

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2017

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
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WORTHINGTON, MINNESOTA
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INTRODUCTORY SECTION

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 ORGANIZATION
 DECEMBER 31, 2017**

Office	Name	Term Expires
Commissioners		
1 st District	Justin Ahlers	December 31, 2020
2 nd District	Gene Metz	December 31, 2018
3 rd District	Matt Widboom	December 31, 2020
4 th District	Robert Demuth**	December 31, 2020
5 th District	Donald Linssen*	December 31, 2018
Officers		
Elected		
Attorney	Kathleen Kusz	December 31, 2018
Auditor-Treasurer	Beth Van Hove	December 31, 2018
Recorder	Lynn Wilson	December 31, 2018
Sheriff	Kent Wilkening	December 31, 2018
Appointed		
County Administrator	Tom Johnson	Indefinite
Assessor	Valerie Ruesch	Indefinite
Highway Engineer	Stephen Schnieder	Indefinite

* = Chair 2017

** = Vice-Chair 2017

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of County Commissioners
Nobles County
Worthington, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Nobles County (the County), Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Nobles County, as of December 31, 2017, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress – other postemployment health care benefits, schedule of the County's proportionate share of the net pension liability, schedule of contributions, and budgetary comparison 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 Nobles County's basic financial statements. The supplementary information consisting of combining and individual nonmajor fund financial statements, the combining statement of changes in assets and liabilities – all agency funds, and the schedule of intergovernmental revenues are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards, as required Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* is also presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Board of County Commissioners
Nobles County

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2018, on our consideration of Nobles County's internal control over financial reporting and 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 Nobles 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* and should be considered in assessing the results of our audit.



CliftonLarsonAllen LLP

Brainerd, Minnesota
September 14, 2018

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REQUIRED SUPPLEMENTARY INFORMATION

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

This section of the Nobles County's (the County) annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended December 31, 2017. The management's discussion and analysis (MD&A) is required supplementary information specified in the Governmental Accounting Standards Board (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Certain comparative information between the current year, 2017, and the prior year, 2016, is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- County-wide net position decreased \$7,273,710 in 2017 over the prior year. The net change is due to road maintenance projects completed in 2017 with bonds issued in 2016. The road work did not meet the county's criteria for capitalization.
- Overall governmental fund-level revenues totaled \$30,202,582 and were \$11,189,018 less than expenditures in 2017 due capital improvements and road maintenance performed in 2017, funded with bond proceeds.
- The General Fund's fund balance increased by \$983,324 during 2017 with revenues over budget by \$775,838 and expenditures over budget by \$297,145.
- The County issued general obligation capital improvement plan bonds in 2017 totaling \$6,540,000.
- The County issued taxable general obligation tax abatement bonds in 2017 totaling \$2,575,000.

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:

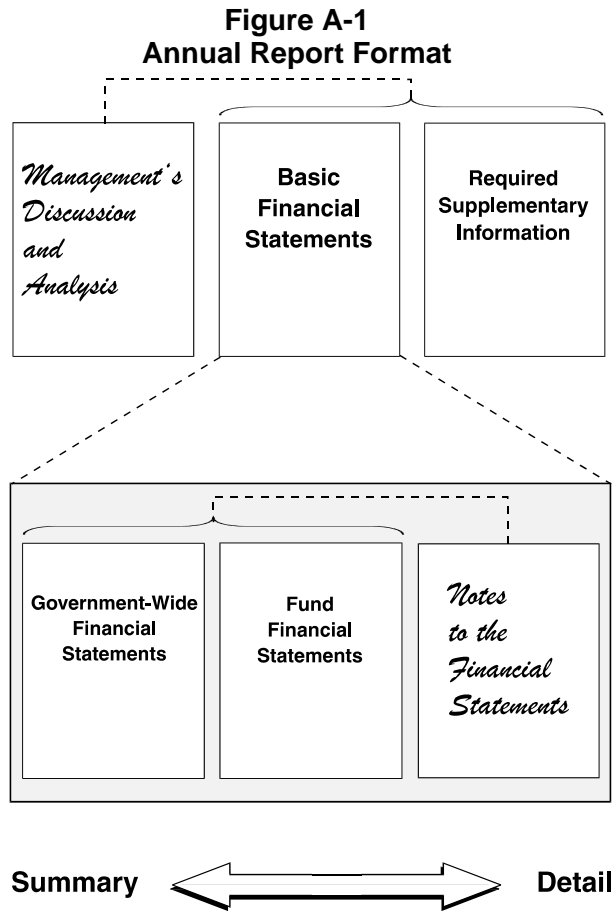
- The first two statements are County-wide financial statements which provide both short-term and long-term information about the County's overall financial status.
- The remaining statements are fund financial statements which focus on individual parts of the County, reporting the County's operations 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.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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



**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED DECEMBER 31, 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-2 summarizes the major features of the County's financial statements, including the portion of the County's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2
 Major Features of the County's Government-Wide and Fund Financial Statements

Type of Statements	Government-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire County's government (except fiduciary funds).	The activities of the County that are not proprietary or fiduciary.	Instances in which the County is the trustee or agent for someone else's resources.
Required financial statements	Statement of net position.	Balance sheet.	Statement of fiduciary net position.
	Statement of activities.	Statement of revenues, expenditures, and changes in fund balances.	Agency funds do not provide an operating statement.
Accounting basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.
Type of asset/liability information	All assets and deferred outflows of resources and liabilities and deferred inflows of resources, both financial and capital, short-term and long-term.	Only assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due during the year or soon thereafter, no capital assets included.	All assets and deferred outflows of resources and 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 for trust funds, regardless of when cash is received or paid. Agency funds do not report revenues and expenditures.

County-Wide Statements

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

County-Wide Statements (Continued)

The two County-wide statements report the County's net position and how they have changed. Net position – the difference between the County's assets, deferred outflows of resources, liabilities, and deferred inflows of resources – is one way to measure the County's financial health or position.

- Over time, increases or decreases in the County's net position are an indicator of whether its financial position is improving or deteriorating.
- 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.

Fund Financial Statements

The fund financial statements provide more detailed information about the County's funds – focusing on its most significant or "major" funds – not the County as a whole. Funds are accounting devices the County uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The County establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The County has two kinds of funds:

- *Governmental Funds* – The County's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the County-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- *Fiduciary Funds* – The County is the fiscal agent, or fiduciary, for assets that belong to others. The County is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the County's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the County-wide financial statements because the County cannot use these assets to finance its operations.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED DECEMBER 31, 2017**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Position

The County's total net position was \$81,601,496 on December 31, 2017 (see Table A-1).

Table A-1
 The County's Net Position

	Governmental Activities	
	2017	2016
Current and Other Assets	\$ 38,647,521	\$ 37,945,228
Capital Assets	81,453,612	79,199,644
Total Assets	120,101,133	117,144,872
 Deferred Outflows of Resources	 4,790,650	 8,231,351
Current Liabilities	2,788,338	3,181,979
Long-Term Liabilities	36,625,800	31,825,855
Total Liabilities	39,414,138	35,007,834
 Deferred Inflows of Resources	 3,876,149	 1,493,183
 Net Position		
Net Investment in Capital Assets	71,256,204	72,151,223
Restricted	12,507,552	7,832,544
Unrestricted	(2,162,260)	8,891,439
Total Net Position	\$ 81,601,496	\$ 88,875,206

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED DECEMBER 31, 2017**

CHANGE IN NET POSITION

The County-wide total revenues were \$31,521,997 for the year ended December 31, 2017 (a decrease of \$1,332,742). This decrease is primarily attributable to a decrease in intergovernmental revenues (specifically capital grants and contributions), related to federal grant revenue received for road projects in 2016. Property taxes and operating and capital grants and contributions accounted for 73% of total revenue for the year (see Table A-2).

Table A-2
 Change in Net Position

	Governmental Activities		Total % Change
	2017	2016	
REVENUES			
<u>Program Revenues</u>			
Charges for Services	\$ 4,010,949	\$ 3,532,063	13.6 %
Operating Grants and Contributions	9,554,353	6,594,415	44.9
Capital Grants and Contributions	690,176	6,317,961	(89.1)
<u>General Revenues</u>			
Property Taxes	12,877,629	12,473,299	3.2
Other	4,388,890	3,937,001	11.5
Total Revenues	<u>31,521,997</u>	<u>32,854,739</u>	(4.1)
EXPENSES			
General Government	6,852,643	6,856,254	(0.1)
Public Safety	5,451,018	5,456,283	(0.1)
Highways and Streets	15,414,368	9,850,745	56.5
Sanitation	588,893	413,439	42.4
Human Services	6,295,774	6,961,466	(9.6)
Health	1,307,764	1,238,620	5.6
Culture and Recreation	924,998	864,203	7.0
Conservation of Natural Resources	692,496	650,323	6.5
Economic Development	578,370	79,934	623.6
Buildings and Plant	102,976	123,680	(16.7)
Interest	586,407	257,773	127.5
Total Expenses	<u>38,795,707</u>	<u>32,752,720</u>	18.5
CHANGE IN NET POSITION	(7,273,710)	102,019	(7229.8)
Net Position - Beginning of Year	88,875,206	88,773,187	0.1
NET POSITION - END OF YEAR	<u>\$ 81,601,496</u>	<u>\$ 88,875,206</u>	(8.2)

Total expenses exceeded revenue, decreasing net position \$7,273,710 over last year. The net change is due to road projects completed in 2017 with bonds issued in 2016. The road work did not meet the county's criteria for capitalization.

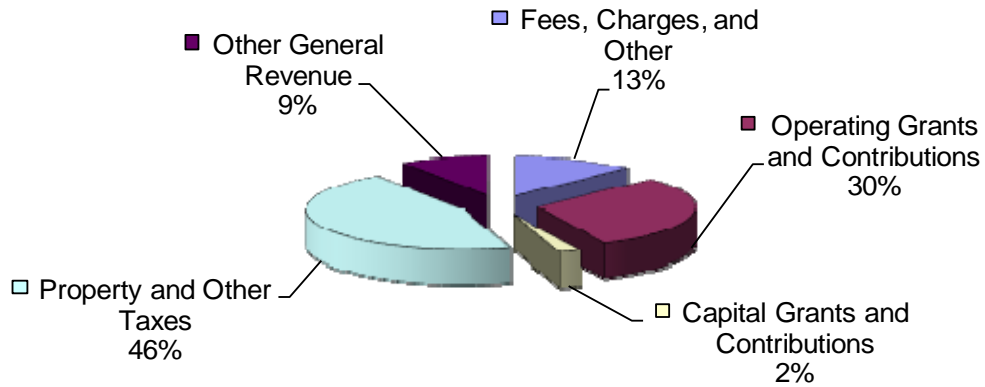
**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED DECEMBER 31, 2017**

CHANGE IN NET POSITION (CONTINUED)

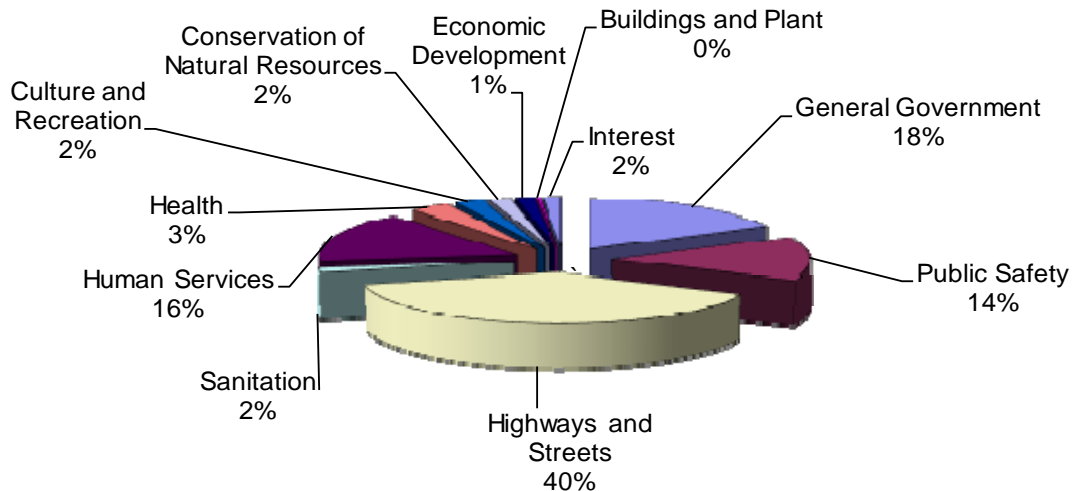
The County-wide cost of all governmental activities this year was \$38,795,707.

- Some of the cost was paid by the users of the County's programs (\$4,010,949).
- The federal and state governments subsidized certain programs with grants and contributions (\$10,244,529).
- The remainder of the County's governmental activities costs (\$24,540,229) was paid for by taxpayers. This portion of governmental activities was paid from the combination of \$14,339,762 in property and other taxes, \$1,133,823 of state aid, and \$1,792,934 in investment earnings and other general revenues.

Governmental Activities Revenues by Source 2017



Governmental Activities Expenses by Type 2017



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**NOBLES COUNTY
WORTHINGTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

CHANGE IN NET POSITION (CONTINUED)

Table A-3 presents the cost of each of the County's program function, as well as each function's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the County's taxpayers by each of these functions.

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

	Total Cost of Services		Percentage Change	Net (Revenue) Cost of Services		Percentage Change
	2017	2016		2017	2016	
GOVERNMENTAL ACTIVITIES						
General Government	\$ 6,852,643	\$ 6,856,254	(0.1)%	\$ 5,900,001	\$ 6,154,802	(4.1)%
Public Safety	5,451,018	5,456,283	(0.1)	3,994,407	4,407,798	(9.4)
Highways and Streets	15,414,368	9,850,745	56.5	9,270,292	1,162,400	697.5
Sanitation	588,893	413,439	42.4	(423,336)	(641,979)	34.1
Human Services	6,295,774	6,961,466	(9.6)	3,092,523	3,726,891	(17.0)
Health	1,307,764	1,238,620	5.6	254,160	225,163	12.9
Culture and Recreation	924,998	864,203	7.0	723,777	770,216	(6.0)
Conservation of Natural Resources	692,496	650,323	6.5	460,652	41,603	1007.3
Economic Development	578,370	79,934	623.6	578,370	79,934	623.6
Buildings and Plant	102,976	123,680	(16.7)	102,976	123,680	(16.7)
Interest	586,407	257,773	127.5	586,407	257,773	127.5
Total	<u>\$ 38,795,707</u>	<u>\$ 32,752,720</u>	18.5	<u>\$ 24,540,229</u>	<u>\$ 16,308,281</u>	50.5

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL

The financial performance of the County as a whole is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported a combined fund balance of \$31,672,825. Revenues for the County's governmental funds were \$30,202,582, while total expenditures were \$41,391,600.

The General Fund includes the primary operations of the County in providing services to citizens. The General Fund's fund balance increased by \$983,324 during 2017 with revenues over budget by \$775,838 and expenditures over budget by \$297,145.

The Public Works Fund increased its fund balance from \$7,013,624 in 2016 to \$8,668,292 in 2017. The increase is due to intergovernmental revenue exceeding current year construction costs. Of the total fund balance, 12.7% is set aside for resource conservation and development.

The Family Services Fund revenues were under budget during 2017 by \$361,162 and expenditures were under budget during 2017 by \$486,404 resulting in a fund balance increase of \$125,242 during 2017.

The Ditch Fund decreased fund balance by \$4,484 over 7, due to expenditures exceeding collections.

The Debt Service Fund increased fund balance by \$4,095,214 from 2016, which is primarily due to the issuance of taxable general obligation tax abatement bonds to loan to Lismore Cooperative Telephone Company. A loan receivable totaling \$2,575,000 was established during 2017.

The Capital Project Fund decreased fund balance by \$7,754,838 as the County started several construction projects during 2017. General Obligation bonds were issued for improvements to the general center, prairie justice center, and public works facilities.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED DECEMBER 31, 2017**

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

The following schedule presents a summary of General Fund Revenues:

Table A-4
 General Fund Revenues

Fund	Year Ended		Change	Percent
	2017	2016	(Decrease)	
Taxes	\$ 7,130,698	\$ 6,879,933	\$ 250,765	3.6 %
Intergovernmental	1,415,780	1,066,228	349,552	32.8
Charges for Services	1,779,486	1,345,847	433,639	32.2
Gifts and Contributions	40,827	74,607	(33,780)	(45.3)
Interest on Investments	56,213	39,819	16,394	41.2
Miscellaneous and Other	900,890	881,846	19,044	2.2
Total General Fund Revenues	<u>\$ 11,323,894</u>	<u>\$ 10,288,280</u>	<u>\$ 1,035,614</u>	10.1

Total General Fund revenues increased by \$1,035,614, or 10.1%, from the previous year due primarily to increases in tax revenues, intergovernmental revenue, and charges for services. Intergovernmental revenue increased due to the receipt of riparian aid (\$130,778) and an increase in county program aid (\$92,294) in 2017. Charges for services increased due to an increase in billable fees for stay inmate counts.

The following schedule presents a summary of General Fund Expenditures:

Table A-5
 General Fund Expenditures

	Year Ended		Change	Percent
	December 31, 2017	December 31, 2016	Increase (Decrease)	
General Government	\$ 5,473,329	\$ 5,096,862	\$ 376,467	7.4 %
Public Safety	4,354,732	4,001,926	352,806	8.8
Conservation of Natural Resources	132,491	122,817	9,674	7.9
Economic Development	578,370	79,934	498,436	623.6
Intergovernmental	163,764	144,763	19,001	13.1
Capital Outlay	263,423	354,786	(91,363)	(25.8)
Debt Service	43,058	57,027	(13,969)	(24.5)
Total Expenditures	<u>\$ 11,009,167</u>	<u>\$ 9,858,115</u>	<u>\$ 1,151,052</u>	11.7

Total General Fund expenditures increased by \$1,151,052 or 11.7%, from the previous year due primarily to the County granting Lismore Cooperative Telephone Company \$500,000 for a broadband project. General Government and Public Safety expenditures increased primarily due to increased payroll costs.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED DECEMBER 31, 2017**

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

General Fund Budgetary Highlights

The County did not make budget adjustments during 2017. Historically, the County tries to minimize the amount of changes.

- General Fund actual revenues were over budget by \$775,838. Intergovernmental revenues exceeded budget by \$548,373 as market value credits, disparity aid and PERA aid came in higher than anticipated. Charges for services exceeded budget by \$473,042 due to an increase in billable fee for stay inmate counts. These overages were offset by property taxes coming in under budget by \$277,216.
- Actual expenditures were over budget by \$297,145. Expenditures exceeded budget due to a \$500,000 payment for a broadband project. Several department expenditures came in under budget including, Courts, Data Processing, Other General Government and Civil Defense.

CAPITAL ASSETS AND DEBT ADMINISTRATION

An annual levy is made to fund the bond payments for all previous bond issues.

CAPITAL ASSETS

By the end of 2017, the County had invested approximately \$132,200,000 in a broad range of capital assets including land, buildings, equipment, and infrastructure (see Table A-6). (More detailed information about capital assets can be found in Note 2.A.4 to the financial statements). Total depreciation expense for the year was \$3,268,334.

Table A-6
 The County's Capital Assets

	Governmental Activities		Percent Change
	2017	2016	
Land	\$ 1,348,750	\$ 1,348,750	-
Construction-in-Progress	3,615,753	419,082	762.8
Land Improvements	1,853,563	1,853,563	-
Buildings	25,299,686	24,260,031	4.3
Machinery and Equipment	9,256,328	8,665,071	6.8
Infrastructure	90,818,696	90,818,696	-
Less: Accumulated Depreciation	(50,739,164)	(48,165,549)	5.3
Total	<u>\$ 81,453,612</u>	<u>\$ 79,199,644</u>	2.8

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED DECEMBER 31, 2017**

LONG-TERM LIABILITIES

At year-end, the County had \$36,625,800 in long-term liabilities outstanding, including the current portion of long-term debt and compensated absences.

- The County's governmental activities total debt increased \$3,368,881 or 10.1%, due primarily to the issuance of bonds and loans payable and a decrease in the net pension liability as a result of actuarial assumption changes.
- The County issued general obligation capital improvement plan bonds in 2017 totaling \$6,540,000.
- The County issued taxable general obligation tax abatement bonds in 2017 totaling \$2,575,000.

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

	2017	2016	Percentage Change
GOVERNMENTAL ACTIVITIES			
General Obligation Bonds - Net of Premiums	\$ 24,388,319	\$ 16,455,919	48.2 %
Loans Payable	543,411	485,440	11.9
Capital Lease Payable	112,305	150,717	(25.5)
Compensated Absences Payable	1,126,984	1,190,419	(5.3)
Other Postemployment Benefits Payable	302,569	72,772	315.8
Net Pension Liability	10,152,212	14,901,652	(31.9)
Total	<u>\$ 36,625,800</u>	<u>\$ 33,256,919</u>	10.1

More detailed information about long term liabilities can be found in Note 2.C.2, Note 3 and Note 5 to the financial statements.

FACTORS BEARING ON THE COUNTY'S FUTURE

The County is dependent on the State of Minnesota for a significant portion of its revenue and for the costs of mandated services.

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 Jerry Vyskocil, Finance Director, P.O. Box 757, Worthington, Minnesota 56187.

BASIC FINANCIAL STATEMENTS

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 STATEMENT OF NET POSITION
 DECEMBER 31, 2017**

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 29,108,059
Cash with Fiscal Agent	1,341,362
Taxes Receivable - Delinquent	94,531
Special Assessments Receivable	174,348
Accounts Receivable - Net	178,758
Loans Receivable	3,553,425
Accrued Interest Receivable	35,944
Due from Other Governments	3,861,682
Inventory	256,064
Prepaid Items	43,348
Nondepreciable Capital Assets	
Land	1,348,750
Construction-in-Progress	3,615,753
Depreciable Capital Assets - Net of Accumulated Depreciation	
Building	11,884,607
Improvements Other than Buildings	805,265
Machinery, Vehicles, Furniture, and Equipment	3,109,040
Infrastructure	60,690,197
Total Assets	<u>120,101,133</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension Related	4,586,197
Other Postemployment Benefit Related	204,453
Total Deferred Outflows of Resources	<u>4,790,650</u>
LIABILITIES	
Accounts Payable	728,071
Salaries Payable	374,024
Contracts Payable	1,076,862
Accrued Interest Payable	239,030
Due to Other Governments	370,351
Noncurrent Liabilities:	
Due Within One Year	2,256,239
Due in More than One Year	23,914,780
Other Postemployment Benefits Payable	302,569
Net Pension Liability	10,152,212
Total Liabilities	<u>39,414,138</u>
DEFERRED INFLOWS OF RESOURCES	
Pension Related	3,703,598
Other Postemployment Benefit Related	172,551
Total Deferred Inflows of Resources	<u>3,876,149</u>
NET POSITION	
Net Investment in Capital Assets	71,256,204
Restricted For:	
General Government	985,132
Highways and Streets	3,685,690
Public Safety	401,032
Conservation	1,764,780
Economic Development	10,243
Capital Projects	366,113
Debt Service	5,294,562
Unrestricted	(2,162,260)
Total Net Position	<u>\$ 81,601,496</u>

See accompanying Notes to Financial Statements.

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017**

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Position
GOVERNMENTAL ACTIVITIES	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General Government	\$ 6,852,643	\$ 791,218	\$ 161,424	\$ -	\$ (5,900,001)
Public Safety	5,451,018	1,139,327	317,284	-	(3,994,407)
Highways and Streets	15,414,368	828,145	4,625,755	690,176	(9,270,292)
Sanitation	588,893	891,765	120,464	-	423,336
Human Services	6,295,774	35,017	3,168,234	-	(3,092,523)
Health	1,307,764	84,806	968,798	-	(254,160)
Culture and Recreation	924,998	59,479	141,742	-	(723,777)
Conservation of Natural Resources	692,496	181,192	50,652	-	(460,652)
Economic Development	578,370	-	-	-	(578,370)
Buildings and Plant	102,976	-	-	-	(102,976)
Interest	586,407	-	-	-	(586,407)
Total Governmental Activities	\$ 38,795,707	\$ 4,010,949	\$ 9,554,353	\$ 690,176	(24,540,229)
GENERAL REVENUES					
Property Taxes					12,877,629
Mortgage Registry and Deed Tax					13,771
Wheelage Tax					210,924
Wind Energy Tax					1,022,794
Payments in Lieu of Tax					214,644
Grants and Contributions not Restricted for a Particular Purpose					1,133,823
Investment Earnings					178,007
Miscellaneous					1,614,927
Total General Revenues					17,266,519
CHANGE IN NET POSITION					(7,273,710)
Net Position - Beginning of Year					88,875,206
NET POSITION - END OF YEAR					\$ 81,601,496

See accompanying Notes to Financial Statements.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 DECEMBER 31, 2017**

	General	Public Works	Family Services
ASSETS			
Cash and Pooled Investments	\$ 10,047,549	\$ 8,508,366	\$ 2,010,475
Undistributed Cash in Agency Funds	134,283	22,808	53,287
Petty Cash and Change Funds	2,175	150	100
Cash with Fiscal Agent	-	-	-
Taxes Receivable			
Taxes Receivable - Delinquent	50,219	7,971	22,271
Special Assessments Receivable			
Delinquent	-	7,251	-
Noncurrent	-	-	-
Accounts Receivable	1,227	62,761	114,770
Loans Receivable	434,951	543,474	-
Accrued Interest Receivable	35,944	-	-
Due from Other Funds	72,261	166	-
Due from Other Governments	249,778	3,208,531	403,373
Inventory	-	256,064	-
Prepaid Items	39,653	1,700	-
Total Assets	\$ 11,068,040	\$ 12,619,242	\$ 2,604,276
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 286,074	\$ 153,673	\$ 163,282
Salaries Payable	177,195	60,338	121,047
Contracts Payable	-	24,994	-
Due to Other Funds	-	-	40,427
Due to Other Governments	177,683	12,874	53,198
Total Liabilities	640,952	251,879	377,954
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Tax Related	39,522	6,130	17,564
Unavailable Revenue - Special Assessment Related	-	7,251	-
Unavailable Revenue - Grant Related	-	-	46,317
Unavailable Revenue - Loans Receivable Related	434,951	543,474	-
Unavailable Revenue - State Aid Allotment Related	-	3,142,216	-
Unavailable Revenue - Charges for Services Related	9,860	-	-
Total Deferred Inflows of Resources	484,333	3,699,071	63,881

See accompanying Notes to Financial Statements.

Ditch	Debt Service Fund	Capital Project Fund	Other Governmental Funds	Total Governmental Funds
\$ 594,118	\$ 3,020,706	\$ 3,217,829	\$ 1,453,071	\$ 28,852,114
10,761	20,645	-	11,681	253,465
-	-	-	55	2,480
-	1,341,362	-	-	1,341,362
-	9,243	-	4,827	94,531
1,974	-	-	-	9,225
165,123	-	-	-	165,123
-	-	-	-	178,758
-	2,575,000	-	-	3,553,425
-	-	-	-	35,944
-	-	-	-	72,427
-	-	-	-	3,861,682
-	-	-	-	256,064
-	-	-	1,995	43,348
<u>\$ 771,976</u>	<u>\$ 6,966,956</u>	<u>\$ 3,217,829</u>	<u>\$ 1,471,629</u>	<u>\$ 38,719,948</u>

\$ 43,569	\$ -	\$ 26,098	\$ 55,375	\$ 728,071
1,818	-	-	13,626	374,024
-	-	1,051,868	-	1,076,862
32,000	-	-	-	72,427
32,452	92,002	-	2,142	370,351
<u>109,839</u>	<u>92,002</u>	<u>1,077,966</u>	<u>71,143</u>	<u>2,621,735</u>
-	7,097	-	646	70,959
167,097	-	-	-	174,348
-	-	-	-	46,317
-	-	-	-	978,425
-	-	-	-	3,142,216
-	-	-	3,263	13,123
<u>167,097</u>	<u>7,097</u>	<u>-</u>	<u>3,909</u>	<u>4,425,388</u>

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 BALANCE SHEET (CONTINUED)
 GOVERNMENTAL FUNDS
 DECEMBER 31, 2017**

	<u>General</u>	<u>Public Works</u>	<u>Family Services</u>
FUND BALANCES			
Nonspendable			
Inventory	\$ -	\$ 256,064	\$ -
Prepaid Items	39,653	1,700	-
Restricted			
Missing Heirs	1,000	-	-
Law Library	41,033	-	-
Recorder's Compliance Fund	331,715	-	-
Recorder's Technology Fund	69,522	-	-
Attorney Forfeiture	57,528	-	-
Sheriff's Contingency	19,980	-	-
Handgun Permit	115,921	-	-
Canteen Fund	53,150	-	-
Unclaimed Property	1	-	-
E-911	211,981	-	-
Debt Service	-	-	-
Resource Conservation and Development	-	1,102,643	-
Donations	-	-	-
Capital Projects	-	-	-
Ditch	-	-	-
Committed			
Public Works	-	7,307,885	-
Family Services	-	-	1,082,680
Building	-	-	-
Library	-	-	-
Property Forfeiture	-	-	-
Assigned			
Capital Equipment	-	-	27,947
Out-of-Home Placements	-	-	1,051,814
Future Revolving Loans	197,402	-	-
Unassigned	8,803,869	-	-
Total Fund Balances	<u>9,942,755</u>	<u>8,668,292</u>	<u>2,162,441</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 11,068,040</u>	<u>\$ 12,619,242</u>	<u>\$ 2,604,276</u>

See accompanying Notes to Financial Statements.

Building	Debt Service Fund	Capital Project Fund	Governmental Funds	Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 256,064
-	-	-	1,995	43,348
-	-	-	-	1,000
-	-	-	-	41,033
-	-	-	-	331,715
-	-	-	-	69,522
-	-	-	-	57,528
-	-	-	-	19,980
-	-	-	-	115,921
-	-	-	-	53,150
-	-	-	-	1
-	-	-	-	211,981
-	6,867,857	-	-	6,867,857
-	-	-	-	1,102,643
-	-	-	10,243	10,243
-	-	2,139,863	-	2,139,863
495,040	-	-	-	495,040
-	-	-	-	7,307,885
-	-	-	-	1,082,680
-	-	-	970,708	970,708
-	-	-	286,426	286,426
-	-	-	121,205	121,205
-	-	-	6,000	33,947
-	-	-	-	1,051,814
-	-	-	-	197,402
-	-	-	-	8,803,869
495,040	6,867,857	2,139,863	1,396,577	31,672,825
\$ 771,976	\$ 6,966,956	\$ 3,217,829	\$ 1,471,629	\$ 38,719,948

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**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET
 POSITION – GOVERNMENTAL ACTIVITIES
 YEAR ENDED DECEMBER 31, 2017**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS	\$ 31,672,825
Total net position reported for governmental activities in the statement of net position is different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	81,453,612
Other long-term assets (deferred inflows of resources) are not available to pay for current-period expenditures and, therefore, are unavailable in the governmental funds.	4,425,388
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Deferred Outflows of Resources Related to Pensions and OPEB	4,790,650
Deferred Inflows of Resources Related to Pensions and OPEB	(3,876,149)
Long-term liabilities, including bonds payable and net pension liabilities, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Refunding Bonds	\$ (3,035,000)
General Obligation State Aid Bonds	(9,505,000)
General Obligation Capital Improvement Plan Bonds	(6,540,000)
General Obligation Tax Abatement Bonds	(2,575,000)
Net Pension Liability	(10,152,212)
Capital Leases	(112,305)
Lease Revenue Refunding Bond	(2,070,000)
Loans Payable	(543,411)
Compensated Absences	(1,126,984)
Other Postemployment Benefits Payable	(302,569)
Accrued Interest Payable	(239,030)
Unamortized Premium on Bonds	(663,319)
	(36,864,830)
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 81,601,496</u>

See accompanying Notes to Financial Statements.

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

	General	Public Works	Family Services
REVENUES			
Taxes	\$ 7,130,698	\$ 1,272,813	\$ 3,045,371
Special Assessments	-	-	-
Licenses and Permits	19,780	143,598	2,640
Intergovernmental	1,415,780	4,239,390	3,859,353
Charges for Services	1,779,486	1,318,496	308,218
Fines and Forfeits	9,546	-	-
Gifts and Contributions	40,827	-	-
Interest on Investments	56,213	-	-
Miscellaneous	871,564	3,369	634,492
Total Revenues	11,323,894	6,977,666	7,850,074
EXPENDITURES			
CURRENT			
General Government	5,473,329	108,117	-
Public Safety	4,354,732	-	-
Highways and Streets	-	2,931,129	-
Sanitation	-	588,833	-
Human Services	-	-	6,286,489
Community Health	-	-	1,256,569
Culture and Recreation	-	134,792	-
Conservation of Natural Resources	132,491	400,292	-
Economic Development	578,370	-	-
Buildings and Plant	-	-	-
INTERGOVERNMENTAL	163,764	455,916	181,774
CAPITAL OUTLAY	263,423	805,085	-
DEBT SERVICE			
Principal	38,412	57,578	-
Interest	4,646	-	-
Bond Issue Costs	-	-	-
Administrative (Fiscal) Charges	-	-	-
Total Expenditures	11,009,167	5,481,742	7,724,832
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	314,727	1,495,924	125,242
OTHER FINANCING SOURCES (USES)			
Transfers In	645,252	-	-
Transfers Out	-	-	-
Proceeds from Bond Issuance	-	-	-
Premium from Bond Issuance	-	-	-
Loan Proceeds	-	115,549	-
Proceeds from Sale of Assets	23,345	-	-
Total Other Financing Sources (Uses)	668,597	115,549	-
NET CHANGE IN FUND BALANCES	983,324	1,611,473	125,242
Fund Balances - Beginning of Year	8,959,431	7,013,624	2,037,199
INCREASE IN INVENTORY	-	43,195	-
FUND BALANCES - END OF YEAR	<u>\$ 9,942,755</u>	<u>\$ 8,668,292</u>	<u>\$ 2,162,441</u>

See accompanying Notes to Financial Statements.

Ditch	Debt Service Fund	Capital Project Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 1,165,158	\$ -	\$ 1,505,391	\$ 14,119,431
444,487	-	-	-	444,487
-	-	-	-	166,018
-	215,447	-	-	9,729,970
-	-	-	4,405	3,410,605
-	-	-	-	9,546
-	-	-	91,996	132,823
-	20,618	103,311	-	180,142
12,568	431,533	-	56,034	2,009,560
457,055	1,832,756	103,311	1,657,826	30,202,582
-	-	-	73,384	5,654,830
-	-	-	-	4,354,732
-	-	-	-	2,931,129
-	-	-	-	588,833
-	-	-	-	6,286,489
-	-	-	-	1,256,569
-	-	-	568,993	703,785
316,287	-	-	-	849,070
-	-	-	-	578,370
-	-	-	68,157	68,157
-	-	-	-	801,454
-	-	14,427,517	31,377	15,527,402
-	1,240,000	-	-	1,335,990
-	362,423	-	-	367,069
-	-	84,637	-	84,637
-	3,084	-	-	3,084
316,287	1,605,507	14,512,154	741,911	41,391,600
140,768	227,249	(14,408,843)	915,915	(11,189,018)
-	1,292,965	-	19,907	1,958,124
(145,252)	-	(19,907)	(1,792,965)	(1,958,124)
-	2,575,000	6,540,000	-	9,115,000
-	-	133,912	-	133,912
-	-	-	-	115,549
-	-	-	-	23,345
(145,252)	3,867,965	6,654,005	(1,773,058)	9,387,806
(4,484)	4,095,214	(7,754,838)	(857,143)	(1,801,212)
499,524	2,772,643	9,894,701	2,253,720	33,430,842
-	-	-	-	43,195
\$ 495,040	\$ 6,867,857	\$ 2,139,863	\$ 1,396,577	\$ 31,672,825

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 RECONCILIATION OF THE GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 TO THE STATEMENT OF ACTIVITIES
 GOVERNMENTAL ACTIVITIES
 YEAR ENDED DECEMBER 31, 2017**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (1,801,212)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for General Capital Assets, Infrastructure, and Other Related Capital Asset Adjustments	\$ 5,580,287	
Net Book Value of Capital Asset Disposals	(57,985)	
Current Year Depreciation	<u>(3,268,334)</u>	2,253,968

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. 1,594,739

Governmental funds report pension contributions as expenditures when made. However, in the statement of activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and the investment experience. (1,106,129)

OPEB expenses reported in the statement of activities do not require the use of current financial resources and are therefore not reported as expenditures in the governmental funds. (197,895)

The issuance of long-term debt (e.g., bonds payable, loans payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities.

Loans Payable	(115,549)	
Premium on Bond Issued	(133,912)	
Proceeds from Bond Issuance	<u>(9,115,000)</u>	(9,364,461)

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

Principal Repayments		
Refunding Bonds	870,000	
Lease Revenue Refunding Bonds	370,000	
Capital Leases	38,412	
Loans	<u>57,578</u>	1,335,990

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in Accrued Interest Payable	(171,852)	
Amortization of Discounts and Premiums	76,512	
Change in Compensated Absences	63,435	
Change in Inventory	<u>43,195</u>	11,290

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (7,273,710)

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2017**

ASSETS

Cash and Pooled Investments	<u>\$ 600,149</u>
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LIABILITIES

Due to Others	\$ 22,984
Due to Other Governments	<u>577,165</u>
Total Liabilities	<u>\$ 600,149</u>

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nobles County (the County) financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Nobles County was established May 23, 1857, and is an organized county having the powers, duties, and privileges granted counties by Minnesota Statutes Chapter 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Nobles County and its component units for which the County is financially accountable. There is financial accountability if the primary government appoints a voting majority of an organization's governing body and had the ability to impose its will on that governing body; or there is the potential for the organization to provide specific financial benefits or to impose specific financial burden on the primary government. Based on the criteria for determining component units, the County is not required to include any component units. The County is governed by a five-member Board of County Commissioners (the Board) 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.

Joint Ventures

The County participates in joint ventures which are described in Note 7.B. The County also participates in jointly-governed organizations which are described in Note 7.C.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the primary government. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities.

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

1. Government-Wide Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

The County reports the following major governmental funds:

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

The Public Works Special Revenue Fund is used to account for restricted intergovernmental revenues and other revenues and expenditures of the County Highway Department which is responsible for the construction and maintenance of roads, bridges, and other projects affecting roadways and to account for environmental issues.

The Family Services Special Revenue Fund is used to account for economic assistance and community social services programs, which are funded through restricted intergovernmental revenues.

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, principal, interest, and related costs of general long-term debt.

The Capital Project Fund is used to account for financial resources to be used for the construction of infrastructure.

Additionally, the County reports the following fund type:

Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets that the County holds for others in an agency capacity.

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Nobles County considers all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. Cash and Pooled Investments

The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

The cash balances of substantially all funds are pooled and invested by the Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value based on market prices. Pursuant to Minnesota Statutes §385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants.

Nobles County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minnesota Statutes §471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission. The investment in the pool is measured at amortized cost.

2. Undistributed Cash in Agency Funds

Undistributed cash in agency funds, consists of the January 2018 tax settlement which has been collected at the County prior to December 31, 2017 but is not settled out of the taxes and penalties agency fund until January 2018.

3. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent maturities of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3. Receivables and Payables (Continued)

All receivables are shown net of an allowance for uncollectibles which is calculated on a case-by-case basis.

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

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due October 15.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

4. Inventory and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories in the Public Works Fund are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses when consumed.

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

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years, except for land, which uses a threshold of \$1. Such assets are recorded at historical cost if purchased or constructed.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

5. Capital Assets (Continued)

Donated capital assets are recorded at acquisition value at the date of donation. In the case of the initial capitalization of general infrastructure reported in governmental activities, the County chose to include all such items acquired since 1980. The County was able to record the capital assets at historic cost dating back to 1980.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant, and equipment of the Primary Government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	30 - 40
Improvements Other than Buildings	5 - 20
Infrastructure	20 - 80
Machinery and Equipment	3 - 20

6. Deferred Outflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate section represents a consumption of net position that applies to a future period. The County will not recognize the related outflow until a future event occurs. More detailed information about pension related deferred outflows of resources can be found in Note 3.

7. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements.

8. Unearned Revenue

Governmental funds and the government-wide financial statements report revenue for resources that have been received, but not yet earned.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

9. Deferred Inflows of Resources

The County's financial statements report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position or fund balance that applies to a future period. The County will not recognize the related inflow until a future event occurs. The County reports deferred inflows or resources related to revenue recognition under the modified accrual basis of account and as related to the requirements of reporting pensions.

The unavailable revenue occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the County's year) under the modified accrual basis of accounting. Unavailable revenue is reported in the governmental funds balance sheet.

10. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column of the statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the bonds outstanding method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

11. Pensions

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

12. Fund Balance

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaids, inventories, long-term receivables, and corpus of any permanent fund. Nonspendable portions of fund balance are related to prepaid items, loans receivable, and inventory. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of County Commissioners (the highest level of authority). Assigned fund balances are established and modified by the Board of County Commissioners or their designee. The Board, as part of the adoption of the accounting standards statement, has designated the County Auditor-Treasurer as the responsible party in determining assigned fund balance. Unassigned fund balances are considered the remaining amounts. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the County's policy to use restricted first, then, unrestricted fund balance. When an expenditure is incurred for which committed, assigned and unassigned amounts are available, it is the County's policy to use committed first, then assigned, and finally unassigned amounts.

It is the County's Policy that at the end of each fiscal year, the County will maintain an unassigned portion of fund balance for cash flow in a range of 35-50% of the General Fund's operating expenditures.

13. Net Position

Fund equity is classified as net position in the government-wide financial statements and is displayed in three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement for those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is displayed as unrestricted. When an expense is incurred for purposes for which both restricted and unrestricted net position is available, it is the County's policy to use restricted first, then, unrestricted net position.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

14. Use of Estimates

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

E. Revenues

Imposed Nonexchange Transactions

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

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues (Continued)

Intergovernmental

Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose. The provider government establishes purpose restrictions and also may establish time requirements. Federal and state grants mandating the County perform particular programs are government-mandated nonexchange transactions. Revenues are recognized when eligibility and time requirements are met, usually when the corresponding expenditures is incurred.

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

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

Exchange Transactions

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

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

NOTE 2 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

The County's total cash and investments are reported as follows:

Reconciliation of the County's total cash and investments to the basic financial statements follows:

TOTAL CASH AND INVESTMENTS

Primary Government	
Cash and Pooled Investments	\$ 29,108,059
Cash with Fiscal Agent	1,341,362
Agency Funds	
Cash and Pooled Investments	
Taxes and Penalties Fund	577,165
Jail Inmate Account	16,164
Social Welfare Fund	1,747
Sheriff's Trust Account	5,073
Total Agency Funds	<u>600,149</u>
Total Cash and Investments	<u>\$ 31,049,570</u>

FUND FINANCIAL STATEMENTS

Governmental Funds	
Cash and Pooled Investments	\$ 28,852,114
Undistributed Cash in Agency Funds	253,465
Petty Cash and Change Funds	2,480
Cash with Fiscal Agent	1,341,362
Agency Funds	
Cash and Pooled Investments	<u>600,149</u>
Total Cash and Pooled Investments	<u>\$ 31,049,570</u>

DEPOSITS

Checking	\$ 5,141,981
Money Market Savings	5,098,233
Certificates of Deposit	5,595,000
Cash with Fiscal Agent	1,341,362

INVESTED IN MAGIC FUND

13,870,514

PETTY CASH

2,480

Total Cash and Investments	<u>\$ 31,049,570</u>
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**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

a. Deposits

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledge must equal 110% of the deposits not covered by insurance or corporate surety bonds.

Authorized collateral includes: U.S. government treasury bills, notes, or bonds, issues of U.S. government agency; general obligation of the state or local government rated "A" or better; revenue obligations of the state or local government rated "AA" or better; irrevocable standby letters of credit issue by the Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

Custodial Credit Risk: In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits. As of December 31, 2017, all of the County's \$17,176,576 bank deposits (book value) were covered by federal depository insurance or by collateral in accordance with Minnesota Statutes.

b. Investments

Minnesota Statutes §§118A.04 and 118A.05 generally authorize the following types of investments as available to the County:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minnesota Statutes §118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

b. Investments (Continued)

- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk: Is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing in both shorter and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

At December 31, 2017, the County had the following investments:

	Less Than One Year <hr style="width: 100%;"/>
MN Association of Governments Investing for Counties (MAGIC) Fund	\$ 13,870,514

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute. At December 31, 2017, the County had no investments required to be rated.

Custodial Credit Risk: Is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. It is the County's policy to limit County investments to those approved in its investment policy and to obtain necessary documentation (e.g., broker certification forms and documentation of perfected security interests in pledged collateral) from the financial institutions, broker/dealers, intermediaries and advisors, as applicable, with which the County will do business. County investments were not subject to custodial credit risk as of December 31, 2017.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

b. Investments (Continued)

Concentration of Credit Risk: Is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy that U.S. Treasury securities, U.S. Agency securities, and obligations backed by U.S. Treasury and/or U.S. Agency securities, may be held without limit.

c. Fair Value Measurement

The County invests in the MAGIC Fund external local government investment pool. The County invests in this pool for the purpose of the joint investment of the County's money with those other counties to enhance the investment earnings accruing to each member. The MAGIC portfolio is valued using amortized cost. Shares of the MAGIC portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as the County has a sufficient number of shares to meet their redemption request. The MAGIC Fund's Board of Trustees can suspend the right of withdrawal or postpone the date of payment if the Trustees determine that there is an emergency that makes the sale of a portfolio's securities or determination of its net asset value not reasonably practical.

2. Receivables

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

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
	<u> </u>	<u> </u>
Governmental Activities		
Taxes	\$ 94,531	\$ -
Special Assessments	174,348	-
Accounts	178,758	-
Interest	35,944	-
Loans	3,553,425	3,457,467
Due from Other Governments	3,861,682	-
Total Governmental Activities	<u>\$ 7,898,688</u>	<u>\$ 3,457,467</u>

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Operating Leases Receivable

During 2008, the County entered into an operating lease with the State of Minnesota Department of Employment and Economic Development effective September 1, 2008 through August 31, 2012 and amended through August 31, 2017 for the rental of space for a workforce center. During 2017, the County recorded rental revenue of \$66,404 related to this agreement.

The County entered into a lease agreement with the City of Worthington for the law enforcement center. The lease payments are pledged for the 2009 Jail Lease Revenue Refunding Bonds. Future minimum lease payments are as follows:

Year Ending December 31,	
2018	\$ 198,397
2019	199,384
2020	199,975
2021	199,972
2022	197,288
Total	\$ 995,016

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	\$ 1,348,750	\$ -	\$ -	\$ 1,348,750
Construction-in-Process	419,082	3,537,136	340,465	3,615,753
Total Capital Assets, Not Being Depreciated	1,767,832	3,537,136	340,465	4,964,503
Capital Assets, Being Depreciated				
Buildings	24,260,031	1,060,395	20,740	25,299,686
Improvements Other than Buildings	1,853,563	-	-	1,853,563
Machinery and Equipment	8,665,071	1,323,221	731,964	9,256,328
Infrastructure	90,818,696	-	-	90,818,696
Total Capital Assets, Being Depreciated	125,597,361	2,383,616	752,704	127,228,273
Less Accumulated Depreciation for				
Buildings	12,658,727	777,092	20,740	13,415,079
Improvements Other than Buildings	991,090	57,208	-	1,048,298
Machinery, Furniture, and Equipment	6,162,619	658,648	673,979	6,147,288
Infrastructure	28,353,113	1,775,386	-	30,128,499
Total Accumulated Depreciation	48,165,549	3,268,334	694,719	50,739,164
Total Capital Assets, Being Depreciated, Net	77,431,812	(884,718)	57,985	76,489,109
Governmental Activities Capital Assets, Net	<u>\$ 79,199,644</u>	<u>\$ 2,652,418</u>	<u>\$ 398,450</u>	<u>\$ 81,453,612</u>

Depreciation expense was charged to functions/programs of the government as follows:

Governmental Activities	
General Government	\$ 917,207
Public Safety	152,288
Highways and Streets, Including Depreciation of Infrastructure Assets	2,174,036
Sanitation	3,148
Human Services	4,873
Culture and Recreation	12,821
Conservation of Natural Resources	3,961
Total Depreciation Expense - Governmental Activities	<u>\$ 3,268,334</u>

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2017, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Family Services Fund	\$ 40,261
General Fund	Ditch Special Revenue Fund	32,000
Public Works Fund	Family Services Fund	166
Total Due to General Fund		<u>\$ 72,261</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services (postage, copies, and fuel) are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All balances are expected to be liquidated in the subsequent year.

2. Transfer In/Out

The following transfers occurred between funds during 2017:

	Amount	Description
Transfers to General Fund from		
Building Fund	\$ 500,000	Grant expenditures - broadband project
Ditch Fund	<u>145,252</u>	Return of excess cash
Total Transfers to General Fund	645,252	
Transfer to Debt Service Fund from		
Building Fund	1,292,965	For debt service payments
Transfers to Building Fund from		
Capital Projects Fund	<u>19,907</u>	Reimburse for project costs
Total Interfund Transfers	<u>\$ 1,958,124</u>	

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities

1. Payables

Payables at December 31, 2017, were as follows:

Accounts	\$ 728,071
Salaries	374,024
Contracts	1,076,862
Due to Other Governments	<u>370,351</u>
Total Payables	<u><u>\$ 2,549,308</u></u>

2. Long-Term Debt

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issues Amount	Outstanding Balance December 31, 2017
2017A G.O. Capital Improvement Plan Bonds	2033	\$385,000 - \$510,000	2.00 - 3.00	\$ 6,540,000	\$ 6,540,000
2017B Taxable G.O. Tax Abatement Bonds	2033	\$140,000 - \$205,000	2.50 - 3.25	2,575,000	2,575,000
2016A General Obligation State Aid Road Bonds	2027	\$765,000- \$1,090,000	3.00	9,505,000	9,505,000
2014 G.O. Refunding Bonds	2021	\$305,000 - \$940,000	0.40 - 2.00	5,695,000	3,035,000
2009B Jail Lease Revenue Refunding Bonds	2022	\$250,000 - \$455,000	2.00 - 3.75	4,125,000	2,070,000
Add: Unamortized Premium				-	663,319
Total Bonds Outstanding, Net				<u>\$ 28,440,000</u>	<u>\$ 24,388,319</u>

During 2017, the County issued General Obligation Capital Improvement Plan Bonds, Series 2017A totaling \$6,540,000 for improvements to the County Government Center, Prairie Justice Center, library and public works facilities. The obligations are payable solely from taxes and are payable through 2033. Annual installments range from \$385,000 to \$510,000 and the interest rate ranges from 2-3%.

The County also issued Taxable General Obligation Tax Abatement Bonds, Series 2017B totaling \$2,575,000 to provide funds to Lismore Cooperative Telephone Company for financing of a county-wide broadband project. The County reports a loan receivable in the amount of the principal on the 2017B bonds as Lismore Cooperative Telephone Company will make payments to the County in an amount sufficient to pay, in full and when due, all the principal and interest payments.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

3. Debt Service Requirements

Debt service requirements at December 31, 2017, were as follows:

Year Ending December 31	General Obligation Refunding Bonds		Lease Revenue Refunding Bonds	
	Principal	Interest	Principal	Interest
2018	\$ 890,000	\$ 51,800	\$ 385,000	\$ 65,769
2019	910,000	33,800	400,000	53,013
2020	930,000	15,400	415,000	39,354
2021	305,000	3,050	430,000	24,348
2022	-	-	440,000	8,250
Total	\$ 3,035,000	\$ 104,050	\$ 2,070,000	\$ 190,734

Year Ending December 31	Loans Payable		General Obligation State Aid Bonds	
	Principal	Interest	Principal	Interest
2018	\$ 62,641	\$ -	\$ 765,000	\$ 273,675
2019	70,791	-	860,000	249,300
2020	73,074	-	885,000	223,125
2021	72,140	-	915,000	196,125
2022	73,315	-	940,000	168,300
2023-2027	183,674	-	5,140,000	394,650
2028	7,776	-	-	-
Total	\$ 543,411	\$ -	\$ 9,505,000	\$ 1,505,175

Year Ending December 31	G.O. Capital Improvement Plan Bonds		G.O. Tax Abatement Bonds	
	Principal	Interest	Principal	Interest
2018	\$ -	\$ 215,615	\$ -	\$ 46,042
2019	385,000	157,525	140,000	72,913
2020	385,000	149,825	150,000	69,288
2021	395,000	142,025	150,000	65,538
2022	400,000	134,075	155,000	61,825
2023-2027	2,105,000	537,350	825,000	244,481
2028-2032	2,360,000	251,163	950,000	111,206
2033	510,000	7,650	205,000	3,331
Total	\$ 6,540,000	\$ 1,595,228	\$ 2,575,000	\$ 674,624

Year Ending December 31	Capital Lease	
	Principal	Interest
2018	\$ 39,613	\$ 3,445
2019	37,372	2,207
2020	35,320	1,060
Total	\$ 112,305	\$ 6,712

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

4. Loans Payable

The County started a program that resulted in entering into several agreements with the Minnesota Department of Agriculture, in 2012, and the Minnesota Pollution Control Agency, in 2013, for financing failing septic systems. The revolving loans are secured by special assessments placed on the individual parcels requesting repair of a failing septic system. The loans are to be repaid in amounts ranging from \$889 to \$13,500 with -0-% interest and final maturity of 2027. The loans are repaid with the proceeds that are collected on the related loans receivable in the Public Works funds.

As of December 31, 2017, the County has \$113,031 of loan proceeds available to be drawn down from the State of Minnesota.

5. Capital Lease

On March 31, 2014, the County financed the acquisition of printers totaling \$16,000 using a capital lease with an effective interest rate of 3.86% payable annually in installments of \$3,200 through 2019.

On September 30, 2014, the County financed the acquisition of two servers totaling \$17,395 using a capital lease with an effective interest rate of 3.73% payable annually in installments of \$3,479 through 2019.

On July 1, 2015, the County financed the acquisition of a telephone system totaling \$181,897 using a capital lease with an effective interest rate of 3% payable annually in installments of \$36,379 through 2020.

The assets acquired through capital leases that meet the County's capitalization threshold are as follows:

	Governmental Activities
Asset:	
Machinery and Equipment	\$ 215,291
Less: Accumulated Depreciation	(107,450)
Total	\$ 107,841

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

6. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable					
G.O. Refunding Bonds	\$ 3,905,000	\$ -	\$ 870,000	\$ 3,035,000	\$ 890,000
G.O. State Aid Bonds	9,505,000	-	-	9,505,000	765,000
G.O. Capital Improvement Plan Bonds	-	6,540,000	-	6,540,000	-
Taxable G.O. Tax Abatement Bonds	-	2,575,000	-	2,575,000	-
Lease Revenue Refunding	2,440,000	-	370,000	2,070,000	385,000
Plus: Premium on Bonds	605,919	133,912	76,512	663,319	-
Total Bonds Payable	16,455,919	9,248,912	1,316,512	24,388,319	2,040,000
Capital Leases	150,717	-	38,412	112,305	39,613
Loans Payable	485,440	115,549	57,578	543,411	62,641
Compensated Absences	1,190,419	852,706	916,141	1,126,984	113,985
Governmental Activity Long-Term Liabilities	<u>\$ 18,282,495</u>	<u>\$ 10,217,167</u>	<u>\$ 2,328,643</u>	<u>\$ 26,171,019</u>	<u>\$ 2,256,239</u>

Compensated absences and other postemployment benefits are typically liquidated in the General Fund and applicable Special Revenue Funds. Bonding and capital lease payments are made from the Debt Service Fund.

NOTE 3 DEFINED BENEFIT PENSION PLANS

A. Plan Description

All full-time and certain part-time employees of Nobles County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan, the Public Employees Police and Fire Plan, and the Local Government Correctional Service Retirement Plan (the Public Employees Correctional Plan), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Plan Description (Continued)

General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Plan (accounted for in the Police and Fire Fund). For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a graduated schedule starting with 50% after 5 years and increasing 10% for each year of service until fully vested after 10 years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50% after 10 years and increasing 5% for each year of service until fully vested after 20 years.

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Public Employees Correctional Plan (accounted for in the Correctional Fund). For members hired after June 30, 2010, benefits vest on a graduated schedule starting with 50% after five years and increasing 10% for each year of service until fully vested after ten years.

B. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0% post-retirement benefit increase. If the funding ratio reaches 90% for two consecutive years, the benefit increase will revert to 2.5%. If, after reverting to a 2.5% benefit increase, the funding ratio declines to less than 80% for one year or less than 85% for two consecutive years, the benefit increase will decrease to 1.0%.

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

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 General Employees Retirement Plan Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2).

Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years of service and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. Minneapolis Employees Retirement Fund members have an annuity accrual rate of 2.0% of average salary for each of the first ten years of service and 2.5% for each remaining year. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0% of average salary for each year of service. For Public Employees Correctional Plan members, the annuity accrual rate is 1.9% of average salary for each year of service.

For General Employees Retirement Plan 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. For Public Employees Police and Fire Plan and Public Employees Correctional Plan members, normal retirement age is 55, and for members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90. Disability benefits are available for vested members and are based on years of service and average high-five salary.

C. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Basic members, Coordinated members, and Minneapolis Employees Retirement Fund members were required to contribute 9.10%, 6.50%, and 9.75%, respectively, of their annual covered salary in 2017. Public Employees Police and Fire Plan members were required to contribute 10.80% of their annual covered salary in 2017. Public Employees Correctional Plan members were required to contribute 5.83% of their annual covered salary in 2017.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

NOTE 3 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions (Continued)

In 2017, the County was required to contribute the following percentages of annual covered salary:

General Employees Retirement Plan	
Basic Plan Members	11.78 %
Coordinated Plan Members	7.50
Public Employees Police and Fire Plans	16.20
Public Employees Correctional Plans	8.75

The employee and employer contribution rates did not change from the previous year.

The County's contributions for the year ended December 31, 2017, to the pension plans were:

General Employees Retirement Plan	\$ 563,466
Public Employees Police and Fire Plans	148,432
Public Employees Correctional Plans	107,969

The contributions are equal to the contractually required contributions as set by state statute.

D. Pension Costs

1. General Employees Retirement Plan Pension Costs

At December 31, 2017, the County reported a liability of \$7,309,604 for its proportionate share of the General Employee Plan's net pension liability. The County's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the County totaled \$91,939. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion share was .1145% which was an increase of .0020% from its proportion measured as of June 30, 2016.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

NOTE 3 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Retirement Plan Pension Costs (Continued)

For the year ended December 31, 2017, the County recognized pension expense of \$1,018,213 for its proportionate share of the General Employees Plan pension expense. In addition, the County recognized an additional \$2,655 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Plan.

At December 31, 2017, the County reported its proportionate share of the General Employees Retirement Plan deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 240,903	\$ 470,245
Changes in Actuarial Assumptions	1,213,552	732,789
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	47,210	-
Changes in Proportion and Differences Between County Contributions and Proportionate Share of Contributions	181,310	156,193
County Contributions Subsequent to the Measurement Date	282,446	-
Total	<u>\$ 1,965,421</u>	<u>\$ 1,359,227</u>

\$282,446 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense
2018	\$ 244,147
2019	500,063
2020	(110,182)
2021	(310,280)

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

NOTE 3 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Plan Pension Costs

At December 31, 2017, the County reported a liability of \$1,161,102 for its proportionate share of the Police and Fire Plan net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was .086% which was a decrease of .004% from the proportion measured as of June 30, 2016. The County also recognized \$7,740 for the year ended December 31, 2017 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014, until the plan is 90% funded.

For the year ended December 31, 2017, the County recognized pension expense of \$279,998 for its proportionate share of the Police and Fire Plan's pension expense.

At December 31, 2017, the County reported its proportionate share of the Police and Fire Plan deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 26,726	\$ 310,408
Changes in Actuarial Assumptions	1,519,534	1,648,477
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	15,947	-
Changes in Proportion and Differences Between County Contributions and Proportionate Share of Contributions	10,800	55,083
County Contributions Subsequent to the Measurement Date	76,272	-
Total	<u>\$ 1,649,279</u>	<u>\$ 2,013,968</u>

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

NOTE 3 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Pension Costs (Continued)

\$76,272 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense
2018	\$ 12,798
2019	12,798
2020	(29,766)
2021	(101,425)
2022	(335,366)

3. Correctional Plan Pension Costs

At December 31, 2017, the County reported a liability of \$1,681,506 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was .59% which remains unchanged from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the County recognized pension expense of \$636,428 for its proportionate share of the Correctional Plan's pension expense.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

NOTE 3 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

3. Correctional Plan Pension Costs (Continued)

At December 31, 2017, the County reported its proportionate share of the Correctional Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 1,127	\$ 27,199
Changes in Actuarial Assumptions	915,479	292,700
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	10,363
Changes in Proportion and Differences Between County Contributions and Proportionate Share of Contributions	-	141
County Contributions Subsequent to the Measurement Date	54,891	-
Total	<u>\$ 971,497</u>	<u>\$ 330,403</u>

\$54,891 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense
2018	\$ 362,041
2019	374,247
2020	(103,277)
2021	(46,808)

4. Total Pension Expense

Governmental activities recognized pension expense of \$1,945,034 for the year ended December 31, 2017.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

<u>Assumptions</u>	
Inflation	2.50% per Year
Active Member Payroll Growth	3.25% per Year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP 2014 tables for all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1% per year for the General Employees Plan through 2044 and Police and Fire Plan through 2064 and then 2.5 percent thereafter for both plans, and 2.5% for all years for the Correctional Plan.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Retirement Plan was completed in 2015. The most recent five-year study for the Police and Fire Plan was completed in 2016. Experience studies have not been prepared for the Correctional Plan, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

Police and Fire Plan

- 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 non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested 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.

Correctional Plan

- 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 non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1 percent for non-vested members.
- The Single Discount Rate was changed from 5.31 percent per annum to 5.96 percent per annum.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
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NOTE 3 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	39 %	5.10 %
International Equity	19	5.30
Bonds	20	0.75
Alternative Assets	20	5.90
Cash	2	-
Totals	<u>100 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
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NOTE 3 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Discount Rate (Continued)

In the Correctional Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2061. Beginning in fiscal year ended June 30, 2062, when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 3.56% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.96% for the Correctional Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 3.56% after.

G. Pension Liability Sensitivity

The following presents the County'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:

	Proportionate Share of the					
	General Employees Retirement Plan		Public Employees Police and Fire Plan		Public Employees Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$11,337,740	6.50%	\$ 2,186,694	4.96%	\$ 2,770,911
Current	7.50	7,309,604	7.50	1,161,102	5.96	1,681,506
1% Increase	8.50	4,011,844	8.50	314,419	6.96	831,210

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
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NOTE 4 DEFINED CONTRIBUTION PENSION PLAN

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes Chapter 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1% of the assets in each member's account annually.

The employer's contribution amounts for the years ending December 31, 2017, 2016, and 2015 were \$6,251 \$4,611, and \$4,673, respectively, equal to the contractually required contributions for each year as set by state statute.

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS

A. Plan Description

The County provides health insurance benefits for certain retired employees under a single-employer fully-insured plan. The County provides benefits for retirees as required by Minnesota Statute §471.61 subdivision 2b. Minnesota Statute §471.61 subdivision 2b grants authority to establish and amend the benefit terms and financial requirements as provided in a collective bargaining agreement or personnel policy. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

B. Benefits Provided

Active employees who retire from the County when eligible to receive a retirement benefit from the Public Employees Retirement Association (PERA) of Minnesota (or similar plan) 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 spouse/partner under the County's health benefits program. Pursuant to the provisions of the plan, retirees pay the total premium cost.

Surviving spouses of retirees may continue coverage by paying the full cost of coverage.

C. Employees Covered by Benefit Terms

At December 31, 2017, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefit Payments	10
Active Plan Members	182
Total	192

D. Total OPEB Liability

The County's total OPEB liability of \$302,569 was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

E. Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Allocation of Actuarial Present Value of Future Benefits for services prior and after December 31, 2017 was determined using the entry age normal level % of salary method, where:

- Service cost for each individual participant, payable from the date of employment to date of retirement, is sufficient to pay for the participant's benefit at retirement; and
- Annual service cost is a constant percentage of the participant's salary that is assumed to increase according to the payroll growth.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

E. Actuarial Methods and Assumptions (Continued)

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.25%
Salary Increases	3.25%
	8.0% grading to
	4.5% over 8
Health Care Trend Rates	years

The discount rate as of December 31, 2017 is based on a yield for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale) tax exempt, high quality 20-year municipal bonds.

Mortality rates were based on SOA RPH-2017 Total Dataset Fully Generational Mortality Table using Scale MP-2017.

F. Changes in Total OPEB Liability

	Total OPEB Liability (a)
Balances at December 31, 2016	<u>\$ 72,772</u>
Changes for the Year:	
Service Cost	16,848
Interest	9,547
Differences Between Expected and Actual Experience	227,170
Change in Assumptions	(4,259)
Contributions	-
Benefit Payments	<u>(19,509)</u>
Net Changes	<u>229,797</u>
Balances at December 31, 2017	<u><u>\$ 302,569</u></u>

The following changes in actuarial assumptions are in accordance with GASB 75:

The actuarial cost method has been updated from Entry Age Normal Levy Dollar to Entry Age Normal Level % of Salary. This change has caused a decrease in liabilities.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

F. Changes in Total OPEB Liability (Continued)

The discount rate as of December 31, 2017 is based on a yield for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale) tax exempt, high quality 20-year municipal bonds. The prior valuation used a discount rate of 3.0%. The current valuation uses a discount rate of 3.81% as of January 1, 2017 and 3.56% as of December 31, 2017. This change caused a decrease in liabilities. The discount rate will be updated annually to reflect market conditions as of the Measurement Date.

The payroll growth assumption has been updated to follow the Minnesota Public Employees Retirement Association actuarial valuation as of July 1, 2016. This change has led to a decrease in liabilities.

The retirement rate assumption has been updated from 100% retirement to age 61 to an age-based table starting from ages 55 to 67, which was developed based on the County's historical retirement experience from 2013 to 2016. This change has caused a significant decrease in liabilities.

Mortality rates were updated from RP-2000 Combined Mortality Table fully generational using Scale BB to SOA RPH-2017 Total Dataset Fully Generational Mortality Table using Scale MP-2017. The net impact of this change was a decrease in liabilities.

Health care trend rates have been updated to an initial rate of 8.0% decreasing by 0.5% annually to an ultimate rate of 4.5%. This change led to an increase in liabilities.

G. Sensitivity Results

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 (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate:

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Net OPEB Liability	\$ 318,342	\$ 302,569	\$ 287,408

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

G. Sensitivity Results (Continued)

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 (7.0 percent decreasing to 3.5 percent) or 1-percentage-point higher (9.0 percent decreasing to 5.5 percent) than the current healthcare cost trend rates:

	Healthcare Cost		
	1% Decrease (7.0% decreasing to 3.5% over 8 years)	Current Trend Rates (8.0% decreasing to 4.5% over 8 years)	1% Increase (9.0% decreasing to 5.5% over 8 years)
Net OPEB Liability	\$ 276,377	\$ 302,569	\$ 332,972

H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2017, the County recognized OPEB expense of \$29,940. At December 31, 2017 the County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ -	\$ 172,551
Change of Assumptions	204,453	-
Total	\$ 204,453	\$ 172,551

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending December 31,	Future Recognition
2018	\$ 3,545
2019	3,545
2020	3,545
2021	3,545
2022	3,545
Thereafter	14,177

**NOBLES COUNTY
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 6 RISK MANAGEMENT

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 per claim in 2017. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining and the County pays an annual premium to cover current and future losses. The MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

The Southwest/West Central Service Cooperative (Service Cooperative) is a joint powers entity which sponsors a plan to provide group employee health benefits to its participating members. All members pool premiums and losses; however, a particular member may receive increases or decreases depending on a good or bad year of claims experience. Premiums are determined annually by the Service Cooperative and are based partially on the experience of the County and partially on the experience of the group. The Service Cooperative solicits proposals from carriers and negotiates the contracts.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS

A. Contingent Liabilities

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

The County may be involved in various claims. Although the outcome of any claims is not presently determinable, in the opinion of the Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

Lincoln-Pipestone Rural Water System

At December 31, 2017, the Lincoln-Pipestone Rural Water System had \$47,572,000 of general obligation bonds outstanding through 2056. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

The debt is paid by the Lincoln-Pipestone Rural Water System from special assessments levied against property specially benefited by the applicable expansion, extension, or enlargement of the system and from the net revenues from time to time received in excess of the current costs of operating and maintaining the system. The bonds are general obligations of the issuing counties for which their full faith, credit, and unlimited taxing powers are pledged. The participating counties (Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, and Yellow Medicine) have adopted board resolutions and have signed joint powers agreements to define their liability for a proportional share of the debt should the issuing counties make any debt service payments. In such a situation, each of the other counties will promptly reimburse the paying counties in proportion to the percentage of Lincoln-Pipestone Rural Water System customers located in such county, in accordance with Minnesota Statutes § 116A.24, subd. 3. The outstanding bonds are reported as liabilities in the annual financial statements of the Lincoln-Pipestone Rural Water System and are reported as conduit debt or contingent liabilities in the financial statements of any of the nine participating counties due to the guarantee of indebtedness.

The total outstanding balance of bonds issued by Nobles County for the Lincoln-Pipestone Rural Water System is \$17,161,000 at December 31, 2017.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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

B. Joint Ventures

Lincoln-Pipestone Rural Water System

Lincoln County, along with Jackson, Lac qui Parle, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, and Yellow Medicine Counties, jointly established the Lincoln-Pipestone Rural Water System pursuant to Minnesota Statutes ch. 116A. The system is responsible for storing, treating, and distributing water for domestic, commercial, and industrial use within the area it serves. The cost of providing these services is recovered through user charges. The Lincoln-Pipestone Rural Water System is governed by the District Court. The Water System's Board is solely responsible for the budgeting and financing of the Water System.

Bonds were issued by Lincoln County, Jackson County, Nobles County, and Yellow Medicine County to finance the construction of the Rural Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85% of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System.

The Lincoln-Pipestone Rural Water System's 2017 financial report shows total net position of \$54,456,116, including unrestricted net position of \$4,206,175. The increase in net position for the year ended December 31, 2017, was \$4,701,163.

Complete financial statements of the Lincoln-Pipestone Rural Water System can be obtained at East Highway 14, P. O. Box 188, Lake Benton, Minnesota 56149-0188.

Southwest Regional Solid Waste Commission

The County has entered into a joint powers agreement with Cottonwood, Jackson, Lac qui Parle, Lincoln, Lyon, Murray, Pipestone, Redwood, Renville, Rock, and Yellow Medicine Counties, creating and operating the Southwest Regional Solid Waste Commission (the Commission) under the authority of Minnesota Statutes §471.59. The Commission was formed to exercise the County's authority and obligation, pursuant to Minnesota Statutes Chapters 400 and 115A, to provide for the management of solid waste in the respective counties, and provide the greatest public service benefit possible for the entire contiguous 12-county area encompassed by the counties in planning, management, and implementation of methods to deal with solid waste in Southwest Minnesota. The governing board is composed of a Board member from each of the participating counties. Financing of the Commission's solid waste management program is from appropriations from the counties, grants, and loans from the Minnesota Office of Waste Management, or from the sale of bonds or other obligations secured by revenues of the Commission. Administration and planning costs of the Commission are assessed to the counties on equal shares up to \$1,000 per county per year. The current assessment is \$400 per county per year.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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

B. Joint Ventures (Continued)

Southwest Regional Solid Waste Commission (Continued)

The Commission is headquartered in Ivanhoe, Minnesota, where Lincoln County acts as fiscal host. A complete financial report of the Southwest Regional Solid Waste Commission can be obtained from the Lincoln County Auditor at 319 Rebecca Street, P.O. Box 29, Ivanhoe, Minnesota 56142.

City of Worthington/Nobles County Public Transportation

Nobles County participates with the City of Worthington in a joint venture to provide, cooperatively operate, administer, promote, and manage public transportation within the County and City of Worthington. The governing board consists of seven members: two County Commissioners and the County Administrator, two members of the City Council and the City Administrator, and one at-large member appointed by the aforesaid six-member board.

Financing is provided by state grants and appropriations from the members. Both the City of Worthington and Nobles County are required to contribute \$40,000 each year.

The County retains no fiscal interest and has not stake in the accumulation of resources or fiscal distress of the entity.

Current financial statements are not available.

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the County entered into a joint powers agreement with Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Pipestone, Redwood, Renville, Rock, Swift, and Yellow Medicine Counties; and Lincoln, Lyon, and Murray Counties, represented by the Lincoln, Lyon, & Murray Human Services Board, creating and operating the Southwestern Minnesota Adult Mental Health Consortium Board (the Board) under the authority of Minnesota Statutes §471.59. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host.

The Board takes actions and enters into such agreements as necessary to plan and develop, within the Board's geographic jurisdiction, a system of care that will serve the needs of adults with serious and persistent mental illness. The governing board is composed of one Board member from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
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NOTE 7 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

B. Joint Ventures (Continued)

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

The following is a summary of the Consortium Board's annual financial report for the year ended December 31, 2016 (the most recent information available):

Total Assets	\$1,805,030
Total Liabilities	295,140
Total Net Position	1,509,890
Total Revenues	3,267,397
Total Expenditures	3,013,822
Net Change in Net Position	253,575

A complete financial report of the Southwestern Minnesota Adult Mental Health Consortium Board can be obtained at 2200 – 23rd Street N.E. Suite 2050, Willmar, Minnesota 56201.

Southwestern Mental Health Center, Inc.

The Southwestern mental Health Center, Inc., is a private, non-profit agency established in 1959 by Cottonwood, Jackson, Nobles, Pipestone, and Rock Counties in southwest Minnesota. It was formed for the purpose of providing mental health services and programs to the residents of these counties.

For 2017, Nobles County paid a total of \$432,976 to Southwestern Mental Health Center, Inc., for mental health services. Complete financial statements for the Southwestern Mental Health Center, Inc., can be obtained at 216 E. Luverne Street, Luverne, Minnesota 56156.

Southwest Minnesota Regional Emergency Communications Board

The Southwest Minnesota Regional Emergency Communications Board Joint Powers board (original name of Southwest Minnesota Regional Radio Board) was established April 22, 2008, between Nobles County, the City of Marshall, the City of Worthington, and 12 other counties under authority of Minn. Stat. §§ 471.59 and 403.39. The purpose of the agreement is to formulate a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
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NOTE 7 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

B. Joint Ventures (Continued)

Southwest Minnesota Regional Emergency Communications Board (Continued)

Control is vested in a Joint Powers Board consisting of one County Commissioner and one City Council member for each party to the agreement. The members representing counties and cities are appointed by their respective governing bodies for the membership of that governing body. In addition, voting members of the Board include a member of the Southwest Minnesota Regional Advisory Committee, a member of the Southwest Minnesota Regional Radio System User Committee, and a member of the Southwest Minnesota Owners and Operators Committee.

Financing is provided by appropriations from member parties and by state and federal grants. During 2017, Nobles County contributed \$2,920 to the Joint Powers board.

Southern Prairie Health Purchasing Alliance

Nobles County entered into a joint powers agreement on June 26, 2012 with Chippewa, Jackson, Kandiyohi, Lincoln, Lyon, Murray, Cottonwood, Redwood, Rock, Swift, and Yellow Medicine Counties to establish the Southern Prairie Health Purchasing Alliance pursuant to the provisions of Minn. Stat. § 471.59. The purpose of the Alliance is to plan, formulate, operate, and govern a rural care delivery system to improve the health and quality of life of the citizens of member counties. The Joint Powers board is composed of one representative from each county.

Southwest Minnesota Private Industry Council, Inc.

The Southwest Minnesota Private Industry Council, Inc., (SW MN PIC) is a private nonprofit corporation which was created through a Joint Powers Agreement on October 1, 1983, and began operation in 1985 under the Job Training Partnership Act (JTPA) authorized by Congress to administer and operate job training programs in a 14-county area of Southwestern Minnesota. These counties include Big Stone, Chippewa, Cottonwood, Jackson, Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, Swift, and Yellow Medicine.

SW MN PIC is governed by the Chief Elected Official board which is composed of one representative from each member County. The County did not contribute to the SW-MN PIC during 2017.

Separate financial information can be obtained from the Lyon County Government Center, 607 West Main Street, Marshall, Minnesota 56258.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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

B. Joint Ventures (Continued)

Advocate Connect Educate of Southwest Minnesota (ACE SW MN)

Nobles County, in conjunction with Lincoln, Murray, Cottonwood, Redwood, and Rock counties and the Southwest Regional Development Commission, pursuant to Minn. Stat. § 471.59, have formed an agreement to coordinate the delivery of volunteer services to non-profit community service entities under the authority of the counties. Advocate Connect Educate of Southwest Minnesota's (original name of Retired and Senior Volunteer Program of Southwest Minnesota) Board comprises one voting member from each participating county and one voting member of the ACE SW MN Advisory Council. In 2017, the County made contributions of \$34,632 to the ACE SW MN.

Red Rock Rural Water System

The Red Rock Rural Water System was established pursuant to Minn. Stat. Ch. 116A through a joint powers agreement pursuant to Minn. Stat. § 471.59 and under the jurisdiction of the Fifth Judicial District. Brown, Cottonwood, Jackson, Lyon, Martin, Murray, Nobles, Redwood, and Watonwan Counties have agreed to guarantee their share of debt arising within each respective county. The Red Rock Rural Water System provides water for participating rural water users and cities within the water district. The cost of providing these services is recovered through user charges.

The governing body is composed of nine members appointed to three-year terms by the District Court. Each County is responsible for levying and collecting the special assessments from the benefited properties within that county. A bond issue and notes payable are shown as long-term debt in the financial statements of the Red Rock Rural Water System.

Complete financial information can be obtained from the Red Rock Rural Water System, 305 West Whited Street, Jeffers, Minnesota 56145.

Plum Creek Library System

Nobles County, along with 19 cities and 8 other counties participates in the Plum Creek Library System. The Plum Creek Library System was created as a public library service on May 29, 1974, by the act of contracting with various public libraries in its region to provide expanded library service, with the additional purpose of furthering the public interest by providing the potential for extending public library services into areas without such services. The Plum Creek Library System is governed by a board of trustees which consists of two representatives from each county. One is appointed by the County Commissioners, the second from the board of the participating libraries. During 2017, Nobles County provided \$27,296 to the Plum Creek Library System.

Complete financial statements of the Plum Creek Library can be obtained at 290 South Lake Street, P.O. Box 697, Worthington, Minnesota 56187.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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

B. Joint Ventures (Continued)

Buffalo Ridge Drug Task Force

The Buffalo Ridge Drug Task Force was established under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Murray, Nobles, Pipestone, and Rock Counties and the Cities of Adrian, Fulda, Slayton, and Worthington. The Drug Task force provides drug enforcement services for member organizations.

Control of the Task force is vested in a Board of Directors. The Board of Directors consists of the Chief of Police and the Sheriff from each party.

Fiscal agent responsibilities for the Task Force are with the City of Worthington. During the year, Nobles County provided \$74,823 to the Task Force.

Rock Nobles Community Corrections

Nobles County participates with Rock County in a joint venture to provide community corrections services. Rock Nobles Community Corrections was established under the Community Corrections Act, January 1, 1979. Rock Nobles Community Corrections develops and implements humane and effective methods of prevention, control, and rehabilitation of offenders.

The governing board is composed of two County Commissioners from the participating counties and three lay members. Rock Nobles Community Corrections is headquartered in Worthington, Minnesota, with offices at the county seats of the member counties. Financing is provided by state grants and appropriations from member counties. Nobles County's contribution to Rock Nobles Community Corrections for the year ended December 31, 2017, was \$181,774.

Complete financial statements of Rock Nobles Community Corrections can be obtained at the Rock County Courthouse, 204 East Brown Street, P. O. Box 509, Luverne, Minnesota 56156-0509.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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

C. Jointly-Governed Organizations

Okabena-Ocheda Watershed District

The Board of County Commissioners is responsible for appointing all five of the Board of Managers for the Okabena-Ocheda Watershed District, but the County's responsibility does not extend beyond making the appointments.

Kanaranzi-Little Rock Watershed District

The Board of County Commissioners is responsible for appointing a majority of the Board of Managers for the Kanaranzi-Little Rock Watershed District, but the County's responsibility does not extend beyond making the appointments.

Heron Lake Watershed District

The Board of County Commissioners is responsible for appointing two of the Board of Managers for the Heron Lake Watershed District, but the County's responsibility does not extend beyond making the appointments.

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was established in 2005 to provide policy guidance on issues surrounding energy development in rural Minnesota and to foster the diversification of the economic climate in rural Minnesota. During 2017, Nobles County paid \$1,000 to the Board.

Region Five – Southwest Minnesota Homeland Security Emergency Management Organization

The Region Five – Southwest Minnesota Security Emergency Management Organization (SWRHSEM) was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the SWRHSEM region. Control is vested in the Board, which is composed of representatives appointed by each Board of County Commissioners. Nobles County's responsibility does not extend beyond this appointment.

Minnesota Criminal Justice Data Communications Network

The Minnesota Criminal Justice Data Communications Network Joint Powers Agreement exists to create access for the County Sheriff and County Attorney to systems and tools available from the State of Minnesota, Department of Public Safety, and the Bureau of Criminal Apprehension to carry out criminal justice. During the year, the County made no payments to the joint powers.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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

C. Jointly-Governed Organizations (Continued)

Sentence to Service

Nobles County, in conjunction with other local governments, participates in the State of Minnesota's Sentence to Serve (STS) Program. STS is a project of the State Department of Administrations' Strive Toward Excellence in Performance (STEP) program. STEP's goal is a statewide effort to make positive improvements in public services. It gives the courts an alternative to jail or fines for the nonviolent offenders who can work on a variety of community or state projects. Private funding, funds from the various foundation and initiative funds, as well as the Departments of Correction and Natural Resources, provide the funds needed to operate the STS program. Although the County has no operational or financial control over the STS program, Nobles County budgets for a percentage of this program.

Southwest Minnesota Immunization Information Connection

The Southwest Minnesota Immunization Information connection (SW-MIIC) Joint Powers Board promotes implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. The County did not contribute to the SW-MIIC during 2017.

Southwest Minnesota Public Safety Board

The Southwest Minnesota Public Safety Board was established June 29, 2012, by a joint powers agreement between Lyon, Murray, Nobles, Pipestone, Redwood, and Yellow Medicine Counties, the City of Marshall and the City of Worthington under authority of Minn. Stat. § 471.59. The purpose of the agreement is to formulate regional and local emergency communications recording and logging services between the parties.

Control is vested in a Joint Powers Board consisting of one County Commissioner or one City Council member for each party to the agreement and the Sheriff or Chief of Police from each party to the agreement. The members representing counties and cities shall be appointed by their respective governing bodies for the membership of that governing body. During the year, Nobles County made payments of \$4,000 to the Southwest Minnesota Public Safety Board.

Minnesota Counties Computer Cooperative

Under Minnesota Joint Powers Law, Minn. Stat. § 471.59, Minnesota counties have created the Minnesota Counties Computer Cooperative (MCCC) to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During the year, Nobles County expended \$17,478 to the MCCC.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
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NOTE 7 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

D. Related Organization – Worthington Housing and Redevelopment Authority

The Board is responsible for appointing a majority of the Worthington Housing and Redevelopment Authority’s governing body, but the County’s responsibility does not extend beyond making the appointments.

E. Committed Contracts

The County has the following remaining open contracts at December 31, 2017:

Description	Remaining Balance	Original Contract Amount
Road and Bridge Fund Project		
SAP 053-615-018	\$ 191,481	\$ 191,481
SAP 053-615-019	117,398	117,398
SAP 053-599-191	16,082	121,497
SAP 053-613-016	17,067	91,097
Nobles County Shop Addition	297,801	731,532
PJC 2017 Reroof	125,569	2,092,500
Prairie Justice Garage Addition	367,123	1,164,000
Bonded Road Projects	64,140	9,481,992
Totals	<u>\$ 1,196,661</u>	<u>\$ 13,991,497</u>

During 2017, the County authorized a grant as a business subsidy to facilitate development under MN Statute Sections 116J.993 to 116J.995 in the amount of \$1,000,000. The funds will be used to acquire, construct and install broadband infrastructure and provide service to 1535 passings in Nobles County. As of December 31, 2017, \$500,000 has been paid to the grantee. The remaining \$500,000 will be released to the grantee upon the later of (a) January 2, 2018 and (b) acceptance and approval of a project budget.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

NOTE 8 TAX ABATEMENTS

The County has entered into a tax abatement agreement with the City of Worthington and Independent School District (ISD) #518, through a program initiated by the Nobles Home Initiative, under Minnesota Statutes §469.1813 Subdivision 8. The program is intended to encourage the construction of new owner occupied and rental residential housing units. Eligible projects are eligible to receive 100% tax abatement of the County’s share of the increased real estate taxes resulting from the newly constructed housing unit for a period of five years. During 2017, the county abated taxes totaling \$14,705 related to this program.

The County is subject to tax abatements granted by Cities within the County pursuant to Minnesota Statutes §§ 469.174 to 469.1794 (Tax Increment Financing) through a pay-as-you-go note program. Tax increment financing (TIF) can be used to encourage private development, redevelopment, renovation, and renewal, growth in low-to-moderate income housing, and economic development within a City. TIF captures the increase in tax capacity and property taxes (of all taxing jurisdictions, including the County) from development or redevelopment to provide funding for the related project.

The pay-as-you-go note provides for payment to the developer of a percentage of all tax increment received in the prior six months. The payment reimburses the developer for certain public improvements. During 2017, there were five pay-as-you-go notes within the County. The tax increment taxes collected during 2017 totaled \$181,912. The County’s portion of the captured tax capacity and related property taxes was approximately 35%.

As of December 31, 2017, the County has not made any commitments as part of the agreements other than to reduce taxes.

NOTE 9 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Expenditures in Excess of Budget

Actual expenditures exceeded 2017 budgets as follows:

Fund	Expenditures	Budgets	Excess
Major Governmental Funds:			
General Fund	\$ 11,009,167	\$ 10,712,022	\$ 297,145
Debt Service Fund	1,605,507	1,388,475	217,032
Capital Project Fund	14,512,154	13,107,653	1,404,501

The excess expenditures were covered by additional revenues received, available fund balance, or unspent bond proceeds.

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

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 SCHEDULE OF THE COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 LAST TEN FISCAL YEARS**

	Measurement Date June 30, 2017	Measurement Date June 30, 2016	Measurement Date June 30, 2015
PERA - General Employees Retirement Plan			
County's Proportion of the Net Pension Liability	0.1145%	0.1125%	0.1086%
County's Proportionate Share of the Net Pension Liability	\$ 7,309,604	\$ 9,134,442	\$ 5,628,216
State's Proportionate Share of the Net Pension Liability	\$ 91,939	\$ 119,227	\$ -
Total Proportionate Share of the Net Pension Liability	\$ 7,401,543	\$ 9,253,669	\$ 5,628,216
County's Covered Payroll	\$ 7,222,285	\$ 6,978,893	\$ 6,494,662
County's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	101.21%	130.89%	86.66%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.90%	68.90%	78.20%
PERA - Public Employees Police and Fire Plan			
County's Proportion of the Net Pension Liability	0.0860%	0.0900%	0.0900%
County's Proportionate Share of the Net Pension Liability	\$ 1,161,102	\$ 3,611,857	\$ 1,022,611
County's Covered Payroll	\$ 880,273	\$ 863,130	\$ 852,190
County's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	131.90%	418.46%	120.00%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.40%	63.90%	82.30%
PERA - Local Government Correctional Plan			
County's Proportion of the Net Pension Liability	0.5900%	0.5900%	0.5800%
County's Proportionate Share of the Net Pension Liability	\$ 1,681,506	\$ 2,155,353	\$ 89,668
County's Covered Payroll	\$ 1,172,155	\$ 1,117,383	\$ 1,038,560
County's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	143.45%	192.89%	8.63%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	67.90%	58.20%	96.90%

Note: Information is required to be presented for ten years. However, until a full 10-year trend is compiled, the County will present information for only those years for which information is available.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
SCHEDULE OF CONTRIBUTIONS
LAST TEN YEARS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
PERA - General Employees Retirement Plan				
Contractually Required Contribution	\$ 563,466	\$ 541,706	\$ 490,424	\$ 468,336
Contributions in Relation to the Contractually Required Contribution	<u>(563,466)</u>	<u>(541,706)</u>	<u>(490,424)</u>	<u>(468,336)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
County's Covered Payroll	\$ 7,512,880	\$ 7,222,747	\$ 6,538,987	\$ 6,459,807
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.25%
PERA - Public Employees Police and Fire Plan				
Contractually Required Contribution	\$ 148,432	\$ 138,884	\$ 141,394	\$ 120,801
Contributions in Relation to the Contractually Required Contribution	<u>(148,432)</u>	<u>(138,884)</u>	<u>(141,394)</u>	<u>(120,801)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
County's Covered Payroll	\$ 916,247	\$ 857,309	\$ 872,802	\$ 789,549
Contributions as a Percentage of Covered Payroll	16.20%	16.20%	16.20%	15.30%
PERA - Local Government Correctional Plan				
Contractually Required Contribution	\$ 107,969	\$ 100,668	\$ 92,662	\$ 89,639
Contributions in Relation to the Contractually Required Contribution	<u>(107,969)</u>	<u>(100,668)</u>	<u>(92,662)</u>	<u>(89,639)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
County's Covered Payroll	\$ 1,233,931	\$ 1,150,491	\$ 1,058,994	\$ 1,024,446
Contributions as a Percentage of Covered Payroll	8.75%	8.75%	8.75%	8.75%

Note: Information is required to be presented for ten years. However, until a full 10-year trend is compiled, the County will present information for only those years for which information is available.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 SCHEDULE OF CHANGES IN THE COUNTY'S NET OPEB LIABILITY
 AND RELATED RATIOS
 LAST TEN YEARS**

	2017
Total OPEB Liability	
Service Cost	\$ 16,848
Interest	9,547
Changes of Assumptions	(4,259)
Differences Between Expected and Actual Experience	227,170
Benefit Payments	(19,509)
Net Change in Total OPEB Liability	229,797
Total OPEB Liability - beginning	72,772
Total OPEB Liability - ending (a)	\$ 302,569
Plan Fiduciary Net Position	
Contributions - Employer	\$ 19,509
Benefit Payments	(19,509)
Net Change in Plan Fiduciary Net Position	-
Plan Fiduciary Net Position - beginning	-
Plan Fiduciary Net Position - ending (b)	-
County's Net OPEB Liability - ending (a) - (b)	\$ 302,569
Covered-employee Payroll	\$ 9,415,320
County's Net OPEB Liability as a Percentage of Covered-employee Payroll	3.2%

Note: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the County will present information for only those years for which information is available.

Note 1: No assets are accumulated in a trust.

Note 2: Changes in assumptions are disclosed in Note 5.F. to the basic financial statements.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 7,407,914	\$ 7,407,914	\$ 7,130,698	\$ (277,216)
Licenses and Permits	12,860	12,860	19,780	6,920
Intergovernmental	736,629	867,407	1,415,780	548,373
Charges for Services	1,306,444	1,306,444	1,779,486	473,042
Fines and Forfeits	3,000	3,000	9,546	6,546
Gifts and Contributions	-	-	40,827	40,827
Interest on Investments	20,000	20,000	56,213	36,213
Miscellaneous	930,431	930,431	871,564	(58,867)
Total Revenues	10,417,278	10,548,056	11,323,894	775,838
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Commissioners	212,827	212,827	208,815	4,012
Courts	145,000	145,000	123,839	21,161
Law Library	20,000	20,000	25,658	(5,658)
County Administration	450,477	450,477	524,301	(73,824)
County Auditor-Treasurer	612,158	612,158	607,763	4,395
Finance	243,044	243,044	249,124	(6,080)
County Assessor	545,333	545,333	514,366	30,967
Elections	16,610	16,610	21,221	(4,611)
Data Processing	715,064	715,064	515,626	199,438
Central Services	15,540	15,540	19,039	(3,499)
Attorney	807,528	807,528	823,472	(15,944)
Recorder	263,091	263,091	290,316	(27,225)
Buildings and Plant	1,117,258	1,117,258	1,219,582	(102,324)
Veterans Service Officer	70,320	70,320	70,419	(99)
Other General Government	486,512	617,290	259,788	357,502
Total General Government	5,720,762	5,851,540	5,473,329	378,211
PUBLIC SAFETY				
Sheriff	2,045,529	2,045,529	2,066,776	(21,247)
Coroner	25,000	25,000	45,311	(20,311)
County Jail	2,058,228	2,058,228	2,130,177	(71,949)
Civil Defense	133,182	133,182	112,468	20,714
Total Public Safety	4,261,939	4,261,939	4,354,732	(92,793)

Notes to Required Supplementary Information are an integral part of this schedule.

**NOBLES COUNTY, MINNESOTA
 WORTHINGTON, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE (CONTINUED)
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES (CONTINUED)				
CURRENT (CONTINUED)				
CONSERVATION OF NATURAL RESOURCES				
County Extension	\$ 137,169	\$ 137,169	\$ 132,491	\$ 4,678
ECONOMIC DEVELOPMENT				
Community Development	50,760	50,760	578,370	(527,610)
INTERGOVERNMENTAL				
Culture and Recreation	109,614	109,614	163,764	(54,150)
CAPITAL OUTLAY	301,000	301,000	263,423	37,577
DEBT SERVICE				
Principal	-	-	38,412	(38,412)
Interest	-	-	4,646	(4,646)
Total Debt Service	-	-	43,058	(43,058)
Total Expenditures	<u>10,581,244</u>	<u>10,712,022</u>	<u>11,009,167</u>	<u>(297,145)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(163,966)	(163,966)	314,727	478,693
OTHER FINANCING SOURCES (USES)				
Transfers In	153,500	153,500	645,252	491,752
Transfers Out	(171,400)	(171,400)	-	171,400
Proceeds from Sale of Assets	15,000	15,000	23,345	8,345
Total Other Financing Sources (Uses)	<u>(2,900)</u>	<u>(2,900)</u>	<u>668,597</u>	<u>671,497</u>
NET CHANGE IN FUND BALANCE	<u>\$ (166,866)</u>	<u>\$ (166,866)</u>	983,324	<u>\$ 1,150,190</u>
Fund Balance - Beginning of Year			<u>8,959,431</u>	
FUND BALANCE - END OF YEAR			<u>\$ 9,942,755</u>	

Notes to Required Supplementary Information are an integral part of this schedule.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE
 PUBLIC WORKS SPECIAL REVENUE FUND
 YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 1,294,391	\$ 1,294,391	\$ 1,272,813	\$ (21,578)
Licenses and Permits	131,000	131,000	143,598	12,598
Intergovernmental	9,493,876	9,493,876	4,239,390	(5,254,486)
Charges for Services	1,141,500	1,141,500	1,318,496	176,996
Miscellaneous	68,600	68,600	3,369	(65,231)
Total Revenues	12,129,367	12,129,367	6,977,666	(5,151,701)
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Planning and Zoning	134,563	134,563	108,117	26,446
HIGHWAY AND STREETS				
Administration	261,858	261,858	287,244	(25,386)
Maintenance	1,347,592	1,347,592	1,237,455	110,137
Construction	7,145,157	7,145,157	622,764	6,522,393
Equipment and Maintenance Shops	928,814	928,814	734,498	194,316
Other	47,011	47,011	49,168	(2,157)
Total Highways and Streets	9,730,432	9,730,432	2,931,129	6,799,303
SANITATION				
Solid Waste	162,763	162,763	289,240	(126,477)
Recycling	376,870	376,870	299,593	77,277
Total Sanitation	539,633	539,633	588,833	(49,200)
CULTURE AND RECREATION				
Parks	140,340	140,340	134,792	5,548
CONSERVATION OF NATURAL RESOURCES				
Agricultural Inspection	104,638	104,638	87,883	16,755
Water Planning	447,530	447,530	312,409	135,121
Total Conservation of Natural Resources	552,168	552,168	400,292	151,876
INTERGOVERNMENTAL	458,000	458,000	455,916	2,084
CAPITAL OUTLAY	710,600	710,600	805,085	(94,485)
DEBT SERVICE				
Principal	40,000	40,000	57,578	(17,578)
Total Expenditures	12,305,736	12,305,736	5,481,742	6,823,994
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(176,369)	(176,369)	1,495,924	1,672,293
OTHER FINANCING SOURCES (USES)				
Loan Proceeds	235,000	235,000	115,549	(119,451)
NET CHANGE IN FUND BALANCE	<u>\$ 58,631</u>	<u>\$ 58,631</u>	1,611,473	<u>\$ 1,552,842</u>
Fund Balance - Beginning of Year			7,013,624	
Increase in Inventory			43,195	
FUND BALANCE - END OF YEAR			<u>\$ 8,668,292</u>	

Notes to Required Supplementary Information are an integral part of this schedule.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE
 FAMILY SERVICES SPECIAL REVENUE FUND
 YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 3,106,689	\$ 3,106,689	\$ 3,045,371	\$ (61,318)
Licenses and Permits	3,360	3,360	2,640	(720)
Intergovernmental	4,210,485	4,219,243	3,859,353	(359,890)
Charges for Services	279,244	279,244	308,218	28,974
Miscellaneous	602,700	602,700	634,492	31,792
Total Revenues	<u>8,202,478</u>	<u>8,211,236</u>	<u>7,850,074</u>	<u>(361,162)</u>
EXPENDITURES				
CURRENT				
HUMAN SERVICES				
Income Maintenance	2,130,700	2,139,458	2,099,510	39,948
Social Services	4,573,693	4,573,693	4,186,979	386,714
Total Human Services	<u>6,704,393</u>	<u>6,713,151</u>	<u>6,286,489</u>	<u>426,662</u>
HEALTH				
Community Health	1,316,085	1,316,085	1,256,569	59,516
INTERGOVERNMENTAL	<u>182,000</u>	<u>182,000</u>	<u>181,774</u>	<u>226</u>
Total Expenditures	<u>8,202,478</u>	<u>8,211,236</u>	<u>7,724,832</u>	<u>486,404</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	125,242	<u>\$ 125,242</u>
Fund Balance - Beginning of Year			<u>2,037,199</u>	
FUND BALANCE - END OF YEAR			<u>\$ 2,162,441</u>	

Notes to Required Supplementary Information are an integral part of this schedule.

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017**

I. Budgetary Information

The Board of County Commissioners adopts an annual budget for the General Fund and all special revenue funds except the Property Forfeiture Fund and the Ditch Fund. These budgets are prepared on the modified accrual basis of accounting. The expenditure budget is approved at the fund level, the legal level of budgetary control.

The budgets may be amended or modified at any time by the Board of County Commissioners.

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SUPPLEMENTARY INFORMATION

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
DESCRIPTION OF FUNDS
DECEMBER 31, 2017**

NONMAJOR GOVERNMENTAL FUNDS

The Building Special Revenue Fund is used to account for committed intergovernmental revenues and expenditures related to the maintenance and construction of County buildings.

The Library Special Revenue Fund is used to account for the revenues and expenditures of the County libraries.

The Property Forfeiture Special Revenue Fund is used to account for the revenues and expenditures of forfeited land and buildings.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2017**

ASSETS	Nonmajor Special Revenue Funds			Total Nonmajor Funds
	Building	Library	Property Forfeiture	
Cash and Pooled Investments	\$ 970,706	\$ 308,357	\$ 174,008	\$ 1,453,071
Undistributed Cash in Agency Funds	2	9,685	1,994	11,681
Petty Cash and Change Funds	-	55	-	55
Taxes Receivable - Delinquent	8	4,153	666	4,827
Prepaid Items	-	1,995	-	1,995
Total Assets	\$ 970,716	\$ 324,245	\$ 176,668	\$ 1,471,629
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ -	\$ 550	\$ 54,825	\$ 55,375
Salaries Payable	-	13,626	-	13,626
Due to Other Governments	-	2,142	-	2,142
Total Liabilities	-	16,318	54,825	71,143
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Tax Related	8	-	638	646
Unavailable Revenue - Charges for Services Related	-	3,263	-	3,263
Total Deferred Inflows of Resources	8	3,263	638	3,909
FUND BALANCES				
Nonspendable				
Prepaid Items	-	1,995	-	1,995
Restricted				
Donations	-	10,243	-	10,243
Committed				
Building	970,708	-	-	970,708
Library	-	286,426	-	286,426
Property Forfeiture	-	-	121,205	121,205
Assigned				
Capital Equipment	-	6,000	-	6,000
Total Fund Balances	970,708	304,664	121,205	1,396,577
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 970,716	\$ 324,245	\$ 176,668	\$ 1,471,629

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

	Nonmajor Special Revenue Funds			Total Nonmajor Funds
	Building	Library	Property Forfeiture	
REVENUES				
Taxes	\$ 844,574	\$ 547,350	\$ 113,467	\$ 1,505,391
Charges for Services	-	4,405	-	4,405
Gifts and Contributions	-	91,996	-	91,996
Miscellaneous	42,166	8,718	5,150	56,034
Total Revenues	886,740	652,469	118,617	1,657,826
EXPENDITURES				
CURRENT				
General Government	-	-	73,384	73,384
Culture and Recreation	-	568,993	-	568,993
Building and Plant	12,369	55,788	-	68,157
CAPITAL OUTLAY	31,377	-	-	31,377
Total Expenditures	43,746	624,781	73,384	741,911
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	842,994	27,688	45,233	915,915
OTHER FINANCING SOURCES (USES)				
Transfers In	19,907	-	-	19,907
Transfers Out	(1,792,965)	-	-	(1,792,965)
Total Other Financing Sources (Uses)	(1,773,058)	-	-	(1,773,058)
NET CHANGE IN FUND BALANCES	(930,064)	27,688	45,233	(857,143)
Fund Balance - Beginning of Year	1,900,772	276,976	75,972	2,253,720
FUND BALANCE - END OF YEAR	<u>\$ 970,708</u>	<u>\$ 304,664</u>	<u>\$ 121,205</u>	<u>\$ 1,396,577</u>

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE
 DEBT SERVICE FUND
 YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 1,201,328	\$ 1,201,328	\$ 1,165,158	\$ (36,170)
Intergovernmental	-	-	215,447	215,447
Interest on Investments	150	150	20,618	20,468
Miscellaneous	<u>186,997</u>	<u>186,997</u>	<u>431,533</u>	<u>244,536</u>
Total Revenues	1,388,475	1,388,475	1,832,756	444,281
EXPENDITURES				
DEBT SERVICE				
Principal	1,240,000	1,240,000	1,240,000	-
Interest	146,975	146,975	362,423	(215,448)
Administrative (Fiscal) Charges	<u>1,500</u>	<u>1,500</u>	<u>3,084</u>	<u>(1,584)</u>
Total Debt Service	1,388,475	1,388,475	1,605,507	(217,032)
Total Expenditures	<u>1,388,475</u>	<u>1,388,475</u>	<u>1,605,507</u>	<u>(217,032)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	227,249	227,249
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	1,292,965	1,292,965
Proceeds from the Sale of Bonds	-	-	<u>2,575,000</u>	<u>2,575,000</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>3,867,965</u>	<u>2,575,000</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	4,095,214	<u>\$ 4,095,214</u>
Fund Balance - Beginning of Year			<u>2,772,643</u>	
FUND BALANCE - END OF YEAR			<u><u>\$ 6,867,857</u></u>	

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE
 CAPITAL PROJECT FUND
 YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Interest on Investments	\$ -	\$ -	\$ 103,311	\$ 103,311
EXPENDITURES				
CAPITAL OUTLAY	-	13,085,003	14,427,517	(1,342,514)
DEBT SERVICE				
Bond Issue Costs	-	22,650	84,637	(61,987)
Total Expenditures	-	13,107,653	14,512,154	(1,404,501)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(13,107,653)	(14,408,843)	(1,301,190)
OTHER FINANCING SOURCES (USES)				
Proceeds from Bond Issuance	-	6,620,425	6,540,000	80,425
Premium from Bond Issuance	-	-	133,912	(133,912)
Transfer Out	-	(19,907)	(19,907)	-
Total Other Financing Sources (Uses)	-	6,600,518	6,654,005	(53,487)
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ (6,507,135)</u>	(7,754,838)	<u>\$ (1,247,703)</u>
Fund Balance - Beginning of Year			9,894,701	
FUND BALANCE - END OF YEAR			<u>\$ 2,139,863</u>	

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE
 BUILDING SPECIAL REVENUE FUND
 YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Property Taxes	\$ 802,846	\$ 802,846	\$ 844,574	\$ 41,728
Miscellaneous	40,500	40,500	42,166	1,666
Total Revenues	843,346	843,346	886,740	43,394
EXPENDITURES				
CURRENT				
BUILDING AND PLANT				
Building and Plant	602,846	602,846	12,369	590,477
CAPITAL OUTLAY	200,000	200,000	31,377	168,623
Total Expenditures	802,846	802,846	43,746	759,100
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	40,500	40,500	842,994	802,494
OTHER FINANCING SOURCES (USES)				
Transfer In	-	-	19,907	(19,907)
Transfer Out	-	-	(1,792,965)	(1,792,965)
Total Other Financing Sources (Uses)	-	-	(1,773,058)	(1,812,872)
NET CHANGE IN FUND BALANCE	<u>\$ 40,500</u>	<u>\$ 40,500</u>	(930,064)	<u>\$ (970,564)</u>
Fund Balance - Beginning of Year			1,900,772	
FUND BALANCE - END OF YEAR			<u>\$ 970,708</u>	

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE
 LIBRARY SPECIAL REVENUE FUND
 YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 564,392	\$ 564,392	\$ 547,350	\$ (17,042)
Charges for Services	4,925	4,925	4,405	(520)
Gifts and Contributions	-	-	91,996	91,996
Miscellaneous	5,000	5,000	8,718	3,718
Total Revenues	<u>574,317</u>	<u>574,317</u>	<u>652,469</u>	<u>78,152</u>
EXPENDITURES				
CURRENT				
CULTURE AND RECREATION				
County/Regional Library	<u>574,317</u>	<u>574,317</u>	<u>568,993</u>	<u>5,324</u>
Total Expenditures	<u>574,317</u>	<u>574,317</u>	<u>624,781</u>	<u>(50,464)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>27,688</u>	<u>\$ 27,688</u>
Fund Balance - Beginning of Year			<u>276,976</u>	
FUND BALANCE - END OF YEAR			<u>\$ 304,664</u>	

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
DESCRIPTION OF AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2017**

AGENCY FUNDS

The Taxes and Penalties Agency Fund is used to account for the collection and payment of taxes and penalties to the various taxing districts.

The Jail Inmate Agency Fund is used to account for the receipts and disbursements of the County's inmates.

The Social Welfare Agency Fund is used to account for the receipts and disbursements of the social welfare account.

The Sheriff's Trust Account Agency Fund is used to account for the receipts and disbursements of bond and civil processing fees.

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

	Balance January 1	Additions	Deductions	Balance December 31
TAXES AND PENALTIES				
ASSETS				
Cash and Pooled Investments	\$ 327,928	\$ 33,301,505	\$ 33,052,268	\$ 577,165
Accounts Receivable	142,508	-	142,508	-
Total Assets	<u>\$ 470,436</u>	<u>\$ 33,301,505</u>	<u>\$ 33,194,776</u>	<u>\$ 577,165</u>
LIABILITIES				
Due to Other Governments	<u>\$ 470,436</u>	<u>\$ 33,301,505</u>	<u>\$ 33,194,776</u>	<u>\$ 577,165</u>
JAIL INMATE				
ASSETS				
Cash and Pooled Investments	<u>\$ 27,210</u>	<u>\$ 241,433</u>	<u>\$ 252,479</u>	<u>\$ 16,164</u>
LIABILITIES				
Due to Others	<u>\$ 27,210</u>	<u>\$ 241,433</u>	<u>\$ 252,479</u>	<u>\$ 16,164</u>
SOCIAL WELFARE FUND				
ASSETS				
Cash and Pooled Investments	<u>\$ 1,747</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,747</u>
LIABILITIES				
Due to Others	<u>\$ 1,747</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,747</u>
SHERIFF'S TRUST ACCOUNT				
ASSETS				
Cash and Pooled Investments	<u>\$ 4,961</u>	<u>\$ 35,301</u>	<u>\$ 35,189</u>	<u>\$ 5,073</u>
LIABILITIES				
Due to Others	<u>\$ 4,961</u>	<u>\$ 35,301</u>	<u>\$ 35,189</u>	<u>\$ 5,073</u>
TOTAL ALL AGENCY FUNDS				
ASSETS				
Cash and Pooled Investments	\$ 361,846	\$ 33,578,239	\$ 33,339,936	\$ 600,149
Accounts Receivable	142,508	-	142,508	-
Total Assets	<u>\$ 504,354</u>	<u>\$ 33,578,239</u>	<u>\$ 33,482,444</u>	<u>\$ 600,149</u>
LIABILITIES				
Due to Others	\$ 33,918	\$ 276,734	\$ 287,668	\$ 22,984
Due to Other Governments	470,436	33,301,505	33,194,776	577,165
Total Liabilities	<u>\$ 504,354</u>	<u>\$ 33,578,239</u>	<u>\$ 33,482,444</u>	<u>\$ 600,149</u>

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 SCHEDULE OF INTERGOVERNMENTAL REVENUE
 YEAR ENDED DECEMBER 31, 2017**

	<u>Total Primary Government</u>
SHARED REVENUE	
STATE	
Highway Users Tax	\$ 3,732,694
County Program Aid	656,552
PERA Rate Increase	54,902
Disparity Reduction Aid	68,485
Police Aid	100,068
Enhanced 911	95,857
Aquatic Invasive Species	51,753
Riparian Protection Aid	130,778
Market Value Credit	<u>330,826</u>
Total Shared Revenue	5,221,915
REIMBURSEMENT FOR SERVICES	
STATE	
Minnesota Department of Human Services	888,294
PAYMENTS	
Local	
Local - Payments in Lieu of Taxes	214,644
GRANTS	
STATE	
Minnesota Department of	
Health	220,756
Human Services	774,041
Natural Resources	53,862
Veterans Services	10,000
Water and Soil Resources Board	115,514
Pollution Control Agency	119,363
Peace Officer Standards and Training Board	<u>4,362</u>
Total State	1,297,898
FEDERAL	
Department of	
Agriculture	380,959
Education	2,416
Justice	661
Health and Human Services	1,699,587
Homeland Security	<u>23,544</u>
Total Federal	<u>2,107,167</u>
Total State and Federal Grants	<u>3,405,065</u>
Total Intergovernmental Revenue	<u><u>\$ 9,729,970</u></u>

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

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

Board of County Commissioners
Nobles County
Worthington, 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, each major fund, and the aggregate remaining fund information of Nobles County (the County), Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Nobles County's basic financial statements, and have issued our report thereon dated September 14, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Nobles 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 Nobles County's internal control. Accordingly, we do not express an opinion on the effectiveness of Nobles 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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2017-001 through 2017-004 to be material weaknesses.

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 questioned costs as item 2017-005 to be a significant deficiency.

Compliance and Other Matters

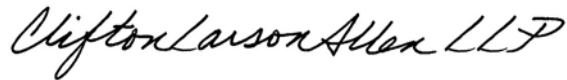
As part of obtaining reasonable assurance about whether Nobles County’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

Nobles County’s Responses to Findings

Nobles County’s responses to the findings identified in our audit are described in the accompanying corrective action plan. Nobles County’s responses were not subjected to auditing procedures applied in the audits of the financial statements, and accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the County’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Nobles County’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Brainerd, Minnesota
September 14, 2018

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Board of County Commissioners
Nobles County
Worthington, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Nobles County's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Nobles County's major federal programs for the year ended December 31, 2017. Nobles County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for Nobles County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Nobles County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Nobles County's compliance.

Opinion on Each Major Federal Program

In our opinion, Nobles County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-006. Our opinion on each major federal program is not modified with respect to these matters.

Nobles County's Responses to Findings

Nobles County's responses to the noncompliance finding identified in our audit is described in the accompanying corrective action plan. Nobles County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Nobles County is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered Nobles County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Nobles County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-006 that we consider to be a significant deficiency.

Report on Internal Control Over Compliance (Continued)

Nobles County's response to the internal control over compliance finding identified in our audit is described in the accompanying corrective action plan. Nobles County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Brainerd, Minnesota
September 14, 2018

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**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 DECEMBER 31, 2017**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
93.563	Child Support Enforcement
93.778	Medical Assistance Program (Medicaid Cluster)

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes X no

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

SECTION II – FINANCIAL STATEMENT FINDINGS

2017-001 Segregation of Duties

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria: Based on COSO guidelines, County management should constantly be aware of the need to have adequate segregation of duties regarding the processing of transactions for the County. In addition, County management should be aware that the concentration of duties and responsibilities in one or a very few individuals is not desirable from an internal control perspective.

Condition and Context: Adequate segregation of the accounting functions necessary to ensure adequate internal accounting control, is not in place in a number of departments throughout the County.

Cause: The County has a limited number of personnel within several County departments.

Possible Effect: The lack of adequate segregation of duties can result in incorrect financial information, failure to detect misstatements or misappropriations, and lack of adherence to the County's procedures.

Recommendation: We recommend County management be aware of the lack of segregation of duties within the accounting functions and provide oversight to ensure the internal control policies and procedures are being implemented by organization staff.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Jerry Vyskocil, Finance Director

Corrective Action Planned: A corrective action plan is in place.

Anticipated Completion Date: December 31, 2018

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

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2017-002 Audit Adjustments

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria: Based on COSO guidelines, County management is responsible for establishing and maintaining internal controls for the proper recording of all County's year-end balances.

Condition and Context: As part of the audit, we proposed entries to properly state intergovernmental receivable, record special assessment receivable, record contracts payable and reclassify transfers between funds to payables between funds.

Cause: Not known.

Possible Effect: Errors in the preparation of year-end balances increases the risk related to financial statement misstatements.

Recommendation: We recommend County management be aware of all procedures and processes involved in recording year-end balances and develop internal control policies to ensure proper recording of these items.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Jerry Vyskocil, Finance Director

Corrective Action Planned: A corrective action plan is in place.

Anticipated Completion Date: December 31, 2018

2017-003 Timely Deposits

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria: Standard internal control procedures recommend that deposits should be made on a daily basis.

Condition and Context: Various departments in the County do not deposit on a daily basis.

Cause: Past practice.

Possible Effect: The County's failure to make daily deposits increases the risk that fraud could occur and not be detected in a timely manner.

Recommendation: We recommend the departments deposit their collections with the County Auditor-Treasurer office on a daily basis in order to minimize the risk of misappropriation of assets or that the Board establish a policy regulating the required frequency of deposits.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Jerry Vyskocil, Finance Director

Corrective Action Planned: A corrective action plan is in place.

Anticipated Completion Date: December 31, 2018

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

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2017-004 Annual Financial Reporting Under Generally Accepted Accounting Principles (GAAP)

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria: Management is responsible for establishing and maintaining internal controls, and for the fair presentation of the financial statements including the related disclosures, in conformity with U.S. generally accepted accounting principles (GAAP).

Condition and Context: The County does not have an internal control policy in place over financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures are complete and presented in accordance with GAAP.

Cause: The County relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and the related footnote disclosures.

Possible Effect: The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the County's internal controls.

Recommendation: Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Jerry Vyskocil, Finance Director

Corrective Action Planned: A corrective action plan is in place.

Anticipated Completion Date: December 31, 2018

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

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2017-005 Internal Controls over Payroll

Type of Finding: Significant Deficiency in Internal Control over Financial Reporting

Criteria: Management is responsible for establishing and maintaining internal controls over payroll disbursements to ensure employees are paid the appropriate rate and for the appropriate hours worked.

Condition and Context: For one of forty payroll transactions tested, the employee's pay rate did not agree to the authorized pay rate. The County lacks internal controls to ensure pay rates entered into the payroll system agree to the board authorized rates.

Cause: Unknown.

Possible Effect: The potential exists that employees will be over or under paid.

Recommendation: We recommend that management establish internal controls to ensure pay rates entered into the payroll system are reviewed against labor agreements and personnel files by someone independent of the data entry.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Jerry Vyskocil, Finance Director

Corrective Action Planned: A corrective action plan is in place.

Anticipated Completion Date: December 31, 2018

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2017-006

Federal Agency: U.S. Department of Health and Human Services
Federal Program: Medical Assistance Program (Part of Medicaid Cluster)
CFDA Number: 93.778
Pass Through Agency: Minnesota Department of Human Services
Pass Through Numbers: 05-1705MN5ADM
Award Periods: Year ended December 31, 2017

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

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. OMB Compliance Supplement – Eligibility.

Condition and Context: The County is responsible for maintaining documentation to support client eligibility. In six of sixty case files tested, documentation was not maintained to support asset verification.

Questioned Costs: None.

Cause: Documentation to support eligibility was requested; however, never obtained.

Effect: The lack of proper eligibility documentation increases the risk that benefits could be provided to ineligible clients.

Recommendation: We recommend County personnel establish procedures and controls over client eligibility determinations. Case files should be reviewed to ensure proper documentation exists to support the eligibility determination including client asset verifications.

Views of Responsible Officials and Planned Corrective Actions

Contact Person: Stacie Golombiecki, Community Services Director

Corrective Action Planned: A corrective action plan is in place.

Anticipated Completion Date: December 31, 2018

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED DECEMBER 31, 2017**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Pass-through Grant Numbers	Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Health			
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	32573	\$ 190,132
Passed Through Minnesota Department of Human Services			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Part of SNAP Cluster)	10.561	172MN101S2514	<u>190,827</u>
Total Department of Agriculture			380,959
U.S. Department of Justice			
Direct			
Bulletproof Vest Partnership Program	16.607	N/A - Direct	<u>661</u>
Total Department of Justice			661
U.S. Department of Education			
Passed Through Minnesota Department of Health			
Special Education-Grants for Infants and Families	84.181	12-700-00104	2,416
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Health			
Public Health Emergency Preparedness	93.069	NU90TP921911-01-00	31,028
Immunization Cooperative Agreements	93.268	12-700-00104	2,150
Temporary Assistance for Needy Families (Total TANF Cluster \$78,525)	93.558	2017G996115	23,931
Maternal and Child Health Services Block Grant to the States	93.994	BO4MC29349 AND BO4MC3621	34,032
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	G-1601MNFPS	11,612
Temporary Assistance for Needy Families (Total TANF Cluster \$578,525)	93.558	1601MNTANF	54,594
Child Support Enforcement	93.563	1704MNCSES	281,000
Refugee and Entrant Assistance - State Administered Programs	93.566	1701MNRCA	410
Child Care and Development Block Grant (Part of CCDF Cluster)	93.575	G1701MNCDF	4,172
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNFPG	3,289
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNCWSS	4,100
Foster Care - Title IV-E	93.658	1701MNFOST	77,704
Social Services Block Grant	93.667	G-1701MNCA01	110,411
Block Grant for Prevention and Treatment of Substance Abuse	93.959	TI010027-16	840
U.S. Department of Health and Human Services (Continued)			
Passed Through Minnesota Department of Human Services (Continued)			
Chafee Foster Care Independence Program	93.674	G-1601MNCILP	488
Children's Health Insurance Program	93.767	05-1705MN0301	197
Medical Assistance Program (Part of Medicaid Cluster)	93.778	05-1705MN5ADM	766,642
Passed Through Des Moines Valley Health and Human Services			
State and Local Public Health Actions	93.757	12-700-0066	<u>283,378</u>
Total Department of Health and Human Services			1,689,978

The Notes to Schedule of Expenditures of Federal Awards are an integral part of this schedule.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
 YEAR ENDED DECEMBER 31, 2017**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Pass-through Grant Numbers	Expenditures
U.S. Department of Homeland Security			
Pass Through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance	97.012	Nobles SBG-060617	\$ 1,307
Passed Through Minnesota Department of Public Safety			
Emergency Management Performance Grants	97.042	F-EMPG-2017-NOBLESCO-2425	<u>22,237</u>
Total Department of Homeland Security			<u>23,544</u>
Total Cash Type Federal Awards			<u>\$ 2,097,558</u>

The Notes to Schedule of Expenditures of Federal Awards are an integral part of this schedule.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 1 REPORTING ENTITY

The schedule of expenditures of federal awards presents the activity of Federal award programs expended by Nobles County. The County's reporting entity is defined in Note 1 to the financial statements.

NOTE 2 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Nobles County under programs of the federal government for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of 2 CFR Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the schedule presents only a selected portion of the operations of Nobles County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Nobles County.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 4 SUBRECIPIENTS

Nobles County did not pass federal funds to subrecipients.

NOTE 5 RECONCILIATION

Reconciliation to the schedule of intergovernmental revenue:

Federal Grant Revenue Per Schedule of Intergovernmental Revenue	\$ 2,107,167
Revenues Included on the Schedule of Intergovernmental Revenue that are not Considered	
2016 Federal Grant Expenditures (Prior Year Deferred Inflows of Resources)	(55,926)
Expenditures included on the Schedule of Expenditures of Federal Awards that	
are not Considered 2017 Intergovernmental Revenues (Current Year Deferred Inflows of Resources)	<u>46,317</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u><u>\$ 2,097,558</u></u>

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of County Commissioners
Nobles County
Worthington, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Nobles County, Minnesota (the County), as of and for the year ended December 31, 2017, and the related notes to the financial statements which collectively comprise the County's basic financial statements and have issued our report thereon dated September 14, 2018.

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing as the County has not entered into tax increment financing arrangements.

In connection with our audit, nothing came to our attention that caused us to believe that Nobles 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 Nobles County's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Brainerd, Minnesota
September 14, 2018