

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2018

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
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DECEMBER 31, 2018**

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INTRODUCTORY SECTION

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 ORGANIZATION
 DECEMBER 31, 2018**

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
County Judge	Gordon Moore	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
Court Administrator	Denise Brandel	Indefinite
Coroner	Dr. Michael McGee****	December 31, 2018
Highway Engineer	Stephen Schnieder	Indefinite

* = Chair 2018

** = Vice-Chair 2018

***Resigned Effective 9/7/2018, Appointed Kris Ray Interim Auditor-Treasurer 9/8/18-1/6/19

****Contracted with Ramsey County

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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, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial 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, 2018, 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 changes in the total OPEB liability and related ratios, schedule of the County's proportionate share of the net pension liability, schedule of pension 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2019, 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* in considering Nobles County's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Brainerd, Minnesota
September 20, 2019

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REQUIRED SUPPLEMENTARY INFORMATION

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

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, 2018. Since this information is designed to focus on current year activities, resulting changes and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Net position is \$81,247,576 of which \$70,290,325 is the net investment in capital assets and \$11,693,701 is restricted for specific purposes.
- Governmental revenues totaled \$34,909,012 and were \$726,151 less than expenditures in 2018 due to planned spend down of unspent bond proceeds on capital projects and expenditures for governmental programs exceeded revenue generated to provide the services.
- Governmental funds combined fund balances totaled \$31,064,049 at December 31, 2018. This was a decrease of \$608,776 over fund balance at December 31, 2017.
- The General Fund's fund balance increased by \$517,610 during 2018 with revenues over budget by \$631,178 and expenditures over budget by \$24,745.

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:

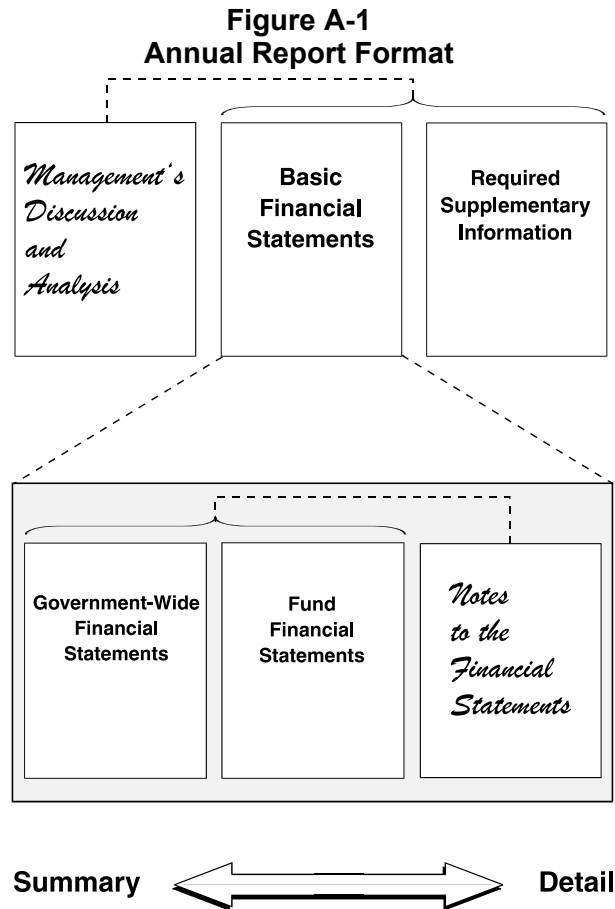
- The first two statements are County-wide financial statements which provide both short-term and long-term information about the County's overall financial status.
- The remaining statements are fund financial statements which focus on individual parts of the County, reporting the County's operations 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, 2018**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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



**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED DECEMBER 31, 2018**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Type of Statements	Government-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire County's government (except fiduciary funds).	The activities of the County that are not proprietary or fiduciary.	Instances in which the County is the trustee or agent for someone else's resources.
Required financial statements	Statement of net position.	Balance sheet.	Statement of fiduciary net position.
	Statement of activities.	Statement of revenues, expenditures, and changes in fund 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, 2018**

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, 2018**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Position

The County's total net position was \$81,247,576 on December 31, 2018 (see Table A-1).

Table A-1
 The County's Net Position

	Governmental Activities	
	2018	2017
Current and Other Assets	\$ 36,150,582	\$ 38,647,521
Capital Assets	80,595,764	81,453,612
Total Assets	116,746,346	120,101,133
 Deferred Outflows of Resources	 3,398,828	 4,790,650
 Current Liabilities	 2,008,659	 2,788,338
Long-Term Liabilities	31,931,441	36,625,800
Total Liabilities	33,940,100	39,414,138
 Deferred Inflows of Resources	 4,957,498	 3,876,149
 Net Position		
Net Investment in Capital Assets	70,290,325	71,256,204
Restricted	11,693,701	12,507,552
Unrestricted	(736,450)	(2,162,260)
Total Net Position	\$ 81,247,576	\$ 81,601,496

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED DECEMBER 31, 2018**

CHANGE IN NET POSITION

The County-wide total revenues were \$33,540,696 for the year ended December 31, 2018 (an increase of \$2,018,699). This increase is primarily attributable to an increase in intergovernmental revenues (specifically capital grants and contributions). 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
	2018	2017	
REVENUES			
<u>Program Revenues</u>			
Charges for Services	\$ 4,552,665	\$ 4,010,949	13.5 %
Operating Grants and Contributions	11,072,249	9,554,353	15.9
Capital Grants and Contributions	197,303	690,176	(71.4)
<u>General Revenues</u>			
Property Taxes	13,302,944	12,877,629	3.3
Other	4,415,535	4,388,890	0.6
Total Revenues	<u>33,540,696</u>	<u>31,521,997</u>	6.4
EXPENSES			
General Government	7,270,879	6,852,643	6.1
Public Safety	4,684,372	5,451,018	(14.1)
Highways and Streets	10,589,440	15,414,368	(31.3)
Sanitation	390,384	588,893	(33.7)
Human Services	7,125,126	6,295,774	13.2
Health	1,158,791	1,307,764	(11.4)
Culture and Recreation	913,078	924,998	(1.3)
Conservation of Natural Resources	584,897	692,496	(15.5)
Economic Development	604,101	578,370	4.4
Buildings and Plant	28,685	102,976	(72.1)
Interest	544,863	586,407	(7.1)
Total Expenses	<u>33,894,616</u>	<u>38,795,707</u>	(12.6)
CHANGE IN NET POSITION	(353,920)	(7,273,710)	(95.1)
Net Position - Beginning of Year	81,601,496	88,875,206	(8.2)
NET POSITION - END OF YEAR	<u>\$ 81,247,576</u>	<u>\$ 81,601,496</u>	(0.4)

Total revenues exceeded expenses, decreasing net position \$353,920 over last year. The net change is primarily due the county incurring additional out of home placement costs in 2018.

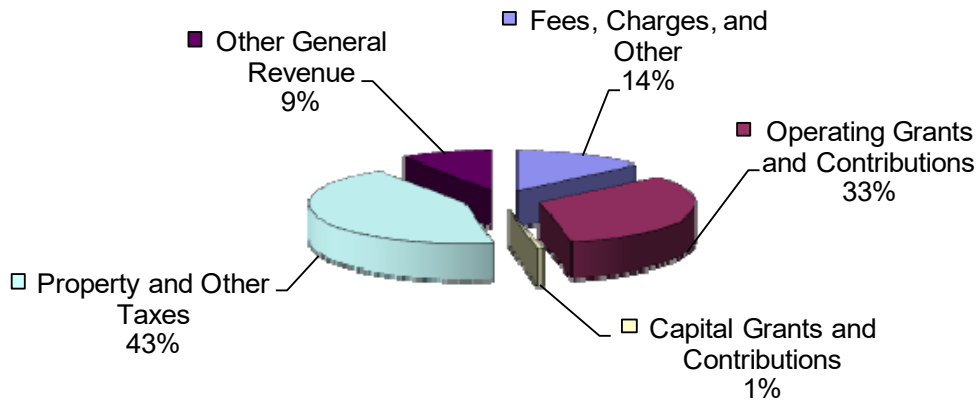
**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED DECEMBER 31, 2018**

CHANGE IN NET POSITION (CONTINUED)

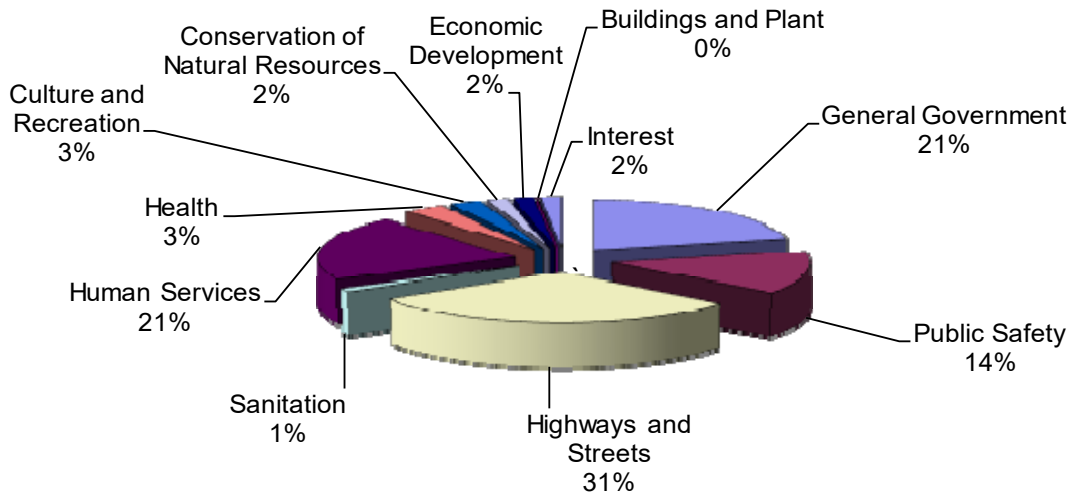
The County-wide cost of all governmental activities this year was \$33,894,616.

- Some of the cost was paid by the users of the County's programs (\$4,552,665).
- The federal and state governments subsidized certain programs with grants and contributions (\$11,269,552).
- The remainder of the County's governmental activities costs (\$18,072,399) was paid for by taxpayers. This portion of governmental activities was paid from the combination of \$14,599,328 in property and other taxes, \$1,287,478 of state aid, and \$2,185,593 in investment earnings and other general revenues.

Governmental Activities Revenues by Source 2018



Governmental Activities Expenses by Type 2018



**NOBLES COUNTY
WORTHINGTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

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
	2018	2017		2018	2017	
GOVERNMENTAL ACTIVITIES						
General Government	\$ 7,270,879	\$ 6,852,643	6.1 %	\$ 6,074,848	\$ 5,900,001	3.0 %
Public Safety	4,684,372	5,451,018	(14.1)	3,432,498	3,994,407	(14.1)
Highways and Streets	10,589,440	15,414,368	(31.3)	3,186,031	9,270,292	(65.6)
Sanitation	390,384	588,893	(33.7)	(695,315)	(423,336)	(64.2)
Human Services	7,125,126	6,295,774	13.2	3,566,328	3,092,523	15.3
Health	1,158,791	1,307,764	(11.4)	214,459	254,160	(15.6)
Culture and Recreation	913,078	924,998	(1.3)	806,603	723,777	11.4
Conservation of Natural Resources	584,897	692,496	(15.5)	309,298	460,652	(32.9)
Economic Development	604,101	578,370	4.4	604,101	578,370	4.4
Buildings and Plant	28,685	102,976	(72.1)	28,685	102,976	(72.1)
Interest	544,863	586,407	(7.1)	544,863	586,407	(7.1)
Total	<u>\$ 33,894,616</u>	<u>\$ 38,795,707</u>	(12.6)	<u>\$ 18,072,399</u>	<u>\$ 24,540,229</u>	(26.4)

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 \$31,064,049. Revenues for the County's governmental funds were \$34,909,012, while total expenditures were \$35,635,163.

The General Fund includes the primary operations of the County in providing services to citizens. The General Fund's fund balance increased by \$517,610 during 2018 with revenues over budget by \$631,178 and expenditures over budget by \$24,745.

The Public Works Fund increased its fund balance from \$8,668,292 in 2017 to \$9,537,350 in 2018. The increase is due to intergovernmental revenue exceeding current year construction costs. Of the total fund balance, 11.63% is set aside for resource conservation and development.

The Family Services Fund revenues were under budget during 2018 by \$239,184 and expenditures were over budget during 2018 by \$233,620 resulting in a fund balance decrease of \$472,804 during 2018. The decrease was a result of providing mandatory programs to citizens in need of assistance.

The Debt Service Fund expenditures exceeded revenues by \$207,826, which is due to planned spend down of fund balance that accumulated due to transfers from other funds in prior years.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED DECEMBER 31, 2018**

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
	2018	2017	(Decrease)	
Taxes	\$ 7,535,261	\$ 7,130,698	\$ 404,563	5.7 %
Intergovernmental	1,696,356	1,415,780	280,576	19.8
Charges for Services	1,559,684	1,779,486	(219,802)	(12.4)
Gifts and Contributions	7,708	40,827	(33,119)	(81.1)
Interest on Investments	353,343	56,213	297,130	528.6
Miscellaneous and Other	997,569	900,890	96,679	10.7
Total General Fund Revenues	<u>\$ 12,149,921</u>	<u>\$ 11,323,894</u>	<u>\$ 826,027</u>	7.3

General fund revenues increased by \$826,027, or 7.3%, from the previous year due primarily to increases in tax revenues, intergovernmental revenue, interest on investments, and miscellaneous and other revenues. Intergovernmental revenue increased due to additional county program aid, the receipt a state of Minnesota equipment grant (\$66,375) and a crime victim services grant (\$38,249). Interest on investment revenue increased due to an increased investments balance compared to prior years.

The following schedule presents a summary of general fund expenditures:

Table A-5
 General Fund Expenditures

	Year Ended		Change	Percent
	December 31, 2018	December 31, 2017	Increase (Decrease)	
General Government	\$ 5,746,419	\$ 5,473,329	\$ 273,090	5.0 %
Public Safety	4,600,149	4,354,732	245,417	5.6
Conservation of Natural Resources	140,333	132,491	7,842	5.9
Economic Development	604,101	578,370	25,731	4.4
Intergovernmental	366,951	163,764	203,187	124.1
Capital Outlay	207,368	263,423	(56,055)	(21.3)
Debt Service	65,344	43,058	22,286	51.8
Total Expenditures	<u>\$ 11,730,665</u>	<u>\$ 11,009,167</u>	<u>\$ 721,498</u>	6.6

General Fund expenditures increased by \$721,498 or 6.6%, from the previous year due to increased intergovernmental expenses. General Government and Public Safety expenditures increased primarily due to increased payroll costs. Intergovernmental expenditures increased due to the county participating in the county's providing technology joint venture.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED DECEMBER 31, 2018**

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

General Fund Budgetary Highlights

The Nobles County Board of Commissioners, over the course of a budget year, may amend/revise the County's budget; in 2018, the County Board of Commissioners made minor budgetary amendments/revisions.

- General Fund actual revenues were over budget by \$631,178. Intergovernmental revenues exceeded budget by \$607,076 as market value credits, police aid and PERA aid came in higher than anticipated. Interest on investments revenue exceeded budget by \$323,343 due to increased investment balances maintained by the County.
- Actual expenditures were over budget by 24,745. Expenditures exceeded budget due to a \$175,000 payment for a joint venture. Several department expenditures came in under budget including County Administration, Data Processing, Other General Government and Attorney.

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 2018, the County had invested approximately \$134,400,000 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 \$3,441,945.

Table A-6
 The County's Capital Assets

	Governmental Activities		Percent Change
	2018	2017	
Land	\$ 1,348,750	\$ 1,348,750	-
Construction-in-Progress	96,690	3,615,753	(97.3)
Improvements Other than Buildings	1,853,563	1,853,563	-
Buildings	30,106,628	25,299,686	19.0
Machinery and Equipment	10,025,966	9,256,328	8.3
Infrastructure	90,954,669	90,818,696	0.1
Less: Accumulated Depreciation	(53,790,502)	(50,739,164)	6.0
Total	<u>\$ 80,595,764</u>	<u>\$ 81,453,612</u>	(1.1)

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED DECEMBER 31, 2018**

LONG-TERM DEBT

At year-end, the County had \$22,980,705 in debt outstanding, including the current portion of long-term debt and compensated absences.

- The County's governmental activities total debt decreased \$2,063,330 or 8.2%, due primarily to the bond principal payments and a decrease in the net pension liability as a result of actuarial assumption changes.

Table A-7
 The County's Long Term Debt

	2018	2017	Percentage Change
GOVERNMENTAL ACTIVITIES			
General Obligation Bonds - Net of Premiums	\$ 22,269,575	\$ 24,388,319	(8.7)%
Loans Payable	576,883	543,411	6.2
Capital Lease Payable	134,247	112,305	19.5
Total	<u>\$ 22,980,705</u>	<u>\$ 25,044,035</u>	(8.2)

More detailed information on the County's long-term debt can be found in Note 2.C.2 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.

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BASIC FINANCIAL STATEMENTS

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 STATEMENT OF NET POSITION
 DECEMBER 31, 2018**

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 29,008,679
Taxes Receivable - Delinquent	211,194
Special Assessments Receivable	121,237
Accounts Receivable - Net	151,430
Loans Receivable	3,535,459
Accrued Interest Receivable	98,540
Due from Other Governments	2,628,190
Inventory	183,563
Prepaid Items	212,290
Nondepreciable Capital Assets	
Land	1,348,750
Construction-in-Progress	96,690
Depreciable Capital Assets - Net of Accumulated Depreciation	
Building	15,733,863
Improvements Other than Buildings	750,600
Machinery, Vehicles, Furniture, and Equipment	3,615,192
Infrastructure	59,050,669
Total Assets	<u>116,746,346</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension Related	3,208,741
Other Postemployment Benefit Related	190,087
Total Deferred Outflows of Resources	<u>3,398,828</u>
LIABILITIES	
Accounts Payable	598,651
Salaries Payable	379,362
Contracts Payable	338,857
Accrued Interest Payable	206,570
Due to Other Governments	485,219
Due Within One Year	2,943,717
Due in More than One Year	21,245,163
Other Postemployment Benefits Payable	321,222
Net Pension Liability	7,421,339
Total Liabilities	<u>33,940,100</u>
DEFERRED INFLOWS OF RESOURCES	
Pension Related	4,805,737
Other Postemployment Benefit Related	151,761
Total Deferred Inflows of Resources	<u>4,957,498</u>
NET POSITION	
Net Investment in Capital Assets	70,290,325
Restricted For:	
General Government	536,506
Highways and Streets	2,500,261
Public Safety	476,014
Conservation	1,693,413
Economic Development	14,466
Debt Service	6,473,041
Unrestricted	(736,450)
Total Net Position	<u><u>\$ 81,247,576</u></u>

See accompanying Notes to Financial Statements.

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense)
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
GOVERNMENTAL ACTIVITIES					Governmental Activities
General Government	\$ 7,270,879	\$ 865,370	\$ 264,286	\$ 66,375	\$ (6,074,848)
Public Safety	4,684,372	959,160	292,714	-	(3,432,498)
Highways and Streets	10,589,440	1,422,573	5,886,064	94,772	(3,186,031)
Sanitation	390,384	966,636	119,063	-	695,315
Human Services	7,125,126	37,065	3,521,733	-	(3,566,328)
Health	1,158,791	107,847	836,485	-	(214,459)
Culture and Recreation	913,078	59,170	47,305	-	(806,603)
Conservation of Natural Resources	584,897	134,844	104,599	36,156	(309,298)
Economic Development	604,101	-	-	-	(604,101)
Buildings and Plant	28,685	-	-	-	(28,685)
Interest	544,863	-	-	-	(544,863)
Total Governmental Activities	\$ 33,894,616	\$ 4,552,665	\$ 11,072,249	\$ 197,303	(18,072,399)
GENERAL REVENUES					
Property Taxes					13,302,944
Mortgage Registry and Deed Tax					15,206
Wheelage Tax					223,175
Wind Energy Tax					793,281
Payments in Lieu of Tax					264,722
Grants and Contributions not Restricted for a Particular Purpose					1,287,478
Investment Earnings					414,231
Miscellaneous					1,408,969
Gain on Sale of Capital Assets					8,473
Total General Revenues					17,718,479
CHANGE IN NET POSITION					
Net Position - Beginning of Year					81,601,496
NET POSITION - END OF YEAR					\$ 81,247,576

See accompanying Notes to Financial Statements.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 DECEMBER 31, 2018**

	General	Public Works	Family Services
ASSETS			
Cash and Pooled Investments	\$ 10,298,699	\$ 9,698,674	\$ 1,769,277
Undistributed Cash in Agency Funds	109,791	18,074	46,931
Petty Cash and Change Funds	2,175	150	100
Taxes Receivable			
Taxes Receivable - Delinquent	111,623	17,845	50,741
Special Assessments Receivable			
Delinquent	-	13,293	-
Noncurrent	-	-	-
Accounts Receivable	6,503	53,415	91,512
Loans Receivable	419,931	540,528	-
Accrued Interest Receivable	98,540	-	-
Due from Other Funds	91,914	-	-
Due from Other Governments	193,151	2,019,562	399,862
Inventory	-	183,563	-
Prepaid Items	211,712	540	-
Total Assets	\$ 11,544,039	\$ 12,545,644	\$ 2,358,423
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 197,951	\$ 172,909	\$ 218,181
Salaries Payable	176,923	64,102	125,707
Contracts Payable	-	219,834	-
Due to Other Funds	-	-	50,914
Due to Other Governments	175,211	19,475	194,032
Total Liabilities	550,085	476,320	588,834
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Tax Related	111,623	17,845	50,741
Unavailable Revenue - Special Assessment Related	-	13,293	-
Unavailable Revenue - Grant Related	-	-	29,211
Unavailable Revenue - Loans Receivable Related	419,931	540,528	-
Unavailable Revenue - State Aid Allotment Related	-	1,959,733	-
Unavailable Revenue - Charges for Services Related	2,035	575	-
Total Deferred Inflows of Resources	533,589	2,531,974	79,952

See accompanying Notes to Financial Statements.

Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 4,157,740	\$ 2,874,915	\$ 28,799,305
17,532	14,566	206,894
-	55	2,480
19,580	11,405	211,194
-	908	14,201
-	107,036	107,036
-	-	151,430
2,575,000	-	3,535,459
-	-	98,540
-	-	91,914
-	15,615	2,628,190
-	-	183,563
-	38	212,290
<u>\$ 6,769,852</u>	<u>\$ 3,024,538</u>	<u>\$ 36,242,496</u>

\$ -	\$ 9,610	\$ 598,651
-	12,630	379,362
-	119,023	338,857
-	41,000	91,914
90,241	6,260	485,219
<u>90,241</u>	<u>188,523</u>	<u>1,894,003</u>
19,580	11,405	211,194
-	107,944	121,237
-	-	29,211
-	-	960,459
-	-	1,959,733
-	-	2,610
<u>19,580</u>	<u>119,349</u>	<u>3,284,444</u>

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 BALANCE SHEET (CONTINUED)
 GOVERNMENTAL FUNDS
 DECEMBER 31, 2018**

	General	Public Works	Family Services
FUND BALANCES			
Nonspendable			
Inventory	\$ -	\$ 183,563	\$ -
Prepaid Items	211,712	540	-
Restricted			
Missing Heirs	1,000	-	-
Law Library	63,565	-	-
Recorder's Compliance Fund	333,779	-	-
Recorder's Technology Fund	68,001	-	-
Attorney Forfeiture	70,161	-	-
Sheriff's Contingency	6,718	-	-
Handgun Permit	135,055	-	-
Canteen Fund	92,929	-	-
E-911	233,198	-	-
Debt Service	-	-	-
Resource Conservation and Development	-	1,109,315	-
Shop with Cop	6,853	-	-
Sheriff's Contingency	1,261	-	-
Donations	-	-	-
Capital Projects	-	-	-
Ditch	-	-	-
Committed			
Public Works	-	8,243,932	-
Family Services	-	-	609,877
Building	-	-	-
Library	-	-	-
Property Forfeiture	-	-	-
Primewest Health	2,133,618	-	-
Assigned			
Capital Equipment	-	-	27,946
Out-of-Home Placements	-	-	1,051,814
Future Revolving Loans	220,441	-	-
Unassigned	6,882,074	-	-
Total Fund Balances	<u>10,460,365</u>	<u>9,537,350</u>	<u>1,689,637</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 11,544,039</u>	<u>\$ 12,545,644</u>	<u>\$ 2,358,423</u>

See accompanying Notes to Financial Statements.

Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 183,563
-	38	212,290
-	-	1,000
-	-	63,565
-	-	333,779
-	-	68,001
-	-	70,161
-	-	6,718
-	-	135,055
-	-	92,929
-	-	233,198
6,660,031	-	6,660,031
-	-	1,109,315
-	-	6,853
-	-	1,261
-	14,466	14,466
-	378,863	378,863
-	476,154	476,154
-	-	8,243,932
-	-	609,877
-	1,287,676	1,287,676
-	326,336	326,336
-	227,133	227,133
-	-	2,133,618
-	6,000	33,946
-	-	1,051,814
-	-	220,441
-	-	6,882,074
6,660,031	2,716,666	31,064,049
\$ 6,769,852	\$ 3,024,538	\$ 36,242,496

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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, 2018**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS	\$ 31,064,049
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.	80,595,764
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.	3,284,444
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	3,398,828
Deferred Inflows of Resources Related to Pensions and OPEB	(4,957,498)
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	\$ (2,145,000)
General Obligation State Aid Bonds	(8,740,000)
General Obligation Capital Improvement Plan Bonds	(6,540,000)
General Obligation Tax Abatement Bonds	(2,575,000)
Net Pension Liability	(7,421,339)
Capital Leases	(134,247)
Lease Revenue Refunding Bond	(1,685,000)
Loans Payable	(576,883)
Compensated Absences	(1,208,175)
Other Postemployment Benefits Payable	(321,222)
Accrued Interest Payable	(206,570)
Unamortized Premium on Bonds	(584,575)
	(32,138,011)
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 81,247,576</u></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, 2018**

	General	Public Works	Family Services
REVENUES			
Taxes	\$ 7,535,261	\$ 1,333,402	\$ 3,139,627
Special Assessments	-	-	-
Licenses and Permits	28,705	149,752	2,520
Intergovernmental	1,696,356	7,428,183	4,062,103
Charges for Services	1,559,684	1,464,319	330,470
Fines and Forfeits	22,628	-	-
Gifts and Contributions	7,708	-	-
Interest on Investments	353,343	-	-
Miscellaneous	946,236	457,492	629,331
Total Revenues	12,149,921	10,833,148	8,164,051
EXPENDITURES			
CURRENT			
General Government	5,746,419	133,080	-
Public Safety	4,600,149	-	-
Highways and Streets	-	7,528,916	-
Sanitation	-	375,454	-
Human Services	-	-	7,279,798
Community Health	-	-	1,156,890
Culture and Recreation	-	143,031	-
Conservation of Natural Resources	140,333	437,768	-
Economic Development	604,101	-	-
INTERGOVERNMENTAL	366,951	534,171	200,167
CAPITAL OUTLAY	207,368	772,641	-
DEBT SERVICE			
Principal	61,899	64,090	-
Interest	3,445	-	-
Administrative (Fiscal) Charges	-	-	-
Total Expenditures	11,730,665	9,989,151	8,636,855
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	419,256	843,997	(472,804)
OTHER FINANCING SOURCES (USES)			
Transfers In	6,040	-	-
Transfers Out	-	-	-
Proceeds from Capital Lease	83,841	-	-
Loan Proceeds	-	97,562	-
Proceeds from Sale of Assets	8,473	-	-
Total Other Financing Sources (Uses)	98,354	97,562	-
NET CHANGE IN FUND BALANCES	517,610	941,559	(472,804)
Fund Balances - Beginning of Year	9,942,755	8,668,292	2,162,441
DECREASE IN INVENTORY	-	(72,501)	-
FUND BALANCES - END OF YEAR	<u>\$ 10,460,365</u>	<u>\$ 9,537,350</u>	<u>\$ 1,689,637</u>

See accompanying Notes to Financial Statements.

Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,186,836	\$ 996,466	\$ 14,191,592
-	167,121	167,121
-	-	180,977
1,038,675	21,310	14,246,627
-	4,774	3,359,247
-	-	22,628
-	6,411	14,119
66,736	-	420,079
198,397	75,166	2,306,622
<u>2,490,644</u>	<u>1,271,248</u>	<u>34,909,012</u>
-	8,629	5,888,128
-	-	4,600,149
-	-	7,528,916
-	-	375,454
-	-	7,279,798
-	-	1,156,890
-	593,498	736,529
-	194,031	772,132
-	-	604,101
-	-	1,101,289
-	1,783,864	2,763,873
2,040,000	-	2,165,989
652,900	-	656,345
5,570	-	5,570
<u>2,698,470</u>	<u>2,580,022</u>	<u>35,635,163</u>
(207,826)	(1,308,774)	(726,151)
-	-	6,040
-	(6,040)	(6,040)
-	-	83,841
-	-	97,562
-	-	8,473
<u>-</u>	<u>(6,040)</u>	<u>189,876</u>
(207,826)	(1,314,814)	(536,275)
6,867,857	4,031,480	31,672,825
-	-	(72,501)
<u>\$ 6,660,031</u>	<u>\$ 2,716,666</u>	<u>\$ 31,064,049</u>

**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, 2018**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ (536,275)
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	\$ 2,596,500	
Net Book Value of Capital Asset Disposals	(12,403)	
Current Year Depreciation	<u>(3,441,945)</u>	(857,848)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		
		(1,140,944)
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.		
		251,278
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.		
		(12,229)
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.		
Loan Proceeds	(97,562)	
Capital Lease Proceeds	<u>(83,841)</u>	(181,403)
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	890,000	
State Aid Road Bonds	765,000	
Lease Revenue Refunding Bonds	385,000	
Capital Leases	61,899	
Loans	<u>64,090</u>	2,165,989
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in Accrued Interest Payable	32,460	
Amortization of Bond Premiums	78,744	
Change in Compensated Absences	(81,191)	
Change in Inventory	<u>(72,501)</u>	(42,488)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ (353,920)</u>

See accompanying Notes to Financial Statements.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2018**

ASSETS

Cash and Pooled Investments	\$ 266,286
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LIABILITIES

Due to Others	\$ 24,926
Due to Other Governments	241,360
Total Liabilities	<u>\$ 266,286</u>

See accompanying Notes to Financial Statements.

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018**

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 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.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

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, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 2019 tax settlement which has been collected at the County prior to December 31, 2018 but is not settled out of the taxes and penalties agency fund until January 2019.

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, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3. Receivables and Payables (Continued)

All receivables are shown net of an allowance for uncollectibles which is calculated on a case-by-case basis. As of December 31, 2018 the allowance for doubtful accounts is \$395,381.

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, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 and OPEB related deferred outflows of resources can be found in Note 3 and 5.

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, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 of resources related to pensions and other postemployment benefit plans.

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, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2018**

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		\$		29,008,679	
Agency Funds					
Cash and Pooled Investments					
Taxes and Penalties Fund			241,360		
Jail Inmate Account			15,289		
Social Welfare Fund			1,747		
Sheriff's Trust Account			7,890		
Total Agency Funds			<u>266,286</u>		
Total Cash and Investments		\$		<u>29,274,965</u>	

FUND FINANCIAL STATEMENTS

Governmental Funds					
Cash and Pooled Investments		\$		28,799,305	
Undistributed Cash in Agency Funds				206,894	
Petty Cash and Change Funds				2,480	
Agency Funds					
Cash and Pooled Investments				<u>266,286</u>	
Total Cash and Pooled Investments		\$		<u>29,274,965</u>	

DEPOSITS

Checking					
Checking		\$		4,629,296	
Money Market Savings				2,300,069	
Certificates of Deposit				5,475,000	

INVESTED IN MAGIC FUND

16,868,120

PETTY CASH

2,480

Total Cash and Investments

\$ 29,274,965

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018, all of the County's \$12,472,650 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, 2018**

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. It is the County policy to minimize 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.

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, 2018, 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, 2018.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

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.

At December 31, 2018, the County had the following investments:

	Less Than One Year
MN Association of Governments Investing for Counties (MAGIC) Fund	
Portfolio	\$ 14,193,120
Term	2,675,000
Total	\$ 16,868,120

c. Fair Value Measurement

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 new asset value not reasonably practical. The MAGIC term investment pool is valued at net asset value (NAV) as it does not meet the liquidity criteria to be valued at amortized cost. The County would face penalties if early redemptions were made from the term investment pool. There are no unfunded commitments relating to this investment. The County reports its investment in the term investment pool at the NAV per share, the fair value established by the pool.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2018, 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
Governmental Activities		
Taxes	\$ 211,194	\$ -
Special Assessments	121,237	-
Accounts	151,430	-
Interest	98,540	-
Loans	3,535,459	3,422,585
Due from Other Governments	2,628,190	-
Total Governmental Activities	\$ 6,746,050	\$ 3,422,585

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 originally September 1, 2008 through August 31, 2012 and amended through November 30, 2017 for the rental of space for a workforce center. The amendment was amended again in 2018 for a ten year period effective July 1, 2018 through June 30, 2028. During 2018, the County recorded rental revenue of \$70,375 related to this agreement. Future minimum lease payments are as follows:

Year Ending December 31,	
2019	\$ 25,587
2020	26,050
2021	26,513
2022	26,976
2022	27,440
2024-2028	129,154
Total	\$ 261,720

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Operating Leases Receivable (Continued)

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. The County recorded rental revenue of \$198,397 in 2018. Future minimum lease payments are as follows:

<u>Year Ending December 31,</u>	
2019	\$ 199,384
2020	199,975
2021	199,972
2022	<u>197,288</u>
Total	<u>\$ 796,619</u>

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets

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

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	\$ 1,348,750	\$ -	\$ -	\$ 1,348,750
Construction-in-Process	3,615,753	1,005,202	4,524,265	96,690
Total Capital Assets, Not Being Depreciated	4,964,503	1,005,202	4,524,265	1,445,440
Capital Assets, Being Depreciated				
Buildings	25,299,686	4,806,942	-	30,106,628
Improvements Other than Buildings	1,853,563	-	-	1,853,563
Machinery and Equipment	9,256,328	1,172,648	403,010	10,025,966
Infrastructure	90,818,696	135,973	-	90,954,669
Total Capital Assets, Being Depreciated	127,228,273	6,115,563	403,010	132,940,826
Less Accumulated Depreciation for				
Buildings	13,415,079	957,686	-	14,372,765
Improvements Other than Buildings	1,048,298	54,665	-	1,102,963
Machinery, Furniture, and Equipment	6,147,288	654,093	390,607	6,410,774
Infrastructure	30,128,499	1,775,501	-	31,904,000
Total Accumulated Depreciation	50,739,164	3,441,945	390,607	53,790,502
Total Capital Assets, Being Depreciated, Net	76,489,109	2,673,618	12,403	79,150,324
Governmental Activities Capital Assets, Net	<u>\$ 81,453,612</u>	<u>\$ 3,678,820</u>	<u>\$ 4,536,668</u>	<u>\$ 80,595,764</u>

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

Governmental Activities	
General Government	\$ 1,107,798
Public Safety	105,438
Highways and Streets, Including Depreciation of Infrastructure Assets	2,203,928
Sanitation	4,198
Human Services	4,875
Culture and Recreation	3,243
Conservation of Natural Resources	12,465
Total Depreciation Expense - Governmental Activities	<u>\$ 3,441,945</u>

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

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, 2018, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Family Services Fund	\$ 50,914
General Fund	Ditch Special Revenue Fund	41,000
Total Due to General Fund		<u>\$ 91,914</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 2018:

	Amount	Description
Transfers to General Fund from Ditch Special Revenue Fund	<u>\$ 6,040</u>	Repair Assessments

C. Liabilities

1. Payables

Payables at December 31, 2018, were as follows:

Accounts	\$ 598,651
Salaries	379,362
Contracts	338,857
Due to Other Governments	485,219
Total Payables	<u>\$ 1,802,089</u>

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

2. Long-Term Debt

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issues Amount	Outstanding Balance December 31, 2018
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	8,740,000
2014 G.O. Refunding Bonds	2021	\$305,000 - \$940,000	0.40 - 2.00	5,695,000	2,145,000
2009B Jail Lease Revenue Refunding Bonds	2022	\$250,000 - \$455,000	2.00 - 3.75	4,125,000	1,685,000
Add: Unamortized Premium				-	584,575
Total Bonds Outstanding, Net				<u>\$ 28,440,000</u>	<u>\$ 22,269,575</u>

3. Debt Service Requirements

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

Year Ending December 31	General Obligation Refunding Bonds		Lease Revenue Refunding Bonds	
	Principal	Interest	Principal	Interest
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	<u>\$ 2,145,000</u>	<u>\$ 52,250</u>	<u>\$ 1,685,000</u>	<u>\$ 124,965</u>

Year Ending December 31	Loans Payable		General Obligation State Aid Bonds	
	Principal	Interest	Principal	Interest
2019	\$ 72,240	\$ -	\$ 860,000	\$ 249,300
2020	79,146	-	885,000	223,125
2021	79,693	-	915,000	196,125
2022	81,095	-	940,000	168,300
2023	76,112	-	970,000	139,650
2024-2028	178,995	-	4,170,000	255,000
2029	9,602	-	-	-
Total	<u>\$ 576,883</u>	<u>\$ -</u>	<u>\$ 8,740,000</u>	<u>\$ 1,231,500</u>

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

3. Debt Service Requirements (Continued)

Year Ending December 31	G.O. Capital Improvement Plan Bonds		G.O. Tax Abatement Bonds	
	Principal	Interest	Principal	Interest
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	61,725
2023	405,000	126,025	155,000	57,850
2024-2028	2,150,000	487,225	850,000	220,556
2029-2033	2,420,000	182,912	975,000	80,613
Total	<u>\$ 6,540,000</u>	<u>\$ 1,379,612</u>	<u>\$ 2,575,000</u>	<u>\$ 628,483</u>

Year Ending December 31	Capital Lease	
	Principal	Interest
2019	\$ 57,043	\$ 4,016
2020	55,826	2,840
2021	21,378	908
Total	<u>\$ 134,247</u>	<u>\$ 7,764</u>

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 2029. The loans are repaid with the proceeds that are collected on the related loans receivable in the Public Works funds.

As of December 31, 2018, the County has \$113,031 of loan proceeds available to be drawn down from the State of Minnesota.

5. Capital Lease

In 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.

In 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.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

5. Capital Lease (Continued)

In 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.

In 2018, the County financed the acquisition of computers and software totaling \$83,841 using a capital lease with an effective interest rate of 4.3% payable annually in installments of \$22,286 through 2021.

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	(150,507)
Total	\$ 64,784

6. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable					
G.O. Refunding Bonds	\$ 3,035,000	\$ -	\$ 890,000	\$ 2,145,000	\$ 910,000
G.O. State Aid Bonds	9,505,000	-	765,000	8,740,000	860,000
G.O. Capital Improvement Plan Bonds	6,540,000	-	-	6,540,000	385,000
Taxable G.O. Tax Abatement Bonds	2,575,000	-	-	2,575,000	140,000
Lease Revenue Refunding	2,070,000	-	385,000	1,685,000	400,000
Plus: Premium on Bonds	663,319	-	78,744	584,575	-
Total Bonds Payable	24,388,319	-	2,118,744	22,269,575	2,695,000
Capital Leases	112,305	83,841	61,899	134,247	57,043
Loans Payable	543,411	97,562	64,090	576,883	72,240
Compensated Absences	1,126,984	938,022	856,831	1,208,175	119,434
Governmental Activity Long-Term Liabilities	\$ 26,171,019	\$ 1,119,425	\$ 3,101,564	\$ 24,188,880	\$ 2,943,717

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 General Fund, Public Works Fund and Debt Service Fund.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DEFINED BENEFIT PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Plan (GERF)

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

2. Public Employees Police and Fire Plan (PEPFP)

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

3. Local Government Correctional Plan (PECF)

The Local Government Correctional Plan, referred to as the Public Employees Correctional Fund (PECF), was established for correctional officers serving in county and regional corrections facilities. Eligible participants must be responsible for the security, custody, and control of the facilities and their inmates.

B. Benefits Provided

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. GERP Benefits

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

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

2. PEPFP Benefits

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

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

3. PEOF Benefits

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

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

C. Contributions

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

1. GEF Contributions

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2018 and the County was required to contribute 7.50% for Coordinated Plan members. The County's contributions to the General Employees Fund for the year ended December 31, 2018 were \$591,147. The County's contributions were equal to the required contributions as set by state statute.

2. PEPFP Contributions

Plan members were required to contribute 10.8% of their annual covered salary and the County was required to contribute 16.20% of pay for members in fiscal year 2018. The County's contributions to the Police and Fire Fund for the year ended December 31, 2018 were \$164,104. The County's contributions were equal to the required contributions as set by state statute.

3. Correctional Fund Contributions

Plan members were required to contribute 5.83% of their annual covered salary and the County was required to contribute 8.75% of pay for plan members in fiscal year 2018. The County's contributions to the Correctional Fund for the year ended December 31, 2018 were \$110,293. The County's contributions were equal to the required contributions as set by state statute.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

NOTE 3 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs

1. General Employees Retirement Plan Pension Costs

At December 31, 2018, the County reported a liability of \$6,335,348 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 \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the County totaled \$207,730, for a total net pension liability of \$6,543,078 associated with the County. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2018, the County's proportion share was .1142% which was a decrease of .0003% from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the County recognized pension expense of \$606,118 for its proportionate share of the General Employees Plan pension expense. In addition, the County recognized an additional \$18,272 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Plan.

At December 31, 2018, 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	\$ 167,686	\$ 184,775
Changes in Actuarial Assumptions	605,186	711,844
Net Difference Between Projected and Actual		
Earnings on Pension Plan Investments	-	647,372
Changes in Proportion and Differences Between		
County Contributions and Proportionate Share of		
Contributions	104,775	13,777
County Contributions Subsequent to the		
Measurement Date	298,059	-
Total	<u>\$ 1,175,706</u>	<u>\$ 1,557,768</u>

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

NOTE 3 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Retirement Plan Pension Costs (Continued)

\$298,059 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense
2019	\$ 289,767
2020	(319,006)
2021	(518,652)
2022	(132,230)

2. Police and Fire Plan Pension Costs

At December 31, 2018, the County reported a liability of \$983,823 for its proportionate share of the Police and Fire Plan net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2018, the County's proportion was .0923% which was an increase of .0063% from the proportion measured as of June 30, 2017. The County also recognized \$8,307 for the year ended December 31, 2018 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014, until the plan is 90% funded.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

NOTE 3 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Plan Pension Costs (Continued)

For the year ended December 31, 2018, the County recognized pension expense of \$122,414 for its proportionate share of the Police and Fire Plan's pension expense.

At December 31, 2018, 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	\$ 39,653	\$ 241,357
Changes in Actuarial Assumptions	1,223,137	1,448,316
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	206,065
Changes in Proportion and Differences Between County Contributions and Proportionate Share of Contributions	102,297	44,066
County Contributions Subsequent to the Measurement Date	82,851	-
Total	<u>\$ 1,447,938</u>	<u>\$ 1,939,804</u>

\$82,851 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense
2019	\$ (12,270)
2020	(57,951)
2021	(134,596)
2022	(385,676)
2023	15,776

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

NOTE 3 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

3. Correctional Plan Pension Costs

At December 31, 2018, the County reported a liability of \$102,168 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2018, the County's proportion was .621% which was an increase of 0.031% from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the County recognized pension expense of \$104,886 for its proportionate share of the Correctional Plan's pension expense.

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 5,337	\$ 10,921
Changes in Actuarial Assumptions	481,944	1,181,313
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	115,931
Changes in Proportion and Differences Between County Contributions and Proportionate Share of Contributions	43,650	-
County Contributions Subsequent to the Measurement Date	54,166	-
Total	<u>\$ 585,097</u>	<u>\$ 1,308,165</u>

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

NOTE 3 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

3. Correctional Plan Pension Costs (Continued)

\$54,166 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense
2019	\$ 63,409
2020	(439,356)
2021	(379,897)
2022	(21,390)

4. Total Pension Expense

Governmental activities recognized pension expense of \$859,997 for the year ended December 31, 2018.

E. Actuarial Assumptions

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

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

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

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

The following changes in actuarial assumptions occurred in 2018:

General Employees Fund

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

Police and Fire Plan

- The mortality projection scale was changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year, thereafter, to 1.0 percent for all years, with no trigger.
- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution. Additionally, annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter, until the plan reaches 100 percent funding or July 1, 2048, if earlier.
- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80 percent to 11.30 and 11.80 percent of pay, respectively. Employer contributions were changed effective January 1, 2019 and January 1, 2020 from 16.20 percent to 16.95 percent and 17.70 percent of pay, respectively. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

Correctional Plan

- The Single Discount Rate was changed from 5.96 percent per annum to 7.50 percent per annum.
- The mortality projection scale was changed from MP-2016 to MP-2017.
- The assumed postretirement benefit increase was changed from 2.5 percent per year to 2.00 percent per year.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

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

F. Discount Rate

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

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

NOTE 3 DEFINED BENEFIT PENSION PLANS (CONTINUED)

G. Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate 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%	\$ 10,295,751	6.50%	\$ 2,109,378	4.96%	\$ 874,389
Current	7.50	6,335,348	7.50	983,823	5.96	102,168
1% Increase	8.50	3,066,148	8.50	53,036	6.96	(515,584)

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
DECEMBER 31, 2018**

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, 2018, 2017, and 2016 were \$6,354, \$6,251, and \$4,611, 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.

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.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

C. Employees Covered by Benefit Terms

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

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

D. Total OPEB Liability

The County's total OPEB liability of \$321,222 was measured as of December 31, 2018 and was determined by an actuarial valuation as of December 31, 2017. The total OPEB liability was rolled-forward from the valuation date to fiscal year ended December 31, 2018 using generally accepted actuarial principles.

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.

The total OPEB liability in the December 31, 2017 actuarial valuation 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.

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

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

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

E. Actuarial Methods and Assumptions (Continued)

The discount rate as of December 31, 2018 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
Balances at January 1, 2018	\$ 302,569
Changes for the Year:	
Service Cost	23,963
Interest	11,093
Differences Between Expected and Actual Experience	22,994
Change in Assumptions	(9,296)
Contributions	(30,101)
Benefit Payments	-
Net Changes	18,653
Balances at December 31, 2018	\$ 321,222

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

The discount rate as of December 31, 2018 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 3.56% as of January 1, 2018 and 4.11% as of December 31, 2018. This change caused a decrease in liabilities. The discount rate will be updated annually to reflect market conditions as of the measurement date.

There have been no substantive plan provision changes since the last full valuation.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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 (3.11 percent) or 1-percentage-point higher (5.11 percent) than the current discount rate:

	1% Decrease (3.11%)	Discount Rate (4.11%)	1% Increase (5.11%)
OPEB Liability	\$ 331,193	\$ 321,222	\$ 298,661

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 (7.5 percent decreasing to 3.5 percent) or 1-percentage-point higher (8.5 percent decreasing to 5.5 percent) than the current healthcare cost trend rates:

	Healthcare Cost		
	1% Decrease (7.5% decreasing to 3.5% over 8 years)	Current Trend Rates (7.5% decreasing to 4.5% over 8 years)	1% Increase (8.5% decreasing to 5.5% over 8 years)
OPEB Liability	\$ 288,024	\$ 321,222	\$ 345,263

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

For the year ended December 31, 2018, the County recognized OPEB expense of \$42,330. At December 31, 2018 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	\$ -	\$ 151,761
Change of Assumptions	190,087	-
Total	\$ 190,087	\$ 151,761

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

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

<u>Year Ending December 31,</u>	<u>Future Recognition</u>
2019	\$ 7,274
2020	7,274
2021	7,274
2022	7,274
2023	7,274
2024	1,956

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 2018. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 6 RISK MANAGEMENT (CONTINUED)

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.

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, 2018, the Lincoln-Pipestone Rural Water System had \$40,481,000 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.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

A. Contingent Liabilities (Continued)

The total outstanding balance of bonds issued by Nobles County for the Lincoln-Pipestone Rural Water System is \$16,591,000 at December 31, 2018.

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 2018 financial report shows total net position of \$54,961,701, including unrestricted net position of \$5,130,277. The increase in net position for the year ended December 31, 2018, was \$505,585.

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, 2018**

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
 DECEMBER 31, 2018**

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, 2017 (the most recent information available):

Total Assets	\$1,898,733
Total Liabilities	362,847
Total Net Position	1,535,886
Total Revenues	3,107,981
Total Expenditures	3,081,985
Net Change in Net Position	25,996

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 2018, Nobles County paid a total of \$471,025 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
DECEMBER 31, 2018**

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 2018, Nobles County contributed \$5,873 to the Joint Powers board. There were no audited financial statements available for the year ended December 31, 2018.

Southern Prairie Community Care

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.

Complete financial information can be obtained from Southern Prairie Community Care, 607 West Main Street, P.O. Box 513 Marshall, Minnesota 56258.

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 2018.

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, 2018**

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 2018, the County made contributions of \$35,702 to the ACE SW MN. There were no audited financial statements available for the year ended December 31, 2018.

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 2018, Nobles County provided \$28,219 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, 2018**

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 \$92,177 to the Task Force.

Financial information can be obtained from City of Worthington, P.O Box 279, Worthington, MN 56187.

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, 2018, was \$200,167.

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.

Counties Providing Technology

In 2018, 23 counties created a joint powers organization named Counties Providing Technology (CPT) for the purpose of purchasing their former software vendor, Computer Professionals Unlimited, Inc (CPU) and then provide for the development, operation and maintenance of such systems for the use and benefits of the members and other governmental units.

In 2018, the County contributed \$175,000 to Counties Providing Technology.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

B. Joint Ventures (Continued)

Counties Providing Technology (Continued)

Complete financial information for Counties Providing Technology can be obtained from: Counties Providing Technology, 400 Colorado Avenue, Suite 303 Morris MN 56267.

Mid-State Computer Collaborative

In 2018, 29 counties created a joint powers organization named Mid-State Computer Collaborative (MSCC) for the purpose of providing an organization through which the counties may jointly provide for the following: 1. the sharing of costs of computer software and other information technology, 2. jointly negotiate contracts with vendors of products and services and 3. create an entity capable of owning technology and software licenses on behalf of all the parties.

In 2018, the County made no contributions to MSCC. Complete financial information is not available for MSCC. Treasurer's reports can be obtained from: 325 N Sibley Avenue Litchfield, MN 55355.

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 2018, Nobles County paid \$2,500 to the Board.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

C. Jointly-Governed Organizations (Continued)

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.

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 2018.

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.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

C. Jointly-Governed Organizations (Continued)

Southwest Minnesota Public Safety Board (Continued)

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. The County did not contribute to the Southwest Minnesota Public Safety Board during 2018.

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 \$23,680 to the MCCC.

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. Commitments

During 2018, the County board adopted a resolution to participate in county-based purchasing of health care services on behalf of persons eligible for medical assistance in Nobles County. The County shall join PrimeWest Health upon execution of the Families and Children contract between the Minnesota Department of Human Service and PrimeWest Health engaging PrimeWest Health to administer Prepaid Medical Assistance and Minnesota Care in Nobles County. Upon joining, the County shall make a financial contribution of \$2,133,618. A minimum of one half of this amount is due upon execution of the contract, the remaining balance is due by May 1, 2020.

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 2018, the county abated taxes totaling \$25,260 related to this program.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

NOTE 8 TAX ABATEMENTS (CONTINUED)

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 property tax increment received in the prior six months. The payment reimburses the developer for certain public improvements. During 2018, there were five pay-as-you-go notes within the County, administered by the City of Worthington. The tax increment taxes collected during 2018 totaled \$256,151. The County's portion of the captured tax capacity and related property taxes was approximately 35%. There are no provisions for recapturing abated taxes.

As of December 31, 2018, 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 2018 budgets as follows:

<u>Fund</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Major Governmental Funds:			
General Fund	\$ 11,730,665	\$ 11,705,920	\$ 24,745
Family Services Fund	8,636,855	8,403,235	233,620

The excess expenditures were covered by additional revenues received and available fund balance.

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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 MEASUREMENT PERIODS**

	Measurement Date June 30, 2018	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	0.1142%	0.1145%	0.1125%	0.1086%
County's Proportionate Share of the Net Pension Liability	\$ 6,335,348	\$ 7,309,604	\$ 9,134,442	\$ 5,628,216
State's Proportionate Share of the Net Pension Liability	\$ 207,730	\$ 91,939	\$ 119,227	\$ -
Total Proportionate Share of the Net Pension Liability	\$ 6,543,078	\$ 7,401,543	\$ 9,253,669	\$ 5,628,216
County's Covered Payroll	\$ 7,673,801	\$ 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	82.56%	101.21%	130.89%	86.66%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.50%	75.90%	68.90%	78.20%
PERA - Public Employees Police and Fire Plan				
County's Proportion of the Net Pension Liability	0.0923%	0.0860%	0.0900%	0.0900%
County's Proportionate Share of the Net Pension Liability	\$ 983,823	\$ 1,161,102	\$ 3,611,857	\$ 1,022,611
County's Covered Payroll	\$ 972,386	\$ 880,273	\$ 863,130	\$ 852,190
County's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	101.18%	131.90%	418.46%	120.00%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.80%	85.40%	63.90%	82.30%
PERA - Local Government Correctional Plan				
County's Proportion of the Net Pension Liability	0.6212%	0.5900%	0.5900%	0.5800%
County's Proportionate Share of the Net Pension Liability	\$ 102,168	\$ 1,681,506	\$ 2,155,353	\$ 89,668
County's Covered Payroll	\$ 1,268,775	\$ 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	8.05%	143.45%	192.89%	8.63%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.60%	67.90%	58.20%	96.90%

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.

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
PERA - General Employees Retirement Plan					
Statutorily Required Contribution	\$ 591,147	\$ 563,466	\$ 541,706	\$ 490,424	\$ 468,336
Contributions in Relation to the Statutorily Required Contribution	<u>(591,147)</u>	<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>	<u>\$ -</u>
County's Covered Payroll	\$ 7,881,960	\$ 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%	7.50%	7.25%
PERA - Public Employees Police and Fire Plan					
Statutorily Required Contribution	\$ 164,104	\$ 148,432	\$ 138,884	\$ 141,394	\$ 120,801
Contributions in Relation to the Statutorily Required Contribution	<u>(164,104)</u>	<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>	<u>\$ -</u>
County's Covered Payroll	\$ 1,012,988	\$ 916,247	\$ 857,309	\$ 872,802	\$ 789,549
Contributions as a Percentage of Covered Payroll	16.20%	16.20%	16.20%	16.20%	15.30%
PERA - Local Government Correctional Plan					
Statutorily Required Contribution	\$ 110,293	\$ 107,969	\$ 100,668	\$ 92,662	\$ 89,639
Contributions in Relation to the Statutorily Required Contribution	<u>(110,293)</u>	<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>	<u>\$ -</u>
County's Covered Payroll	\$ 1,260,491	\$ 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%	8.75%

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.

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

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

	2018	2017
Total OPEB Liability		
Service Cost	\$ 23,963	\$ 16,848
Interest	11,093	9,547
Changes of Assumptions	(9,296)	(4,259)
Differences Between Expected and Actual Experience	22,994	227,170
Benefit Payments	(30,101)	(19,509)
Net Change in Total OPEB Liability	18,653	229,797
Total OPEB Liability - Beginning	302,569	72,772
Total OPEB Liability - Ending	\$ 321,222	\$ 302,569
Covered-employee Payroll	\$ 9,721,318	\$ 9,415,320
County's Total OPEB Liability as a Percentage of Covered-employee Payroll	3.3%	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.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 7,996,085	\$ 7,996,085	\$ 7,535,261	\$ (460,824)
Licenses and Permits	12,760	12,760	28,705	15,945
Intergovernmental	1,089,280	1,089,280	1,696,356	607,076
Charges for Services	1,587,068	1,587,068	1,559,684	(27,384)
Fines and Forfeits	3,000	3,000	22,628	19,628
Gifts and Contributions	-	-	7,708	7,708
Interest on Investments	30,000	30,000	353,343	323,343
Miscellaneous	800,550	800,550	946,236	145,686
Total Revenues	11,518,743	11,518,743	12,149,921	631,178
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Commissioners	228,040	228,040	214,237	13,803
Courts	135,000	135,000	137,172	(2,172)
Law Library	20,000	20,000	15,721	4,279
County Administration	531,860	531,860	484,267	47,593
County Auditor-Treasurer	632,334	632,334	617,423	14,911
Finance	285,226	285,226	281,615	3,611
County Assessor	571,124	571,124	461,915	109,209
Elections	91,750	156,750	181,451	(24,701)
Data Processing	691,978	691,978	603,759	88,219
Central Services	19,260	19,260	21,541	(2,281)
Attorney	910,301	910,301	882,324	27,977
Recorder	299,912	299,912	278,233	21,679
Buildings and Plant	1,161,603	1,161,603	1,259,148	(97,545)
Veterans Service Officer	72,673	72,673	71,478	1,195
Other General Government	437,541	437,541	236,135	201,406
Total General Government	6,088,602	6,153,602	5,746,419	407,183
PUBLIC SAFETY				
Sheriff	2,080,483	2,080,483	2,157,412	(76,929)
Coroner	35,000	35,000	67,669	(32,669)
County Jail	2,237,053	2,237,053	2,264,534	(27,481)
Civil Defense	126,065	126,065	110,534	15,531
Total Public Safety	4,478,601	4,478,601	4,600,149	(121,548)

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, 2018**

	<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	\$ 147,610	\$ 147,610	\$ 140,333	\$ 7,277
ECONOMIC DEVELOPMENT				
Community Development	576,280	576,280	604,101	(27,821)
INTERGOVERNMENTAL				
General Government	-	-	175,000	(175,000)
Culture and Recreation	124,827	124,827	191,951	(67,124)
Total Intergovernmental	124,827	124,827	366,951	(242,124)
CAPITAL OUTLAY	290,000	225,000	207,368	17,632
DEBT SERVICE				
Principal	-	-	61,899	(61,899)
Interest	-	-	3,445	(3,445)
Total Debt Service	-	-	65,344	(65,344)
Total Expenditures	11,705,920	11,705,920	11,730,665	(24,745)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(187,177)	(187,177)	419,256	606,433
OTHER FINANCING SOURCES (USES)				
Transfers In	11,500	11,500	6,040	(5,460)
Transfers Out	(5,500)	(5,500)	-	5,500
Proceeds from Capital Lease	-	-	83,841	83,841
Proceeds from Sale of Assets	15,000	15,000	8,473	(6,527)
Total Other Financing Sources (Uses)	21,000	21,000	98,354	77,354
NET CHANGE IN FUND BALANCE	<u>\$ (166,177)</u>	<u>\$ (166,177)</u>	517,610	<u>\$ 683,787</u>
Fund Balance - Beginning of Year			9,942,755	
FUND BALANCE - END OF YEAR			<u>\$ 10,460,365</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, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 1,348,514	\$ 1,348,514	\$ 1,333,402	\$ (15,112)
Licenses and Permits	131,000	131,000	149,752	18,752
Intergovernmental	8,782,625	8,782,625	7,428,183	(1,354,442)
Charges for Services	1,143,500	1,143,500	1,464,319	320,819
Miscellaneous	68,600	68,600	457,492	388,892
Total Revenues	11,474,239	11,474,239	10,833,148	(641,091)
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Planning and Zoning	123,809	123,809	133,080	(9,271)
HIGHWAY AND STREETS				
Administration	265,479	265,479	266,872	(1,393)
Maintenance	1,365,728	1,365,728	1,609,707	(243,979)
Construction	6,266,755	6,266,755	4,613,835	1,652,920
Equipment and Maintenance Shops	904,603	904,603	1,003,120	(98,517)
Other	75,653	75,653	35,382	40,271
Total Highways and Streets	8,878,218	8,878,218	7,528,916	1,349,302
SANITATION				
Solid Waste	153,582	153,582	35,357	118,225
Recycling	383,637	383,637	340,097	43,540
Total Sanitation	537,219	537,219	375,454	161,765
CULTURE AND RECREATION				
Parks	142,026	142,026	143,031	(1,005)
CONSERVATION OF NATURAL RESOURCES				
Agricultural Inspection	94,249	94,249	88,560	5,689
Water Planning	392,530	392,530	349,208	43,322
Total Conservation of Natural Resources	486,779	486,779	437,768	49,011
INTERGOVERNMENTAL				
	458,000	458,000	534,171	(76,171)
CAPITAL OUTLAY				
	912,000	912,000	772,641	139,359
DEBT SERVICE				
Principal	40,000	40,000	64,090	(24,090)
Total Expenditures	11,578,051	11,578,051	9,989,151	1,588,900
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	(103,812)	(103,812)	843,997	947,809
OTHER FINANCING SOURCES (USES)				
Loan Proceeds	180,000	180,000	97,562	(82,438)
NET CHANGE IN FUND BALANCE				
	\$ 76,188	\$ 76,188	941,559	\$ 865,371
Fund Balance - Beginning of Year			8,668,292	
Decrease in Inventory			(72,501)	
FUND BALANCE - END OF YEAR			<u>\$ 9,537,350</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, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 3,293,846	\$ 3,293,846	\$ 3,139,627	\$ (154,219)
Licenses and Permits	3,000	3,000	2,520	(480)
Intergovernmental	4,227,045	4,227,045	4,062,103	(164,942)
Charges for Services	275,644	275,644	330,470	54,826
Miscellaneous	603,700	603,700	629,331	25,631
Total Revenues	8,403,235	8,403,235	8,164,051	(239,184)
EXPENDITURES				
CURRENT				
HUMAN SERVICES				
Income Maintenance	2,192,784	2,192,784	2,402,381	(209,597)
Social Services	4,680,842	4,680,842	4,877,417	(196,575)
Total Human Services	6,873,626	6,873,626	7,279,798	(406,172)
HEALTH				
Community Health	1,344,609	1,344,609	1,156,890	187,719
INTERGOVERNMENTAL	185,000	185,000	200,167	(15,167)
Total Expenditures	8,403,235	8,403,235	8,636,855	(233,620)
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	(472,804)	<u>\$ (472,804)</u>
Fund Balance - Beginning of Year			2,162,441	
FUND BALANCE - END OF YEAR			<u>\$ 1,689,637</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, 2018**

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.

II. Excess of Expenditures Over Budget

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

<u>Fund</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Major Governmental Funds:			
General Fund	\$ 11,730,665	\$ 11,705,920	\$ 24,745
Family Services Fund	8,636,855	8,403,235	233,620

The excess of expenditures over budgets were generally funded by greater than anticipated revenues and use of existing fund balance.

III. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

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

A. General Employees Fund

2018

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

2017

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018**

III. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions (Continued)

A. General Employees Fund (Continued)

2016

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

B. Police and Fire Fund

2018

- The mortality projection scale was changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year, thereafter, to 1.0 percent for all years, with no trigger.
- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution. Additionally, annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter, until the plan reaches 100 percent funding or July 1, 2048, if earlier.
- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80 percent to 11.30 and 11.80 percent of pay, respectively. Employer contributions were changed effective January 1, 2019 and January 1, 2020 from 16.20 percent to 16.95 percent and 17.70 percent of pay, respectively. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018**

III. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions (Continued)

B. Police and Fire Fund (Continued)

2017

- The Combined Service Annuity (CSA) load was 30% for vested and non-vested deferred members. The CSA has been changed to 33% for vested members and 2% 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% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65% to 60%.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00% for all years to 1.00% per year through 2064 and 2.50% thereafter.
- The single discount rate was changed from 5.6% per annum to 7.5% percent per annum.

2016

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

B. Correctional Fund

2018

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018**

III. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions (Continued)

C. Correctional Fund (Continued)

2017

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

2016

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

IV. Other Postemployment Benefits - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

2018

- The discount rate was changed from 3.56% to 4.11%

2017

- The actuarial cost method was updated from Entry Age Normal Levy Dollar to Entry Age Normal Level % of Salary.
- The discount rate was changed from 3.00% to 3.56%
- The payroll growth assumption was updated to follow the Minnesota Public Employees Retirement Association actuarial valuation as of July 1, 2016.
- The retirement rate assumption was 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.
- Mortality rates was 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.
- Health care trend rates was updated to an initial rate of 8.0% decreasing by 0.5% annually to an ultimate rate of 4.5%.

SUPPLEMENTARY INFORMATION

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
DESCRIPTION OF FUNDS
DECEMBER 31, 2018**

NONMAJOR GOVERNMENTAL FUNDS

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

The 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.

The Capital Projects Fund is used to account for the revenue and expenditures of County capital projects.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2018**

	Nonmajor Special Revenue Funds		
	Ditch	Building	Library
ASSETS			
Cash and Pooled Investments	\$ 510,073	\$ 1,287,676	\$ 351,467
Undistributed Cash in Agency Funds	3,911	-	8,994
Petty Cash and Change Funds	-	-	55
Taxes Receivable - Delinquent	-	5	9,701
Special Assessments Receivable			
Delinquent	908	-	-
Noncurrent	107,036	-	-
Due from Other Governments	15,615	-	-
Prepaid Items	-	-	38
	<u>\$ 637,543</u>	<u>\$ 1,287,681</u>	<u>\$ 370,255</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 5,871	\$ -	\$ 1,398
Salaries Payable	1,984	-	10,646
Contracts Payable	-	-	-
Due to Other Funds	41,000	-	-
Due to Other Governments	4,590	-	1,670
	<u>53,445</u>	<u>-</u>	<u>13,714</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Tax Related	-	5	9,701
Unavailable Revenue - Special Assessment Related	107,944	-	-
	<u>107,944</u>	<u>5</u>	<u>9,701</u>
FUND BALANCES			
Nonspendable			
Prepaid Items	-	-	38
Restricted			
Donations	-	-	14,466
Capital Projects	-	-	-
Ditch	476,154	-	-
Committed			
Building	-	1,287,676	-
Library	-	-	326,336
Property Forfeiture	-	-	-
Assigned			
Capital Equipment	-	-	6,000
	<u>476,154</u>	<u>1,287,676</u>	<u>346,840</u>
Total Fund Balances	<u>476,154</u>	<u>1,287,676</u>	<u>346,840</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 637,543</u>	<u>\$ 1,287,681</u>	<u>\$ 370,255</u>

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2018**

<u>Nonmajor Special Revenue Funds</u>		Nonmajor Capital Project Fund	Total Nonmajor Funds
<u>Property Forfeiture</u>	<u>Total</u>		
\$ 225,756	\$ 2,374,972	\$ 499,943	\$ 2,874,915
1,661	14,566	-	14,566
-	55	-	55
1,699	11,405	-	11,405
-	908	-	908
-	107,036	-	107,036
-	15,615	-	15,615
-	38	-	38
<u>\$ 229,116</u>	<u>\$ 2,524,595</u>	<u>\$ 499,943</u>	<u>\$ 3,024,538</u>
\$ 284	\$ 7,553	\$ 2,057	\$ 9,610
-	12,630	-	12,630
-	-	119,023	119,023
-	41,000	-	41,000
-	6,260	-	6,260
<u>284</u>	<u>67,443</u>	<u>121,080</u>	<u>188,523</u>
1,699	11,405	-	11,405
-	107,944	-	107,944
<u>1,699</u>	<u>119,349</u>	<u>-</u>	<u>119,349</u>
-	38	-	38
-	14,466	-	14,466
-	-	378,863	378,863
-	476,154	-	476,154
-	1,287,676	-	1,287,676
-	326,336	-	326,336
227,133	227,133	-	227,133
<u>-</u>	<u>6,000</u>	<u>-</u>	<u>6,000</u>
<u>227,133</u>	<u>2,337,803</u>	<u>378,863</u>	<u>2,716,666</u>
<u>\$ 229,116</u>	<u>\$ 2,524,595</u>	<u>\$ 499,943</u>	<u>\$ 3,024,538</u>

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

	Nonmajor Special Revenue Funds		
	Ditch	Building	Library
REVENUES			
Taxes	\$ -	\$ 272,568	\$ 610,276
Special Assessments	167,121	-	-
Intergovernmental	-	-	-
Charges for Services	-	-	4,774
Gifts and Contributions	-	-	6,411
Miscellaneous	14,064	44,400	15,767
Total Revenues	181,185	316,968	637,228
EXPENDITURES			
CURRENT			
General Government	-	-	-
Culture and Recreation	-	-	593,498
Conservation of Natural Resources	194,031	-	-
CAPITAL OUTLAY	-	-	1,554
Total Expenditures	194,031	-	595,052
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(12,846)	316,968	42,176
OTHER FINANCING SOURCES (USES)			
Transfers Out	(6,040)	-	-
NET CHANGE IN FUND BALANCES	(18,886)	316,968	42,176
Fund Balance - Beginning of Year	495,040	970,708	304,664
FUND BALANCE - END OF YEAR	\$ 476,154	\$ 1,287,676	\$ 346,840

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

Nonmajor Special Revenue Funds		Nonmajor Capital Project Fund	Total Nonmajor Funds
Property Forfeiture	Total		
\$ 113,622	\$ 996,466	\$ -	\$ 996,466
-	167,121	-	167,121
-	-	21,310	21,310
-	4,774	-	4,774
-	6,411	-	6,411
935	75,166	-	75,166
<u>114,557</u>	<u>1,249,938</u>	<u>21,310</u>	<u>1,271,248</u>
8,629	8,629	-	8,629
-	593,498	-	593,498
-	194,031	-	194,031
-	1,554	1,782,310	1,783,864
<u>8,629</u>	<u>797,712</u>	<u>1,782,310</u>	<u>2,580,022</u>
105,928	452,226	(1,761,000)	(1,308,774)
-	(6,040)	-	(6,040)
105,928	446,186	(1,761,000)	(1,314,814)
121,205	1,891,617	2,139,863	4,031,480
<u>\$ 227,133</u>	<u>\$ 2,337,803</u>	<u>\$ 378,863</u>	<u>\$ 2,716,666</u>

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE
 DEBT SERVICE FUND
 YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 1,227,078	\$ 1,227,078	\$ 1,186,836	\$ (40,242)
Intergovernmental	1,038,675	1,038,675	1,038,675	-
Interest on Investments	92,258	92,258	66,736	(25,522)
Miscellaneous	<u>201,150</u>	<u>201,150</u>	<u>198,397</u>	<u>(2,753)</u>
Total Revenues	2,559,161	2,559,161	2,490,644	(68,517)
EXPENDITURES				
DEBT SERVICE				
Principal	2,479,250	2,479,250	2,040,000	439,250
Interest	559,997	559,997	652,900	(92,903)
Administrative (Fiscal) Charges	<u>93,608</u>	<u>93,608</u>	<u>5,570</u>	<u>88,038</u>
Total Debt Service	3,132,855	3,132,855	2,698,470	434,385
Total Expenditures	<u>3,132,855</u>	<u>3,132,855</u>	<u>2,698,470</u>	<u>434,385</u>
NET CHANGE IN FUND BALANCE	<u>\$ (573,694)</u>	<u>\$ (573,694)</u>	(207,826)	<u>\$ 365,868</u>
Fund Balance - Beginning of Year			<u>6,867,857</u>	
FUND BALANCE - END OF YEAR			<u>\$ 6,660,031</u>	

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE
 CAPITAL PROJECT FUND
 YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 21,310	\$ 21,310
EXPENDITURES				
CAPITAL OUTLAY	<u>3,387,566</u>	<u>3,387,566</u>	<u>1,782,310</u>	<u>1,605,256</u>
NET CHANGE IN FUND BALANCE	<u><u>\$ (3,387,566)</u></u>	<u><u>\$ (3,387,566)</u></u>	<u>(1,761,000)</u>	<u><u>\$ 1,626,566</u></u>
Fund Balance - Beginning of Year			<u>2,139,863</u>	
FUND BALANCE - END OF YEAR			<u><u>\$ 378,863</u></u>	

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE
 BUILDING SPECIAL REVENUE FUND
 YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Property Taxes	\$ 350,693	\$ 350,693	\$ 272,568	\$ (78,125)
Miscellaneous	40,500	40,500	44,400	3,900
Total Revenues	391,193	391,193	316,968	(74,225)
EXPENDITURES				
CURRENT				
BUILDING AND PLANT				
Building and Plant	350,693	350,693	-	350,693
NET CHANGE IN FUND BALANCE	<u>\$ 40,500</u>	<u>\$ 40,500</u>	316,968	<u>\$ 276,468</u>
Fund Balance - Beginning of Year			970,708	
FUND BALANCE - END OF YEAR			<u>\$ 1,287,676</u>	

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE
 LIBRARY SPECIAL REVENUE FUND
 YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 631,006	\$ 631,006	\$ 610,276	\$ (20,730)
Charges for Services	4,925	4,925	4,774	(151)
Gifts and Contributions	-	-	6,411	6,411
Miscellaneous	4,900	4,900	15,767	10,867
Total Revenues	640,831	640,831	637,228	(3,603)
EXPENDITURES				
CURRENT				
CULTURE AND RECREATION				
County/Regional Library	640,831	640,831	593,498	47,333
CAPITAL OUTLAY	-	-	1,554	(1,554)
Total Expenditures	640,831	640,831	595,052	45,779
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	42,176	<u>\$ 42,176</u>
Fund Balance - Beginning of Year			304,664	
FUND BALANCE - END OF YEAR			<u><u>\$ 346,840</u></u>	

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE
 PROPERTY FORFEITURE SPECIAL REVENUE FUND
 YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 117,000	\$ 117,000	\$ 113,622	\$ (3,378)
Miscellaneous	500	500	935	435
Total Revenues	<u>117,500</u>	<u>117,500</u>	114,557	(2,943)
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Other General Government	<u>117,500</u>	<u>117,500</u>	8,629	108,871
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	105,928	<u>\$ 105,928</u>
Fund Balance - Beginning of Year			<u>121,205</u>	
FUND BALANCE - END OF YEAR			<u><u>\$ 227,133</u></u>	

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
DESCRIPTION OF AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2018**

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, 2018**

	Balance January 1	Additions	Deductions	Balance December 31
TAXES AND PENALTIES				
ASSETS				
Cash and Pooled Investments	\$ 577,165	\$ 32,819,507	\$ 33,155,312	\$ 241,360
LIABILITIES				
Due to Other Governments	\$ 577,165	\$ 32,819,507	\$ 33,155,312	\$ 241,360
JAIL INMATE				
ASSETS				
Cash and Pooled Investments	\$ 16,164	\$ 247,654	\$ 248,529	\$ 15,289
LIABILITIES				
Due to Others	\$ 16,164	\$ 247,654	\$ 248,529	\$ 15,289
SOCIAL WELFARE FUND				
ASSETS				
Cash and Pooled Investments	\$ 1,747	\$ -	\$ -	\$ 1,747
LIABILITIES				
Due to Others	\$ 1,747	\$ -	\$ -	\$ 1,747
SHERIFF'S TRUST ACCOUNT				
ASSETS				
Cash and Pooled Investments	\$ 5,073	\$ 30,934	\$ 28,117	\$ 7,890
LIABILITIES				
Due to Others	\$ 5,073	\$ 30,934	\$ 28,117	\$ 7,890
TOTAL ALL AGENCY FUNDS				
ASSETS				
Cash and Pooled Investments	\$ 600,149	\$ 33,098,095	\$ 33,431,958	\$ 266,286
LIABILITIES				
Due to Others	\$ 22,984	\$ 278,588	\$ 276,646	\$ 24,926
Due to Other Governments	577,165	32,819,507	33,155,312	241,360
Total Liabilities	\$ 600,149	\$ 33,098,095	\$ 33,431,958	\$ 266,286

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 SCHEDULE OF INTERGOVERNMENTAL REVENUE
 YEAR ENDED DECEMBER 31, 2018**

	<u>Total Primary Government</u>
SHARED REVENUE	
STATE	
Highway Users Tax	\$ 7,545,288
County Program Aid	754,958
PERA Rate Increase	55,421
Disparity Reduction Aid	68,485
Police Aid	108,026
Enhanced 911	95,857
Aquatic Invasive Species	51,334
Riparian Protection Aid	163,473
Market Value Credit	324,695
	9,167,537
Total Shared Revenue	9,167,537
REIMBURSEMENT FOR SERVICES	
STATE	
Minnesota Department of Human Services	959,832
PAYMENTS	
Local	
Local - Payments in Lieu of Taxes	264,722
GRANTS	
STATE	
Minnesota Department of	
Health	165,811
Human Services	731,654
Natural Resources	42,527
Public Safety	15,474
Veterans Services	10,000
Secretary of the State	66,375
Water and Soil Resources Board	184,293
Pollution Control Agency	116,602
State Supreme Court	21,310
Public Finance Authority	11,700
Peace Officer Standards and Training Board	13,250
	1,378,996
Total State	1,378,996
FEDERAL	
Department of	
Agriculture	436,173
Education	2,262
Justice	50,920
Transportation	1,500
Health and Human Services	1,916,301
Homeland Security	68,384
	2,475,540
Total Federal	2,475,540
Total State and Federal Grants	3,854,536
Total Intergovernmental Revenue	\$ 14,246,627

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**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, 2018, 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 20, 2019.

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 did identify 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 2018-001 through 2018-005 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 2018-006 to be a significant deficiency.

Compliance and Other Matters

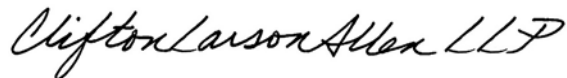
As part of obtaining reasonable assurance about whether Nobles County’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Nobles County’s response was not subjected to auditing procedures applied in the audits of the financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 20, 2019

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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, 2018. 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 types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-007 through 2018-010. Our opinion on each major federal program is not modified with respect to these matters.

Nobles County's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

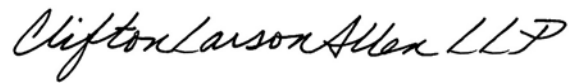
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-007 to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2018-008 through 2018-010 to be significant deficiencies.

Board of County Commissioners
Nobles County

Nobles County's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Brainerd, Minnesota
September 20, 2019

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**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 DECEMBER 31, 2018**

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? X yes 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 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, 2018**

SECTION II – FINANCIAL STATEMENT FINDINGS

2018-001 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.

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.

Repeat Finding: Yes, previously reported as finding 2017-001.

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, 2019

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

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2018-002 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 interest receivable, record contracts payable and reclassify transfers between funds to payables between funds.

Cause: Employee turnover.

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

Repeat Finding: Yes, previously reported as finding 2017-002.

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, 2019

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

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2018-003 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.

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

Repeat Finding: Yes, previously reported as finding 2017-003.

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, 2019

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

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2018-004 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.

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.

Repeat Finding: Yes, previously reported as finding 2017-004.

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, 2019

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

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2018-005 Capital Asset Recording

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

Criteria: Capital asset schedules should reflect county assets meeting the county's policy for capitalization. Asset schedules should be reviewed annually for completeness and accuracy. Assets acquired during the fiscal year should be flagged and recognized as an addition to the capital asset schedules.

Condition and Context: County does not have a process in place to reconcile additions to capital outlay expenditures resulting in incomplete asset listings at year end. Highway project costs are not accounted for as part of the year end close out.

Cause: Past practice and employee turnover.

Effect: The potential exists that a material misstatement of the annual financial statements could occur related to these costs.

Repeat Finding: No.

Recommendation: We recommend management implement procedures to ensure capital outlay expenditures are reviewed for possible asset additions at year end, including reconciliation of highway project costs.

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, 2019

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

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2018-006 Unauthorized Bank Signer

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

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

Condition and Context: We noted that a former County employee was not removed as an authorized signed on three of the County's bank accounts.

Cause: County does not have a formal process in place to remove unauthorized signers.

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

Repeat Finding: No.

Recommendation: We recommend County management contact the financial institutions and ensure only current employees are listed as authorized signers on the account.

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: Corrective action has been taken.

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2018-007 Eligibility

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: 1805MN5ADM, 1805MN5MAP
Award Periods: Year ended December 31, 2018

Type of Finding: Material Weakness 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 five of sixty case files tested, documentation was not maintained to support asset verification. During our testing of 60 casefiles, we noted that for 3 of 60 casefiles, there was no documentation of an annual renewal application. The eligibility benefits were continued without proper paperwork on file. The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

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.

Repeat Finding: Yes, previously reported as finding 2017-006.

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.

View of Responsible Officials: There is no disagreement with the audit finding.

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

2018-008 Special Provisions

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: 1805MN5ADM, 1805MN5MAP
Award Periods: Year ended December 31, 2018

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

Criteria: The contract between the Minnesota Department of Human Services and Nobles County states that the County is required to review all reports submitted for accuracy and timeliness and retain a paper copy of all submitted reports.

Condition and Context: 2 out of 2 3220 LCTS reports tested were missing signatures of approval by the fiscal reporting and payment agent and paper copies of all submitted reports were not kept on file. The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Questioned Costs: None.

Cause: County was unaware of the requirement to keep a paper copy of all submitted reports and review for accuracy and was just monitoring the reports for timeliness.

Effect: A reimbursement might be made for an activity that is not allowable.

Repeat Finding: No.

Recommendation: We recommend management review the contract with MN DHS and implement proper review and approval of all LCTS reports as well as keep a paper copy of all submitted reports on file.

View of Responsible Officials: There is no disagreement with the audit finding.

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

2018-009 Reporting

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: 1805MN5ADM, 1805MN5MAP
Award Periods: Year ended December 31, 2018

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

Criteria: Income maintenance reports are required to be submitted at the end of every quarter for payroll and administrative costs.

Condition and Context: In 1 of 2 income maintenance reports and 2 of 2 social service reports tested, the balances reported in the report submitted to DHS did not agree to the County's general ledger report. The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Questioned Costs: None.

Cause: Errors in preparing the report were not caught in the review.

Effect: Unsupported expenditures reported within the quarterly reports could lead to incorrect cost reimbursements.

Repeat Finding: No.

Recommendation: We recommend procedures be implemented to ensure the quarterly expenditure reports are reviewed before submission. County general ledger reports should be retained to support balances reported.

View of Responsible Officials: There is no disagreement with the audit finding.

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

2018-010 Procurement, Suspension and Debarment

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: 1805MN5ADM, 1805MN5MAP
Award Periods: Year ended December 31, 2018

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

Criteria: Uniform Guidance requires that the entity maintain records sufficient to detail the history of procurement, procurement transactions are conducted in a manner providing full and open competition, and that entity verify that the vendor is not suspended or debarred or otherwise excluded from participating in the transaction.

Condition and Context: In 3 of 5 contracts tested for procurement the county did not open contract up to public to solicit open competition. In 1 of 2 contracts tested for suspension and debarment, suspension and debarment requirements were not met. The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Questioned Costs: None.

Cause: Management was unaware the requirements applied to county wide contracts in addition to department expenditures.

Effect: Improper benefits could be paid to vendors.

Repeat Finding: No.

Recommendation: We recommend management develop a more detailed procurement policy that aligns with Uniform Guidance requirements. We recommend the family service department work with finance department to develop and implement procurement policies and procedures across departments to ensure county wide compliance with Uniform Guidance.

View of Responsible Officials: There is no disagreement with the audit finding.

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

SECTION IV – OTHER ITEMS FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE

2018-011 Disbursements

Criteria: Minnesota Statute 471.38 requires counties to enact a plan containing a policy that requires annual delegation of authority to make electronic funds transfers to a chief financial officer or officer's designee.

Condition and Context: The policy has not been updated since 1998.

Cause: This is a new requirement and the County has not yet put the policy in place.

Effect: The County is not in compliance with state statutes.

Repeat Finding: No.

Recommendation: We recommend County management implement a policy that requires the annual delegation of authority for EFT's and make the delegation annually.

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, 2019

2018-012 Unclaimed Property Tax Overpayment

Criteria: Minnesota Statute 276.19 requires counties to publish in the newspaper "Notice of Unclaimed Property Tax Refunds" for all overpayments that have not been claimed within three years.

Condition and Context: The County reported multiple outstanding checks on their Overremittance account that were from 2014 or earlier.

Cause: Staff were unfamiliar with the compliance requirement.

Effect: The County is not in compliance with state statutes.

Repeat Finding: No.

Recommendation: We recommend that the County published a "Notice of Unclaimed Property Tax Refunds" in the newspaper.

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, 2019

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

**SECTION IV – OTHER ITEMS FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE
(CONTINUED)**

2018-013 Unclaimed Property

Criteria: Minnesota Statute 345.38 requires unclaimed or uncashed checks held for more than three years be delivered to the State Commissioner of Commerce.

Condition and Context: The County has not remitted unclaimed or uncashed checks to the commissioner of commerce in recent years. Outstanding checks date back to 2011.

Cause: Staff were unfamiliar with the compliance requirement.

Effect: The County is not in compliance with state statutes.

Repeat Finding: No.

Recommendation: We recommend the county deliver unclaimed checks held for more than three years to the Commissioner of Commerce.

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, 2019

SECTION IV – PREVIOUSLY REPORTED ITEMS RESOLVED

2017-005 Internal Controls over Payroll

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED DECEMBER 31, 2018**

Federal Grantor Pass Through Agency Program or Cluster Title	Federal CFDA Number	Pass-through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	12-700-00061	\$ 216,193	\$ -
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Total SNAP Cluster \$219,980)	10.561	182MN101S2514	200,722	-
Passed Through Southwest Minnesota Private Industry Council State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Total SNAP Cluster \$219,980)	10.561	182MN101S2514	19,258	-
Total Department of Agriculture			436,173	-
U.S. Department of Justice				
Pass Through Minnesota Department of Public Safety Crime Victim Assistance	16.575	F-CVSP-2018- NOBLES AO	50,920	-
U.S. Department of Transportation				
Passed Through Minnesota Department of Public Safety Interagency Hazardous Materials Public Sector Training And Planning Grants	20.703	F-HMEP-2017- NOBLESCO-2687	1,500	-
U.S. Department of Education				
Passed Through Minnesota Department of Health Special Education-Grants for Infants and Families	84.181	12-700-0061	2,262	-
U.S. Department of Health and Human Services				
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	H12H675F	45,390	-
PPHF Capacity Building Assistance	93.539	H12H630E	2,000	-
Temporary Assistance for Needy Families (Total TANF Cluster \$242,277)	93.558	H12H368F	17,167	-
Maternal and Child Health Services Block Grant to the States	93.994	H12H301F	25,592	-
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	G-1701MNFPS	4,902	-
Temporary Assistance for Needy Families (Total TANF Cluster \$242,277)	93.558	1801MNTANF	52,279	-
Child Support Enforcement	93.563	1804MNCSES	97,159	-
Child Support Enforcement (Total Child Support Enforcement \$315,973)	93.563	1804MNCES	218,814	-
Community-Based Child Abuse Prevention Grants	93.590	G-1702MNFPRG	2,994	-
Child Care Mandatory and Matching Funds of the Child Care and Development Fund (Total CCDF Cluster \$4,399)	93.596	G1801MNCDF	4,399	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1701MNCWSS	3,582	-
Foster Care - Title IV-E	93.658	1801MNFOS	89,820	-
Social Services Block Grant	93.667	G-1801MNSOSR	109,019	-
Block Grant for Prevention and Treatment of Substance Abuse	93.959	2B08T1010027-17	840	-
Chafee Foster Care Independence Program	93.674	G-1801MNCILP	864	-
Children's Health Insurance Program	93.767	1805MNR21	179	-
Medical Assistance Program (Total Medicaid Cluster \$831,283)	93.778	1805MN5MAP	5,460	-
Medical Assistance Program (Total Medicaid Cluster \$831,283)	93.778	1805MN5ADM	825,823	-

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, 2018**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Pass-through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services				
Passed Through Des Moines Valley Health and Human Services State and Local Public Health Actions	93.757	12-700-0066	\$ 204,507	\$ -
Passed Through Southwest Minnesota Private Industry Council Temporary Assistance for Needy Families (Total TANF Cluster \$242,277)	93.558	1801MNTANF	172,831	-
Total Department of Health and Human Services			<u>1,883,621</u>	<u>-</u>
U.S. Department of Homeland Security				
Pass Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	Nobles FBE-090518	1,774	-
Passed Through Minnesota Department of Public Safety Disaster Grants - Public Assistance	97.036	DR4113/P0720	44,425	-
Emergency Management Performance Grants	97.042	F-EMPG-2018- NOBLESCO-2781	22,185	-
Total Department of Homeland Security			<u>68,384</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 2,442,860</u>	<u>\$ -</u>
Totals by Cluster				
Total Expenditures for SNAP Cluster			\$ 219,980	
Total Expenditures for TANF Cluster			242,277	
Total Expenditures for CCDF Cluster			4,399	
Total Expenditures for Medicaid Cluster			831,283	

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

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**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2018**

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, 2018. 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	\$	2,475,540
Revenues Included on the Schedule of Intergovernmental Revenue that are not Considered		
2017 Federal Grant Expenditures (Prior Year Deferred Inflows of Resources)		(34,913)
Expenditures included on the Schedule of Expenditures of Federal Awards that		
are not Considered 2018 Intergovernmental Revenues (Current Year Deferred Inflows of Resources)		2,233
Expenditures per Schedule of Expenditures of Federal Awards	\$	2,442,860



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, 2018, and the related notes to the financial statements which collectively comprise the County's basic financial statements and have issued our report thereon dated September 20, 2019.

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*, except for the items described in detail in the attached schedule of findings and questioned costs as items 2018-011 to 2018-013. 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.

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

Board of County Commissioners
Nobles County

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

CliftonLarsonAllen LLP

Brainerd, Minnesota
September 20, 2019