p>The change in inventory is reported as a change in fund balance in the fund financial statements, but is an (increase)/reduction in expense in the government-wide statements.</p>	
	(19,649)
<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>	
Debt premium	91,191
<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	(76,047)
Accrued interest on debt	22,183
Net pension liability (and pension related deferred outflows/inflows of resources)	99,713
Other postemployment benefit liability (and related deferred outflows of resources)	(79,547)
<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>	
	2,648,932
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 10,244,874

See accompanying notes to financial statements.

STEELE COUNTY

STATEMENT OF NET POSITION ENTERPRISE FUND As of December 31, 2019

	<u>Solid Waste</u>
ASSETS	
CURRENT ASSETS	
Cash and investments	\$ 3,704,702
Accounts receivable (net)	210,893
Due from other governments	98
Total Current Assets	<u>3,915,693</u>
NONCURRENT ASSETS	
Restricted cash and investments	2,517,699
Capital Assets	
Land	451,250
Property and equipment	10,867,545
Accumulated depreciation	<u>(7,576,520)</u>
Total Noncurrent Assets	<u>6,259,974</u>
Total Assets	<u>10,175,667</u>
DEFERRED OUTFLOWS OF RESOURCES	
OPEB related amounts	280
Pension related amounts	<u>18,057</u>
Total Deferred Outflows of Resources	<u>18,337</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	38,150
Accrued expenses and deposits	10,338
Due to other governments	22,692
Due to other funds	638
Current portion of vested compensated absences	<u>17,160</u>
Total Current Liabilities	<u>88,978</u>
NONCURRENT LIABILITIES	
Vested compensated absences	3,515
Net pension liability	204,275
OPEB liability	14,911
Landfill long-term care costs	<u>2,339,055</u>
Total Noncurrent Liabilities	<u>2,561,756</u>
Total Liabilities	<u>2,650,734</u>
DEFERRED INFLOWS OF RESOURCES	
Pension related amounts	<u>41,163</u>
NET POSITION	
Net investment in capital assets	3,742,275
Restricted for landfill	178,644
Unrestricted	<u>3,581,188</u>
TOTAL NET POSITION	<u>\$ 7,502,107</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, 2019

	<u>Solid Waste</u>
OPERATING REVENUES	
Charges for services	\$ 1,989,234
Miscellaneous revenues	9,280
Total Operating Revenues	<u>1,998,514</u>
OPERATING EXPENSES	
Solid waste disposal	481,250
Supervision and labor	342,595
Benefits	49,966
Other services and charges	106,644
Depreciation	687,165
Total Operating Expenses	<u>1,667,620</u>
Operating Income	<u>330,894</u>
NONOPERATING REVENUES	
Investment income	12,398
Gain on disposal of capital assets	18,900
Total Nonoperating Revenues	<u>31,298</u>
Change in Net Position	362,192
NET POSITION – Beginning of Year	<u>7,139,915</u>
NET POSITION – END OF YEAR	<u>\$ 7,502,107</u>

See accompanying notes to financial statements.

STEELE COUNTY

STATEMENT OF CASH FLOWS
ENTERPRISE FUND
For the Year Ended December 31, 2019

	<u>Solid Waste</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 2,016,624
Cash paid to suppliers for goods and services	(758,524)
Cash paid to employees for services	(298,838)
Net Cash Flows From Operating Activities	<u>959,262</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>12,398</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	<u>(120,862)</u>
Net Change in Cash and Cash Equivalents	850,798
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>5,371,603</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 6,222,401</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income	\$ 330,894
Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities	
Noncash items included in operating income	
Depreciation	687,165
Landfill closure liability	(45,628)
Change in Assets, Liabilities, and Deferred Outflows and Inflows of Resources	
Receivables	18,110
Accounts payable and due to other governments	(14,180)
Accrued expenses	(10,899)
Due to other funds	282
Post employment retirement benefit liability and related deferrals	1,512
Pension related deferrals and liability	<u>(7,994)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 959,262</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS	
Cash and investments per Statement of Net Position	\$ 3,704,702
Noncurrent restricted cash	<u>2,517,699</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 6,222,401</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, 2019

	Private Purpose Trust	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and investments	\$ 221,480	\$ 1,958,395
Accounts receivable	-	48,566
Accrued interest receivable	105	-
Due from other governments	-	29,176
Prepaid items	-	44,995
	<u> </u>	<u> </u>
TOTAL ASSETS	<u>221,585</u>	<u>2,081,132</u>
LIABILITIES		
Funds held in trust	-	143,269
Accounts payable	-	3,265
Accrued wages	5,075	42,143
Due to other governments	-	1,892,455
	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>5,075</u>	<u>2,081,132</u>
NET POSITION HELD IN TRUST	<u>\$ 216,510</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, 2019

	<u>Private Purpose Trust</u>
ADDITIONS	
Interest	\$ 2,095
DEDUCTIONS	
Payments in accordance with trust agreements	<u>145</u>
Change in Net Position	1,950
NET POSITION HELD IN TRUST - Beginning of Year	<u>214,560</u>
NET POSITION HELD IN TRUST - END OF YEAR	<u><u>\$ 216,510</u></u>

See accompanying notes to the financial statements.

STEELE COUNTY

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STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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 March 2018, the GASB issued statement No. 88 - *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. This standard was implemented January 1, 2019.

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, 2019

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 or enterprise 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, which was sold during 2019 and the fund was closed out at year end.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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, 2019

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 and fiduciary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note.

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, 2019

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, 2019

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, 2019

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. 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, 2019

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.)

5. 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.

6. 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.

7. 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, 2019 are determined on the basis of current salary rates and include salary related payments.

8. 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, 2019

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.)

8. 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 \$8,986,000, made up of one issue.

9. 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.

10. 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, 2019

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.)

10. 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, 2019, the combined assigned and unassigned fund balance in the General Fund was approximately 63% of the subsequent year's budgeted expenditures.

11. 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, 2019

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.)

12. 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 2019 expenditures and other financing uses in excess of appropriations:

<u>Fund</u>	<u>Budgeted Expenditures and Other Financing Uses</u>	<u>Actual Expenditures and Other Financing Uses</u>	<u>Excess Over Budget</u>
Community Wellness	\$ 278,175	\$ 2,887,327	\$ 2,609,152

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, 2019, the Ditch fund held a deficit balance of \$155,327 due to expenditures in excess of revenues. The deficit is anticipated to be funded with future special assessments.

As of December 31, 2019, the Capital Projects fund held a deficit balance of \$737,187 due to expenditures in excess of revenues. The deficit is anticipated to be funded with future tax revenues.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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	\$ 4,179,193	\$ 4,877,444	Custodial credit
Negotiable CD's	17,475,297	17,475,297	Custodial credit, credit, concentration of credit, interest rate
MAGIC portfolio	9,047,763	9,578,144	Credit, interest rate
U.S. agencies – implicitly guaranteed	4,401	4,401	Custodial credit, credit, concentration of credit, interest rate
U.S. agencies – explicitly guaranteed	328,617	328,617	Custodial credit, interest rate
Corporate bonds	401,880	401,880	Custodial credit, credit, concentration of credit, interest rate
Municipal bonds	17,362,015	17,362,015	Custodial credit, credit, concentration of credit, interest rate
Petty cash	1,925	-	N/A
Total Cash and Investments	\$ 48,801,091	\$ 50,027,798	
Reconciliation to financial statements			
Per statement of net position			
Unrestricted cash and investments	\$ 44,103,517		
Restricted cash and investments	2,517,699		
Per statement of net position –			
Fiduciary Funds			
Private purpose trust	221,480		
Agency funds	1,958,395		
Total Cash and Investments	\$ 48,801,091		

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, 2019

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 UBS Financial Services, Inc., accounts have additional securities coverage of up to a firm aggregate of \$500 million.

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

Investment Type	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Negotiable CDs	\$ -	\$ 17,475,297	\$ -	\$ 17,475,297
U.S. agencies – implicitly guaranteed	-	4,401	-	4,401
U.S. agencies – explicitly guaranteed	-	328,617	-	328,617
Municipal bonds	-	17,362,015	-	17,362,015
Corporate bonds	-	401,880	-	401,880
Totals	<u>\$ -</u>	<u>\$ 35,572,210</u>	<u>\$ -</u>	<u>\$ 35,572,210</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, 2019

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, 2019, the County's investments were rated as follows:

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

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, 2019.

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, 2019, 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	\$ 17,475,297	\$ 2,472,092	\$ 14,204,974	\$ 798,231
U.S. agencies – implicitly guaranteed	4,401	-	481	3,920
U.S. agencies – explicitly guaranteed	328,617	74,951	251,090	2,576
Municipal bonds	17,362,015	3,914,302	9,581,926	3,865,787
Corporate bonds	401,880	401,880	-	-
MAGIC	9,578,144	9,578,144	-	-
Totals	\$ 45,150,354	\$ 16,441,369	\$ 24,038,471	\$ 4,670,514

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, 2019

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

B. RECEIVABLES

All receivables are expected to be collected within one year except for \$31,823 of accounts receivable and \$255,047 of loans receivable in the General Fund and \$160,910 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:

	<u>Unearned</u>	<u>Unavailable</u>
Property taxes receivable	\$ -	\$ 193,920
Special assessments receivable	-	168,223
Due from other governments	-	2,775,697
Loans receivable	-	123,095
Accounts receivable	-	62,318
Grants received in advance	<u>138,817</u>	<u>-</u>
Total Unavailable/Unearned Revenue for Governmental Funds	<u>\$ 138,817</u>	<u>\$ 3,323,253</u>

C. RESTRICTED ASSETS

The County makes annual contributions to a trust to finance closure and post-closure care of the County landfill. As of December 31, 2019, investments of \$2,517,699 are held for these purposes. See Note III.G.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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

D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital Assets Not Being Depreciated				
Land and right of way	\$ 3,665,124	\$ 538,251	\$ -	\$ 4,203,375
Construction in progress	9,593,320	12,334,361	16,573,350	5,354,331
Total Capital Assets Not Being Depreciated	\$ 13,258,444	\$12,872,612	\$16,573,350	\$ 9,557,706
Capital Assets Being Depreciated				
Right-of-use asset	\$ -	\$ 138,180	\$ -	\$ 138,180
Buildings	29,455,433	12,369,848	-	41,825,281
Improvements	149,432	80,692	6,384	223,740
Machinery, furniture and equipment	10,251,391	674,062	343,323	10,582,130
Infrastructure	127,720,218	4,376,946	-	132,097,164
Total Capital Assets Being Depreciated	167,576,474	17,639,728	349,707	184,866,495
Less: Accumulated Depreciation for				
Right-of-use asset	-	(21,456)	-	(21,456)
Buildings	(12,135,788)	(818,263)	-	(12,954,051)
Improvements	(99,725)	(6,178)	6,384	(99,519)
Machinery, furniture and equipment	(6,411,737)	(898,012)	336,487	(6,973,262)
Infrastructure	(71,844,714)	(4,383,378)	-	(76,228,092)
Total Accumulated Depreciation	(90,491,964)	(6,127,287)	342,871	(96,276,380)
Total Capital Assets Being Depreciated, Net of Depreciation	\$ 77,084,510	\$ 11,512,441	\$ 6,836	\$ 88,590,115

Depreciation expense was charged to functions as follows:

Governmental Activities	
General government	\$ 476,620
Public safety	571,166
Health	3,834
Culture and recreation	209,480
Highway	4,866,187
 Total Governmental Activities Depreciation Expense	 \$ 6,127,287

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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

D. CAPITAL ASSETS (cont.)

Capital asset activity for the year ended December 31, 2019 was as follows:

Business Type Activities	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated					
Land and right of way	\$ 451,250	\$ -	\$ -	\$ -	\$ 451,250
Total Capital Assets Not Being Depreciated	<u>\$ 451,250</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 451,250</u>
Capital Assets Being Depreciated					
Buildings	\$ 426,166	\$ -	\$ -	\$ -	\$ 426,166
Improvements	104,831	-	-	-	104,831
Landfill	8,235,408	44,490	-	-	8,279,898
Machinery, furniture and equipment	<u>1,953,489</u>	<u>95,272</u>	<u>(7,197)</u>	<u>15,086</u>	<u>2,056,650</u>
Total Capital Assets Being Depreciated	<u>10,719,894</u>	<u>139,762</u>	<u>(7,197)</u>	<u>15,086</u>	<u>10,867,545</u>
Less: Accumulated Depreciation for:					
Buildings	(264,130)	(18,727)	-	-	(282,857)
Improvements	(48,439)	(5,934)	-	-	(54,373)
Landfill	(5,518,791)	(471,038)	-	-	(5,989,829)
Machinery, furniture and equipment	<u>(1,050,106)</u>	<u>(191,466)</u>	<u>7,197</u>	<u>(15,086)</u>	<u>(1,249,461)</u>
Total Accumulated Depreciation	<u>(6,881,466)</u>	<u>(687,165)</u>	<u>7,197</u>	<u>(15,086)</u>	<u>(7,576,520)</u>
Total Capital Assets Being Depreciated, Net of Depreciation	<u>\$ 3,838,428</u>	<u>\$ (547,403)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,291,025</u>

Depreciation expense of \$687,165 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, 2019

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

E. 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	Solid Waste	\$ 357
Road and Bridge	Solid Waste	281
Road and Bridge	General Fund	14,922
Subtotal - Fund financial statements		15,560
Less: Fund eliminations		(14,922)
Total - Government-Wide Statement of Net Position		\$ 638

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.

Advances

The following is a schedule of interfund advances:

Receivable Fund	Payable Fund	Amount	Amount Not Due Within One Year
General Fund	Ditch	\$ 533,826	\$ 533,826
General Fund	Capital Projects	1,100,000	1,100,000
Subtotal - Fund Financial Statements		1,633,826	
Less: Fund eliminations		(1,633,826)	
Total - Government-Wide Statement of Activities		\$ -	

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2019

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

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

Advances (cont.)

The general fund has advanced funds to the ditch fund for cash flow purposes. The amount advanced to the capital projects fund was a capital construction loan. There is no repayment schedule set up for the advances.

Transfers

The following is a schedule of interfund transfers:

Fund Transferred To	Fund Transferred From	Amount	Principal Purpose
Community Wellness	General Fund	\$ 69,843	Close out community wellness fund
Debt Service	Capital Projects	72,551	Unspent bond proceeds
Capital Projects	General Fund	14,025	Cost of LED sign
Road and Bridge	General Fund	5,731	Parking lot maintenance
Subtotal - Fund Financial Statements		162,150	
Less: Fund eliminations		(162,150)	
Total - Government-Wide Statement of Activities		\$ -	

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, 2019

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

F. LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended December 31, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Bonds and notes payable:					
General obligation bonds	\$ 9,795,000	\$ -	\$ 1,410,000	\$ 8,385,000	\$ 1,610,000
General obligation note from direct borrowing	70,932	-	34,650	36,282	8,940
Revenue bonds	2,500,000	-	2,500,000	-	-
Clean water partnership loans – direct borrowing	508,434	-	101,734	406,700	103,779
Unamortized bond premium	522,894	-	91,191	431,703	-
Subtotal	13,397,260	-	4,137,575	9,259,685	1,722,719
Other Liabilities:					
Licensing agreement	-	138,180	21,456	116,724	29,181
Other postemployment benefits	653,782	96,984	42,420	708,346	-
Compensated absences	1,287,252	1,197,579	1,121,532	1,363,299	1,131,538
Net pension liability	8,745,573	38,510	39,427	8,744,656	-
Subtotal	10,686,607	1,471,253	1,224,835	10,933,025	1,160,719
Total Governmental Activities Long-Term Liabilities	\$ 24,083,867	\$ 1,471,253	\$ 5,362,410	\$ 20,192,710	\$ 2,883,438
Business-Type Activities					
Other postemployment benefits	\$ 14,024	\$ 1,577	\$ 690	\$ 14,911	\$ -
Compensated absences	34,116	4,529	17,970	20,675	17,160
Net pension liability	209,131	-	4,856	204,275	-
Landfill liability	2,384,683	-	45,628	2,339,055	-
Total Business-type Activities Long-Term Liabilities	\$ 2,641,954	\$ 6,106	\$ 69,144	\$ 2,578,916	\$ 17,160

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, 2019 was approximately \$61 million. General obligation debt outstanding at year-end subject to the debt limit was \$8,421,282.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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

F. LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt (cont.)

General obligation debt payable for the County at December 31, 2019, consists of the following:

Governmental Activities General Obligation Bonds	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance December 31, 2019
GO Refunding Bonds	2007	2020	5.00%	\$ 4,560,000	\$ 500,000
GO Refunding Bonds	2015	2024	1.75-3.00%	9,720,000	4,995,000
Capital Improvement Bonds	2018	2026	3.00-4.00%	3,190,000	<u>2,890,000</u>
Total Governmental Activities – General Obligation Bonds					<u>\$ 8,385,000</u>

Debt service requirements to maturity are as follows:

<u>Years</u>	Governmental Activities General Obligation Bonds	
	<u>Principal</u>	<u>Interest</u>
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	1,380,000	91,200
2025 – 2026	<u>1,415,000</u>	<u>85,198</u>
Totals	<u>\$ 8,385,000</u>	<u>\$ 849,100</u>

Notes payable for the County at December 31, 2019, consist of the following:

Governmental Activities General Obligation Note	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance December 31, 2019
MPFA GO Revenue Note*	2012	2023	1.00%	\$ 192,281	<u>\$ 36,282</u>

* - considered direct placement or direct borrowing

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2019

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

F. LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt (cont.)

Debt service requirements to maturity are as follows:

Years	Governmental Activities General Obligation Note from Direct Borrowings	
	Principal	Interest
2020	\$ 8,940	\$ 341
2021	9,029	251
2022	9,120	160
2023	9,193	69
Totals	<u>\$ 36,282</u>	<u>\$ 821</u>

Clean Water Partnership Loans

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

Clean Water Partnership Loans	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance December 31, 2019
Loan payable – SRF0190*	2012	2021	2.00%	\$ 598,169	\$ 129,341
Loan payable – SRF0259*	2017	2026	2.00%	390,847	277,359
					<u>\$ 406,700</u>

* - considered direct placement or direct borrowing

Debt service requirements to maturity are as follows:

Years	Clean Water Partnership Loans from Direct Borrowings	
	Principal	Interest
2020	\$ 103,779	\$ 7,983
2021	105,865	5,897
2022	41,366	4,100
2023	42,197	3,269
2024	43,046	2,421
2025 - 2026	70,447	2,229
Totals	<u>\$ 406,700</u>	<u>\$ 25,899</u>

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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

F. LONG-TERM OBLIGATIONS (cont.)

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.

The County's outstanding general obligation note from direct borrowing related to the governmental activities of \$36,282 contains clauses that in the event of default, one or more of the following may be exercised: (1) no further disbursements of the loan, (2) outstanding amounts become due and payable with interest accrued, (3) repayment of the grant.

Additionally, the County's outstanding clean water partnership loans from direct borrowing in the amount of \$406,700 contain clauses that upon the event of default, demand will be made for full payment of all amounts due, including attorney's fees and interest incurred by MPCA to recover payments.

On March 4, 2019, the County entered into a licensing agreement for software. The licensing agreement is a 5-year noninterest bearing agreement. Four equal payments of \$29,181 are due annually through 2023. The agreement contains a clause that upon termination due to breach of contract, the County will pay for all software services and professional services performed up to the date of termination.

G. 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 \$2,339,055 reported as landfill closure and postclosure care liability at December 31, 2019, represents the cumulative amount reported to date based on the use of approximately 82.5% of the estimated permitted capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care costs of \$497,715 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 2019 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, 2019, investments of \$2,517,699 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.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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

H. NET POSITION / FUND BALANCES

Net position reported on the government wide statement of net position at December 31, 2019 includes the following:

Net Investment in Capital Assets	
Construction in progress	\$ 5,354,331
Land	4,203,375
Other capital assets, net of accumulated depreciation	88,590,115
Less: related long-term debt outstanding (excluding unspent capital related debt proceeds)	(8,641,951)
Less: Unamortized premium	(431,703)
Total Net Investment in Capital Assets	\$ 89,074,167

Governmental fund balances reported on the fund financial statements at December 31, 2019, include the following:

	General Fund	Road and Bridge	Ditch	Debt Service	Capital Projects	Totals
Nonspendable:						
Inventories and prepaids	\$ 50,258	\$ 157,925	-	-	-	\$ 208,183
Loans receivables	175,219	-	-	-	-	175,219
Advances to other funds	1,633,826	-	-	-	-	1,633,826
Restricted for:						
Tree memorial	937	-	-	-	-	937
Law library	187,803	-	-	-	-	187,803
Recorder technology	133,190	-	-	-	-	133,190
Recorder compliance fund	117,304	-	-	-	-	117,304
Missing heirs	180,415	-	-	-	-	180,415
CWP loans	283,605	-	-	-	-	283,605
Natural resources block grant	75,833	-	-	-	-	75,833
U of M extension	8,112	-	-	-	-	8,112
Veterans donation	6,634	-	-	-	-	6,634
Sheriff drug and alcohol forfeitures	14,216	-	-	-	-	14,216
Sheriff handgun	229,802	-	-	-	-	229,802
Sheriff special deputies	4,168	-	-	-	-	4,168
Sheriff K9 Project	18,040	-	-	-	-	18,040
SCRAM	28,791	-	-	-	-	28,791
County attorney	24,361	-	-	-	-	24,361
Public Health	4,264	-	-	-	-	4,264
Bixby project	82,081	-	-	-	-	82,081
Highways and streets	-	5,099,460	-	-	-	5,099,460
Debt service	-	-	-	1,286,167	-	1,286,167
Committed to:						
Equipment purchases	-	373,334	-	-	-	373,334

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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

H. NET POSITION / FUND BALANCES (cont.)

	General Fund	Road and Bridge	Ditch	Debt Service	Capital Projects	Totals
Assigned to:						
Compensated absences	\$ 1,195,517	\$ 167,782	\$ -	\$ -	\$ -	\$ 1,363,299
Bridges, roads & streets	-	11,701,068	-	-	-	11,701,068
Unassigned (deficit):	<u>17,933,205</u>	<u>-</u>	<u>(155,327)</u>	<u>-</u>	<u>(737,187)</u>	<u>17,040,691</u>
Total Fund Balances						
(Deficit)	<u>\$ 22,387,581</u>	<u>\$ 17,499,569</u>	<u>\$ (155,327)</u>	<u>\$ 1,286,167</u>	<u>\$ (737,187)</u>	<u>\$ 40,280,803</u>

NOTE IV – OTHER INFORMATION

A. EMPLOYEES' RETIREMENT SYSTEM

Public Employees Retirement Association (PERA)

Plan Description. All full-time and certain part-time employees of the County are covered by cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

1. General Employees Retirement Plan

General Employees Plan 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.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

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.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

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.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be fixed at 1 percent. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

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.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 100 percent of the COLA announced by SSA, with a minimum increase of at least 1 percent and a maximum of 2.5 percent. If the plan's funding status declines to 85 percent or below for two consecutive years or 80 percent for one year, the maximum will be lowered from 2.5 percent to 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

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 2019 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, 2019, were \$711,147. The County's contributions were equal to the required contributions as set by state statute.

2. Police and Fire Fund Contributions

Police and Fire member's contribution rates increased from 10.80 percent of pay to 11.3 percent and employer rates increased from 16.2 percent to 16.95 percent on January 1, 2019. The County's contributions to the Police and Fire Fund for the year ended December 31, 2019, were \$278,003. 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 2019. The County's contributions to the Correctional Fund for the year ended December 31, 2019, were \$209,541. The County's contributions were equal to the required contributions as set by state statute.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2019, the County reported a liability of \$7,159,765 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 2019. 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 \$222,490. The net pension liability was measured as of June 30, 2019 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, 2018 through June 30, 2019 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the County's proportionate share was .1295 percent, which was an increase of .0002 percent from its proportionate share measured as of June 30, 2018.

County's proportionate share of the net pension liability	\$	7,159,765
State of Minnesota's proportionate share of the net pension liability associated with the County		222,490
Total	\$	7,382,255

For the year ended December 31, 2019, the County recognized pension expense of \$609,910 for its proportionate share of the General Employees Plan's pension expense. In addition, the County recognized an additional \$16,662 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, 2019, 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	\$ 198,274	\$ -
Changes in actuarial assumptions	-	562,074
Net collective difference between projected and actual investment earnings	-	724,535
Changes in proportion	90,302	156,150
Contributions paid to PERA subsequent to the measurement date	363,819	-
Total	\$ 652,395	\$ 1,442,759

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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.)

\$363,819 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, 2020. 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>
2020	\$ (374,670)
2021	(650,721)
2022	(140,328)
2023	11,536

2. Police and Fire Fund Pension Costs

At December 31, 2019, the County reported a liability of \$1,637,356 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the County's proportionate share was 0.1538 percent, which was an increase of 0.0038 percent from its proportionate share measured as of June 30, 2018. The County also recognized \$20,763 for the year ended December 31, 2019, 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 until the plan is 90 percent funded or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. In addition, the state will pay \$4.5 million on October 1, 2018 and October 1, 2019 in direct state aid. Thereafter, by October 1 of each year, the state will pay \$9 million until full funding is reached or July 1, 2048, whichever is earlier.

For the year ended December 31, 2019, the County recognized pension expense of \$253,622 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, 2019

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.)

At December 31, 2019, 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	\$ 68,262	\$ 243,066
Change of actuarial assumptions	1,325,175	1,793,460
Net collective difference between projected and actual investment earnings	-	332,063
Change in proportion	142,571	7,200
Contributions paid to PERA subsequent to the measurement date	143,199	-
Total	\$ 1,679,207	\$ 2,375,789

\$143,199 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, 2020. 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>	Pension Expense Amounts
2020	\$ (68,831)
2021	(180,338)
2022	(601,473)
2023	5,495
2024	5,366

3. Correctional Plan Pension Costs

At December 31, 2019, the County reported a liability of \$151,810 for its proportionate share of the Correctional Plan’s net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2019, the County’s proportionate share was 1.0965 percent, which was a decrease of 0.0151 percent from its proportionate share measured as of June 30, 2018.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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.)

For the year ended December 31, 2019, the County recognized pension expense of \$244,110 for its proportionate share of the Correctional Plan's pension expense.

At December 31, 2019, 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 5,655	\$ 24,957
Change of actuarial assumptions	-	1,366,128
Net collective difference between projected and actual investment earnings	-	198,119
Change in proportion	29,331	63,603
Contributions paid to PERA subsequent to the measurement date	111,774	-
Total	\$ 146,760	\$ 1,652,807

\$111,774 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Pension Expense Amounts
2020	\$ (869,445)
2021	(701,313)
2022	(48,534)
2023	1,471

The total pension expense recognized for all three plans was \$1,107,642 for the year ended December 31, 2019.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Actuarial Assumptions

The total pension liability in the June 30, 2019, 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, 2019 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. 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 2018 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, 2019

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Actuarial Assumptions (cont.)

The following changes in actuarial assumptions occurred in 2019:

General Employees Fund

Changes in Actuarial Assumptions:

- > The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- > The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

Police and Fire Fund

Changes in Actuarial Assumptions:

- > The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- > There have been no changes since the prior valuation.

Correctional Fund

Changes in Actuarial Assumptions:

- > The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- > There have been no changes since the prior valuation.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

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%	35.5%
Private Markets	5.90	25.0
Fixed Income	0.75	20.0
International Equity	5.90	17.5
Cash Equivalents	0.00	2.0

Discount Rate. The discount rate used to measure the total pension liability in 2019 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.

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:	\$ 11,770,268	\$ 7,159,765	\$ 3,352,878
County's proportionate share of the Police and Fire Fund net pension liability:	3,578,957	1,637,356	32
County's proportionate share of the Correctional Fund net pension liability:	1,617,984	151,810	(1,021,368)

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, 2019

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, 2019, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	3
Inactive plan members entitled to but not yet receiving benefit payments	-
Active plan members	<u>204</u>
	<u>207</u>

Total OPEB Liability

The County's total OPEB liability of \$723,257 was measured as of January 1, 2019, and was determined by an actuarial valuation as of January 1, 2018.

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).

The actuarial assumptions used in the January 1, 2018 valuation were based on input from a variety of published sources of historical and project future financial data.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2019

NOTE IV – OTHER INFORMATION (cont.)

B. OTHER POSTEMPLOYMENT BENEFITS (cont.)

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/2018	\$ 667,806
Changes for the year:	
Service cost	74,762
Interest	23,799
Benefit payments	(43,110)
Net changes	55,451
Balance at 12/31/2019	\$ 723,257

There were no changes of assumptions or benefit terms from 2018 to 2019.

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	\$ 788,658	\$ 723,257	\$ 663,001

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 (5.25% Decreasing to 4.0%)	Healthcare Cost Trend Rates (6.25% Decreasing to 5.0%)	1% Increase (7.25% Decreasing to 6.0%)
Total OPEB liability	\$ 629,216	\$ 723,257	\$ 836,487

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

NOTE IV – OTHER INFORMATION (cont.)

B. OTHER POSTEMPLOYMENT BENEFITS (cont.)

OPEB Expense and Deferred Outflow of Resources Related to OPEB

For the year ended December 31, 2019, the County recognized OPEB expense of \$98,561. At December 31, 2019, the County reported deferred inflows of resources related to OPEB from the following sources:

\$17,502 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, 2020.

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 2019. 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.

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.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

NOTE IV – OTHER INFORMATION (cont.)

D. COMMITMENTS AND CONTINGENCIES (cont.)

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, 2019, the County has commitments for construction projects in progress and other contracts of approximately \$8,846,000.

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 Regional Radio Board
- > Cannon River Watershed
- > Counties Providing Technology

All 2019 payments to the jointly-governed organizations were minimal.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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 2019. Financial information for 2019 is not available. 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 2019 were \$914,765. 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 \$4.9 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, 2019 is \$2,648,192, up from \$2,353,585 at December 31, 2018. No additional equity was required to be paid in for 2019.

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, 2019

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, Crow Wing, Morrison, Todd and Wadena 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, 2019 is \$4,788,240, up from \$2,433,915 at December 31, 2018. In 2019, member counties were required to make an equity contribution. Steele County's contribution was \$2,110,944.

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 levies and collects property taxes for all governmental units with the County. The City of Owatonna, through its tax increment financing districts, provides tax abatements to 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, 2019 was \$417,472.

STEELE COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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. 90, *Majority Equity Interests*
- > Statement No. 91, *Conduit Debt Obligations*
- > Statement No. 92, *Omnibus*
- > Statement No. 93, *Replacement of Interbank Offered Rates*
- > Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
- > Statement No. 96, *Subscription-Based Information Technology Arrangements*
- > Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*

The statements listed above through Statement No. 93 had their required effective dates postponed by one year with the issuance of Statement No. 95, *Postponement of Effective Dates of Certain Authoritative Guidance*, with the exception of Statement No. 87, which was postponed by one and a half years.

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

I. SUBSEQUENT EVENTS

In December 2019, a novel strain of coronavirus was reported in Wuhan, Hubei province, China. In the first several months of 2020, the virus, SARS-CoV-2, and resulting disease, COVID-19, spread to the United States, including to areas impacting the County. As of the audit opinion date, the County's evaluation of the effects of these events is ongoing; however, based on current information we believe this situation could impact revenues such as sales tax, state aids and charges for services, changes in staffing and delinquencies or uncollectible accounts.

The extent of the impact of COVID-19 on the County's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions.

On January 9, 2020, the County issued General Obligation Jail Bonds, Series 2020A, in the amount of \$4,505,000 with an interest rate of 2-3%. This amount will be used to finance improvements to the County's detention center.

REQUIRED SUPPLEMENTARY INFORMATION

STEELE COUNTY

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2019

	Budget Original / Final	Actual	Variance with Budget
REVENUES			
Taxes	\$ 19,425,696	\$ 19,670,556	\$ 244,860
Other taxes	47,000	57,221	10,221
Intergovernmental	4,271,624	4,092,868	(178,756)
Licenses and permits	156,600	156,446	(154)
Fines and forfeitures	25,200	24,991	(209)
Public charges for services	4,501,255	4,121,538	(379,717)
Investment income (including unrealized gains)	310,000	1,959,843	1,649,843
Miscellaneous	1,430,045	1,342,268	(87,777)
TOTAL REVENUES	\$ 30,167,420	\$ 31,425,731	\$ 1,258,311
EXPENDITURES			
General Government			
Commissioners	\$ 239,925	\$ 211,779	\$ 28,146
Court administration	397,750	276,761	120,989
County administration	254,070	232,169	21,901
County auditor / treasurer	1,002,450	954,802	47,648
Human resources	440,710	404,190	36,520
County assessor	719,730	704,934	14,796
Elections	34,550	24,744	9,806
Data processing	538,050	458,514	79,536
Attorney	1,259,000	1,236,638	22,362
Recorder	424,300	553,882	(129,582)
Law library	36,000	17,718	18,282
Surveyor	20,000	26,577	(6,577)
Planning and zoning	599,359	553,046	46,313
Buildings and plant	1,229,710	1,266,189	(36,479)
GIS	93,550	92,305	1,245
Veterans services	206,160	191,316	14,844
Central services	292,610	316,535	(23,925)
Other	837,466	767,925	69,541
Total General Government	8,625,390	8,290,024	335,366
Public Safety			
Sheriff	3,221,920	3,088,795	133,125
Boat and water safety	4,400	3,169	1,231
Coroner	72,100	82,467	(10,367)
Public transit	4,800	3,196	1,604
Emergency government	91,980	87,352	4,628
E-911	914,765	914,765	-
County jail	5,098,000	4,462,380	635,620
Community corrections	1,758,730	1,667,876	90,854
Law enforcement center	478,570	426,688	51,882
Total Public Safety	11,645,265	10,736,688	908,577

See accompanying notes to required supplementary information.

STEELE COUNTY

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2019

	Budget Original / Final	Actual	Variance with Budget
EXPENDITURES (cont.)			
Health and Human Services			
Minnesota Prairie	\$ 4,900,751	\$ 4,900,751	\$ -
Nursing service	2,851,753	2,501,660	350,093
Community health services	250	-	250
Total Health and Human Services	<u>7,752,754</u>	<u>7,402,411</u>	<u>350,343</u>
Sanitation			
Solid Waste	<u>684,240</u>	<u>646,819</u>	<u>37,421</u>
Total Sanitation	<u>684,240</u>	<u>646,819</u>	<u>37,421</u>
Culture, Recreation, and Education			
Parks	301,420	287,091	14,329
Historical society	8,000	8,000	-
Four seasons	479,140	461,815	17,325
Other	19,600	19,407	193
Total Culture, Recreation, and Education	<u>808,160</u>	<u>776,313</u>	<u>31,847</u>
Conservation and Development			
Cooperative extension	341,274	332,161	9,113
Soil and water conservation	135,000	135,000	-
Agricultural society	46,500	46,500	-
Bixby Sewer Project	6,550	2,987	3,563
Total Conservation and Development	<u>529,324</u>	<u>516,648</u>	<u>12,676</u>
Capital Outlay			
General government	-	250,559	(250,559)
Public safety	-	169,719	(169,719)
Total Capital Outlay	<u>-</u>	<u>420,278</u>	<u>(420,278)</u>
Debt Service			
Principal	146,114	136,554	9,560
Interest	10,486	10,514	(28)
Total Debt Service	<u>156,600</u>	<u>147,068</u>	<u>9,532</u>
TOTAL EXPENDITURES	<u>\$ 30,201,733</u>	<u>\$ 28,936,249</u>	<u>\$ 1,265,484</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(34,313)</u>	<u>2,489,482</u>	<u>2,523,795</u>
OTHER FINANCING SOURCES (USES)			
Capital lease issued	-	138,180	138,180
Transfers in	34,313	-	(34,313)
Transfers out	-	(89,599)	(89,599)
Total Other Financing Sources (Uses)	<u>34,313</u>	<u>48,581</u>	<u>14,268</u>
SPECIAL ITEM			
Transfer of capital to SCHA joint venture	-	(2,110,944)	(2,110,944)
Net Change in Fund Balance	-	427,119	427,119
FUND BALANCE - Beginning of Year	<u>21,960,462</u>	<u>21,960,462</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 21,960,462</u>	<u>\$ 22,387,581</u>	<u>\$ 427,119</u>

See accompanying notes to required supplementary information.

STEELE COUNTY

BUDGETARY COMPARISON SCHEDULE ROAD AND BRIDGE FUND For the Year Ended December 31, 2019

	Budget <u>Original / Final</u>	Actual	Variance with Budget
REVENUES			
Taxes	\$ 2,853,196	\$ 2,591,648	\$ (261,548)
Other taxes	3,442,497	3,804,071	361,574
Intergovernmental	10,684,025	9,175,673	(1,508,352)
Public charges for services	1,054,387	1,246,633	192,246
Licenses and permits	12,000	8,640	(3,360)
Miscellaneous	3,500	40,502	37,002
Total Revenues	<u>18,049,605</u>	<u>16,867,167</u>	<u>(1,182,438)</u>
EXPENDITURES			
Current			
Public works			
Administration	389,690	381,621	8,069
Operation and maintenance	4,530,989	3,243,090	1,287,899
Street construction	14,945,259	9,637,580	5,307,679
Other	257,542	255,249	2,293
Capital Outlay			
Highway and streets	523,500	498,591	24,909
Total Expenditures	<u>20,646,980</u>	<u>14,016,131</u>	<u>6,630,849</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,597,375)</u>	<u>2,851,036</u>	<u>5,448,411</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	2,631,688	5,731	(2,625,957)
Transfers out	(34,313)	-	34,313
Sale of fixed assets	-	16,213	16,213
Total Other Financing Sources (Uses)	<u>2,597,375</u>	<u>21,944</u>	<u>(2,575,431)</u>
Net Change in Fund Balances	-	2,872,980	2,872,980
FUND BALANCES - Beginning of Year	14,646,238	14,646,238	-
Increase/(decrease) in inventories	-	(19,649)	(19,649)
FUND BALANCES - END OF YEAR	<u>\$ 14,646,238</u>	<u>\$ 17,499,569</u>	<u>\$ 2,853,331</u>

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

STEELE COUNTY

BUDGETARY COMPARISON SCHEDULE DITCH FUND

For the Year Ended December 31, 2019

	Budget Original / Final	Actual	Variance with Budget
REVENUES			
Special assessments	\$ -	\$ 755,934	\$ 755,934
Investment income	-	4,187	4,187
Miscellaneous	300,000	-	(300,000)
Total Revenues	<u>300,000</u>	<u>760,121</u>	<u>460,121</u>
EXPENDITURES			
Current			
Conservation and development	300,000	266,196	33,804
Debt Service			
Interest and fiscal charges	-	247	(247)
Total Expenditures	<u>300,000</u>	<u>266,443</u>	<u>33,557</u>
Net Change in Fund Balances	-	493,678	493,678
FUND BALANCES (DEFICIT) - Beginning of Year	<u>(649,005)</u>	<u>(649,005)</u>	-
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ (649,005)</u>	<u>\$ (155,327)</u>	<u>\$ 493,678</u>

See accompanying notes to required supplementary information.

STEELE COUNTY

BUDGETARY COMPARISON SCHEDULE COMMUNITY WELLNESS FUND For the Year Ended December 31, 2019

	Budget Original / Final	Actual	Variance with Budget
REVENUES			
Miscellaneous	\$ 278,175	\$ 197,353	\$ (80,822)
Total Revenues	<u>278,175</u>	<u>197,353</u>	<u>(80,822)</u>
EXPENDITURES			
Current			
Health and human services	4,035	261,275	(257,240)
Debt Service			
Principal	150,000	2,500,000	(2,350,000)
Interest	<u>124,140</u>	<u>126,052</u>	<u>(1,912)</u>
Total Expenditures	<u>278,175</u>	<u>2,887,327</u>	<u>(2,609,152)</u>
Net Change in Fund Balances	-	(2,620,131)	(2,620,131)
FUND BALANCES - Beginning of Year	<u>2,620,131</u>	<u>2,620,131</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 2,620,131</u>	<u>\$ -</u>	<u>\$ (2,620,131)</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, 2019

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
12/31/19	6/30/19	0.1295%	\$ 7,159,765	\$ 222,490	\$ 7,382,255	\$ 9,138,211	78.35%	80.20%
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, 2019

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)
12/31/19	\$ 711,148	\$ 711,148	\$ -	9,421,991	7.55%
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, 2019

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
12/31/19	6/30/19	0.1538%	\$ 1,637,356	\$ 1,623,072	100.88%	89.30%
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, 2019

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)
12/31/19	\$ 278,002	\$ 278,002	\$ -	\$ 1,639,409	16.96%
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, 2019

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
12/31/19	6/30/19	1.0965%	\$ 151,810	\$ 2,338,892	6.49%	98.20%
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, 2019

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)
12/31/19	\$ 209,541	\$ 209,541	\$ -	\$ 2,393,306	8.76%
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, 2019

	<u>2018</u>	<u>2019</u>
Total OPEB Liability		
Service cost	\$ 72,584	\$ 74,762
Interest	22,318	23,799
Benefit payments	<u>(61,121)</u>	<u>(43,110)</u>
Net Change in Total OPEB Liability	33,781	55,451
Total OPEB Liability - Beginning	<u>634,025</u>	<u>667,806</u>
Total OPEB Liability - Ending	<u>\$ 667,806</u>	<u>\$ 723,257</u>
Covered-employee payroll	\$ 11,555,589	\$ 11,902,257
Total OPEB liability as a percentage of covered-employee payroll	5.78%	6.1%

See accompanying notes to required supplementary information.

STEELE COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION As of and for the Year Ended December 31, 2019

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

2019 Changes

Changes in Actuarial Assumptions

- > The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- > The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

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.

STEELE COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION As of and for the Year Ended December 31, 2019

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) (cont.)

General Employees Fund (cont.)

Changes in Plan Provisions:

- > 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.

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 contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- > The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

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, 2019

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

2019 Changes

Changes in Actuarial Assumptions

- > The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- > There have been no changes since the prior valuation.

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, 2019

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) (cont.)

Police and Fire Fund (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.

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.

STEELE COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION As of and for the Year Ended December 31, 2019

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) (cont.)

Police and Fire 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 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

2019 Changes

Changes in Actuarial Assumptions

- > The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- > There have been no changes since the prior valuation.

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, 2019

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.

OTHER POST EMPLOYMENT BENEFITS

The County implemented GASB Statement No. 75 in fiscal year 2018. Information provided prior to fiscal year 2018 is not available.

Assets have not been accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

The following changes of assumptions were reflected in the OPEB actuarial valuations:

2019 Changes

- > There were no changes to assumptions to benefit terms in 2019.

2018 Changes

- > The health care trend rates were changed to better anticipate short term and long term medical increases.
- > Mortality tables were updated from RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale (with Blue Collar adjustment for police and fire personnel) to RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale (with Blue Collar adjustment for police and fire personnel).
- > The retirement and withdrawal tables for all employees were updated.
- > The retirement plan participation assumption for participants was changed from 35% to 25%.
- > The discount rate was changed from 3.5 percent to 3.3 percent.

SUPPLEMENTARY INFORMATION

STEELE COUNTY

AGENCY FUNDS
December 31, 2019

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, 2019

	<u>Taxes and Penalties</u>	<u>State Revenue</u>	<u>Consolidated Dispatch</u>	<u>Total</u>
ASSETS				
Cash and investments	\$ 597,442	\$ 190,694	\$ 1,170,259	\$ 1,958,395
Accounts receivable	45,353	3,213	-	48,566
Due from other governments	-	23	29,153	29,176
Prepaid items	-	-	44,995	44,995
TOTAL ASSETS	<u>\$ 642,795</u>	<u>\$ 193,930</u>	<u>\$ 1,244,407</u>	<u>\$ 2,081,132</u>
LIABILITIES				
Funds held in trust	\$ 143,269	\$ -	\$ -	\$ 143,269
Accounts payable	-	-	3,265	3,265
Accrued wages	-	-	42,143	42,143
Due to other governments	499,526	193,930	1,198,999	1,892,455
TOTAL LIABILITIES	<u>\$ 642,795</u>	<u>\$ 193,930</u>	<u>\$ 1,244,407</u>	<u>\$ 2,081,132</u>

STEELE COUNTY

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS For the Year Ended December 31, 2019

	Balance Jan. 1, 2019	Additions	Deletions	Balance Dec. 31, 2019
<u>Taxes and Penalties</u>				
Assets:				
Cash and investments	\$ 727,173	\$ 64,416,367	\$ 64,546,098	\$ 597,442
Accounts receivable	<u>19,944</u>	<u>45,353</u>	<u>19,944</u>	<u>45,353</u>
Total Assets	<u>\$ 747,117</u>	<u>\$ 64,461,720</u>	<u>\$ 64,566,042</u>	<u>\$ 642,795</u>
Liabilities:				
Funds held in trust	\$ 162,823	\$ 57,431,667	\$ 57,451,221	\$ 143,269
Due to other governments	<u>584,294</u>	<u>7,030,053</u>	<u>7,114,821</u>	<u>499,526</u>
Total Liabilities	<u>\$ 747,117</u>	<u>\$ 64,461,720</u>	<u>\$ 64,566,042</u>	<u>\$ 642,795</u>
<u>State Revenue</u>				
Assets:				
Cash and investments	\$ 163,511	\$ 1,741,425	\$ 1,714,242	\$ 190,694
Accounts receivable	3,479	3,213	3,479	3,213
Due from other governments	<u>33</u>	<u>23</u>	<u>33</u>	<u>23</u>
Total Assets	<u>\$ 167,023</u>	<u>\$ 1,744,661</u>	<u>\$ 1,717,754</u>	<u>\$ 193,930</u>
Liabilities:				
Due to other governments	<u>\$ 167,023</u>	<u>\$ 1,744,661</u>	<u>\$ 1,717,754</u>	<u>\$ 193,930</u>
<u>Consolidated Dispatch</u>				
Assets:				
Cash and investments	\$ 1,082,042	\$ 2,870,956	\$ 2,782,739	\$ 1,170,259
Due from other governments	24,692	30,102	25,641	29,153
Prepaid items	<u>38,448</u>	<u>48,414</u>	<u>41,867</u>	<u>44,995</u>
Total Assets	<u>\$ 1,145,182</u>	<u>\$ 2,949,472</u>	<u>\$ 2,850,247</u>	<u>\$ 1,244,407</u>
Liabilities:				
Accounts payable	\$ 19,107	\$ 986,021	\$ 1,001,863	\$ 3,265
Accrued wages	39,215	42,143	39,215	42,143
Due to other governments	<u>1,086,860</u>	<u>1,921,308</u>	<u>1,809,169</u>	<u>1,198,999</u>
Total Liabilities	<u>\$ 1,145,182</u>	<u>\$ 2,949,472</u>	<u>\$ 2,850,247</u>	<u>\$ 1,244,407</u>

STEELE COUNTY

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS For the Year Ended December 31, 2019

	Balance Jan. 1, 2019	Additions	Deletions	Balance Dec. 31, 2019
<u>Total All Agency Funds</u>				
Assets:				
Cash and investments	\$ 1,972,726	\$ 69,028,748	\$ 69,043,079	\$ 1,958,395
Accounts receivable	23,423	48,566	23,423	48,566
Due from other governments	24,725	30,125	25,674	29,176
Prepaid items	<u>38,448</u>	<u>48,414</u>	<u>41,867</u>	<u>44,995</u>
 Total Assets	 <u>\$ 2,059,322</u>	 <u>\$ 69,155,853</u>	 <u>\$ 69,134,043</u>	 <u>\$ 2,081,132</u>
Liabilities:				
Funds held in trust	\$ 162,823	\$ 57,431,667	\$ 57,451,221	\$ 143,269
Accounts payable	19,107	986,021	1,001,863	3,265
Accrued wages	39,215	42,143	39,215	42,143
Due to other governments	<u>1,838,177</u>	<u>10,696,022</u>	<u>10,641,744</u>	<u>1,892,455</u>
 Total Liabilities	 <u>\$ 2,059,322</u>	 <u>\$ 69,155,853</u>	 <u>\$ 69,134,043</u>	 <u>\$ 2,081,132</u>

STEELE COUNTY

SCHEDULE OF INTERGOVERNMENTAL REVENUES
For the Year Ended December 31, 2019

	General Fund	Road and Bridge	Debt Service	Capital Projects	Total All Funds
Shared Revenue					
State					
County Program Aid	\$ 1,569,095	\$ 209,319	\$ 124,766	\$ 59,095	\$ 1,962,275
Local Performance Aid	5,171	-	-	-	5,171
PERA Rate Reimbursement	86,784	-	-	-	86,784
Disparity Reduction Aid	21,428	2,858	1,704	807	26,797
Police Aid	208,379	-	-	-	208,379
Highway Users Tax	-	8,937,294	-	-	8,937,294
Aquatic Invasive Species	17,240	-	-	-	17,240
Market Value Credit	198,471	26,202	15,621	7,399	247,693
Noxious Weed	7,000	-	-	-	7,000
Riparian Protection Aid	75,992	-	-	-	75,992
SCORE	103,741	-	-	-	103,741
Total Shared Revenue	<u>2,293,301</u>	<u>9,175,673</u>	<u>142,091</u>	<u>67,301</u>	<u>11,678,366</u>
Reimbursement for Services					
Local					
MNPrairie County Alliance	8,461	-	-	-	8,461
Local - Payments in Lieu of Taxes	39,192	-	-	-	39,192
Total Reimbursement for Services	<u>47,653</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,653</u>
Grants					
State					
Minnesota Department of Corrections	629,169	-	-	-	629,169
Natural Resources	93,824	-	-	-	93,824
Health	454,327	-	-	-	454,327
Veterans Affairs	10,000	-	-	-	10,000
Water and Soil Resources	108,959	-	-	-	108,959
Public Safety	25,722	-	-	-	25,722
Transportation	-	-	-	222,950	222,950
Total State	<u>1,322,001</u>	<u>-</u>	<u>-</u>	<u>222,950</u>	<u>1,544,951</u>
Federal					
U.S. Department of Agriculture	196,613	-	-	-	196,613
Health and Human Services	208,074	-	-	-	208,074
Homeland Security	25,226	-	-	-	25,226
Total Federal	<u>429,913</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>429,913</u>
Total Grants	<u>1,751,914</u>	<u>-</u>	<u>-</u>	<u>222,950</u>	<u>1,974,864</u>
TOTAL INTERGOVERNMENTAL REVENUE	<u>\$ 4,092,868</u>	<u>\$ 9,175,673</u>	<u>\$ 142,091</u>	<u>\$ 290,251</u>	<u>\$ 13,700,883</u>

OTHER REPORTS

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

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, 2019, and the related notes to the financial statements, which collectively comprise Steele County's basic financial statements, and have issued our report thereon dated September 28, 2020. 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.

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 2019-001 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 2019-002 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 US, LLP

Minneapolis, Minnesota
September 28, 2020

STEELE COUNTY

SCHEDULE OF FINDINGS AND RESPONSES For the Year Ended December 31, 2019

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

FINDING 2019-001: MATERIAL WEAKNESS - INTERNAL CONTROL OVER FINANCIAL REPORTING

Repeat of prior year finding 2018-001

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.

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 2019-002: SIGNIFICANT DEFICIENCY - INTERNAL CONTROL ENVIRONMENT

Repeat of prior year finding 2018-002

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 payroll cycle.

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, 2019

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

FINDING 2019-002: SIGNIFICANT DEFICIENCY - INTERNAL CONTROL ENVIRONMENT (cont.)

Recommendation: The County should review access to 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 payroll functions and make changes accordingly to ensure proper segregation exists going forward.

MINNESOTA LEGAL COMPLIANCE FINDINGS

None noted.