

WASECA COUNTY

Waseca, Minnesota

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Year Ended December 31, 2016

WASECA COUNTY

TABLE OF CONTENTS As of and for the Year Ended December 31, 2016

Independent Auditors' Report	i – iii
Required Supplementary Information	
Management's Discussion and Analysis (Unaudited)	iv – xv
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements	
<i>Governmental Funds</i>	
Balance Sheet – Governmental Funds	3
Reconciliation of the Governmental Funds Balance Sheet with the Statement of Net Position	4
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6 – 7
<i>Proprietary Fund</i>	
Statement of Net Position – Internal Service Fund	8
Statement of Revenues, Expenses, and Changes in Net Position – Internal Service Fund	9
Statement of Cash Flows – Internal Service Fund	10
<i>Agency Funds</i>	
Statement of Assets and Liabilities	11
Notes to the Financial Statements	12 – 49
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	50
Budgetary Comparison Schedule – Human Services Fund	51
Budgetary Comparison Schedule – Road and Bridge Fund	52
Budgetary Comparison Schedule – Ditch Fund	53
Other Postemployment Benefits Plan Schedule of Funding Progress	54
Schedule of County's Proportionate Share of the Net Pension Liability – PERA General Employees' Retirement Fund	55
Schedule of Employer Contributions – PERA General Employees' Retirement Fund	55
Schedule of County's Proportionate Share of the Net Pension Liability – PERA Police and Fire Fund	56
Schedule of Employer Contributions – PERA Police and Fire Fund	56
Schedule of County's Proportionate Share of the Net Pension Liability – PERA Correctional Fund	57
Schedule of Employer Contributions – PERA Correctional Fund	57
Notes to Required Supplementary Information	58 – 59

WASECA COUNTY

TABLE OF CONTENTS As of and for the Year Ended December 31, 2016

Supplementary Information

Detailed Budgetary Comparison Schedule – General Fund	60 – 61
Budgetary Comparison Schedule – Debt Service Fund	62
Nonmajor Governmental Funds	63
Combining Balance Sheet – Nonmajor Governmental Funds	64
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	65
Budgetary Comparison Schedule – Waste Management Fund	66
Budgetary Comparison Schedule – Special Revenue Fund	67
Agency Funds	68
Combining Statement of Assets and Liabilities – Agency Funds	69
Combining Statement of Changes in Assets and Liabilities – Agency Funds	70 – 71
Schedule of Intergovernmental Revenues	72

Other Reports

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	73 – 74
Schedule of Findings and Responses	75 – 76

INDEPENDENT AUDITORS' REPORT

To the County Board of Commissioners
Waseca County
Waseca, 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 Waseca County, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Waseca County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Minnesota Prairie County Alliance or South Country Health Alliance, in which Waseca County has equity interests, which represent 4.7%, 5.9% and 0%, respectively, of the assets/deferred outflows, net position and revenues of the governmental activities. Those statements were audited by other auditors whose reports have been furnished to us. The statements for South Country Health Alliance were prepared in accordance with the financial reporting provisions of the Department of Health of the State of Minnesota. We have applied audit procedures on the conversion adjustments to the financial statements of South Country Health Alliance, which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for the Minnesota Prairie County Alliance and South Country Health Alliance (prior to these conversion adjustments), is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of South Country Health Alliance were not audited in accordance with *Government Auditing Standards*.

To the County Board of Commissioners
Waseca County

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to Waseca 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 Waseca County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of other auditors, 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 Waseca County, Minnesota, as of December 31, 2016 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Waseca County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

To the County Board of Commissioners
Waseca County

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2017 on our consideration of Waseca County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Waseca County's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
September 20, 2017

WASECA COUNTY, MINNESOTA
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2016

As management of Waseca County, Minnesota, we offer readers of the County's financial statements this narrative overview and analysis of the financial statements of Waseca County, Minnesota for the fiscal year ended December 31, 2016.

The County is presenting prior year data for various comparisons and analyses.

Financial Highlights

The assets and deferred outflows of Waseca County exceeded its liabilities and deferred inflows at the close of the most recent year by \$69,818,691 (net position). Approximately 17.33% of this total amount, \$12,101,722, is available for spending at the County's discretion (unrestricted net position).

The County's total net position decreased by \$942,549.

The County's total general-obligation debt as of December 31, 2016 was \$3,325,000. \$410,000 of principal related to debt issued in prior years was paid off on the general obligation debt during 2016.

Overview of the Financial Statements

This discussion and analysis is designed to be an introduction to Waseca County, Minnesota's basic financial statements. The County's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business. The government-wide statements are comprised of the statement of net position and the statement of activities.

The statement of net position presents information on all of the County's assets/deferred outflows of resources and liabilities/deferred inflows of resources, with the difference between the two being reported as net position. Over time, increases or decreases in net position will serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the County's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. This means, some revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. (E.g., uncollected taxes and earned but unused vacation leave.)

The government-wide financial statements can be found on pages 1 and 2 of the report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

WASECA COUNTY, MINNESOTA
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2016

Governmental Funds

Governmental funds are used to account for essentially the same functions as governmental activities in the government-wide financial statements; however, the governmental fund financial statements focus on near-term inflows and outflows of resources, as well as on balances of resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This comparison may help readers better understand the long-term impact of a government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains 11 individual governmental funds, one of which was closed out during 2016. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the general fund, human services, road and bridge, ditch, and debt service, all of which are considered major funds. Data from the other 6 funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major funds is provided in the combining statements found elsewhere in this report.

The County adopts annual appropriation budgets for 7 of its governmental type funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 3 and 5 of this report.

Proprietary Funds

The County maintains one proprietary fund known as the Internal Service Fund. Internal service funds are used to accumulate and allocate costs internally among various functions. The County uses the internal service fund to account for its self-funded health insurance. The proprietary fund financial statements are on pages 8-10.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the County's own programs. The accounting used in fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 11 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12-49 of this report.

Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information regarding budget to actual data, postemployment benefit funding and net pension liability and contribution information for the three PERA funds that the County participates in. Required supplementary information can be found on pages 50-59 of this report.

The combined statements referred to in connection with non-major governmental funds are presented as a component of the supplementary information. Supplementary information can be found on pages 60-72.

WASECA COUNTY, MINNESOTA
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2016

Government-Wide Financial Analysis

As discussed earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of the County exceeded liabilities and deferred inflows by \$69,818,691 at the close of 2016.

By far, the largest portion of the County's net position (80.93%) reflects its investment in capital assets (\$59,770,828) (i.e., land, buildings, improvements, equipment, and infrastructure), less any related debt and premium/discount (\$3,264,287) used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt (\$56,506,541), it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The County also reported restricted net position totaling \$1,210,428 for debt service, road and bridge projects, statutory requirements, missing heirs, and small cities development.

The remaining balance of \$12,101,722 designated as unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors.

The statement of net position for Waseca County is summarized in the table below.

ASSETS	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 17,869,805	\$ 17,470,561
Capital assets (net)	59,770,828	60,596,723
Investment in joint ventures	<u>4,095,034</u>	<u>4,181,714</u>
Total assets	<u>81,735,667</u>	<u>82,248,998</u>
 DEFERRED OUTFLOWS OF RESOURCES	 <u>5,341,043</u>	 <u>861,388</u>
 LIABILITIES		
Current liabilities	1,175,860	1,148,484
Noncurrent liabilities	<u>14,036,857</u>	<u>10,184,531</u>
Total liabilities	<u>15,212,717</u>	<u>11,333,015</u>
 DEFERRED INFLOWS OF RESOURCES	 <u>2,045,302</u>	 <u>1,016,131</u>
 NET POSITION		
Net investment in capital assets	56,506,541	56,952,584
Restricted	1,210,428	1,248,876
Unrestricted	<u>12,101,722</u>	<u>12,559,780</u>
Total Net position	<u>\$ 69,818,691</u>	<u>\$ 70,761,240</u>

WASECA COUNTY, MINNESOTA
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2016

The statement of activities for Waseca County is summarized in the table below.

REVENUES	<u>2016</u>	<u>2015</u>
Program revenues:		
Charges for services	\$ 3,139,246	\$ 3,228,382
Operating grants and contributions	3,201,509	3,172,481
Capital grants and contributions	2,132,947	2,713,080
General revenues:		
Taxes	13,722,137	12,824,730
Intergovernmental revenues	1,038,090	1,017,411
Investment income (including unrealized gains/losses)	87,582	56,965
Miscellaneous	242,831	528,834
Special item	-	(197,887)
Total Revenues	<u>23,564,342</u>	<u>23,343,996</u>
 EXPENSES		
Program expenses:		
General government	5,598,452	4,827,918
Public safety	4,634,361	3,905,402
Public works	8,030,071	6,865,595
Sanitation	897,450	829,783
Health and human services	3,622,635	3,131,202
Culture, recreation, and education	368,361	395,979
Conservation and development	1,245,688	1,658,876
Interest and fiscal charges	<u>109,873</u>	<u>82,886</u>
Total Expenses	<u>24,506,891</u>	<u>21,697,641</u>
 Change in net position	(942,549)	1,646,355
Net position – beginning of year (as restated)	<u>70,761,240</u>	<u>69,114,885</u>
Net position – end of year	<u>\$ 69,818,691</u>	<u>\$ 70,761,240</u>

Governmental Activities

Governmental activities decreased the County's net position by \$942,549. This is down from the increase of \$1,646,355 in 2015 primarily due to activity related to road and bridge projects.

Financial Analysis of the Government's Funds

As indicated earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus on the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financial requirements. Note how unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

WASECA COUNTY, MINNESOTA
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2016

As of December 31, 2016, the County's governmental funds reported combined ending fund balances of \$14,059,601 which represents an increase of \$515,193 from the previous year's fund balance. Approximately 86.7% of this total (\$12,189,941) constitutes the unassigned, assigned, and committed fund balances, which is available for spending at the government's discretion. The remainder of fund balance (\$1,869,660) is included in restricted or nonspendable fund balance to indicate that it is not available for new spending primarily due to the following:

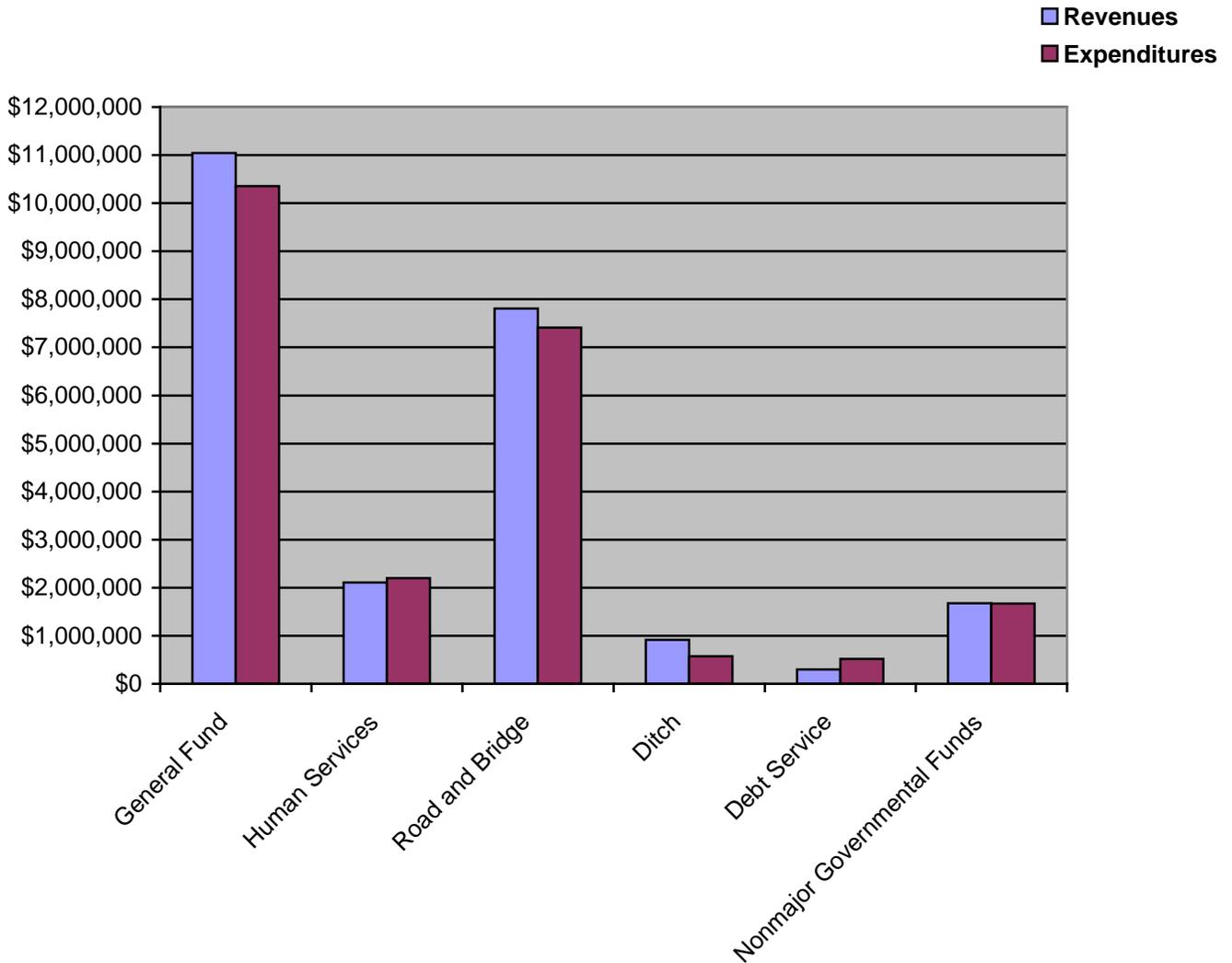
- The Small Cities Development fund originated from a federal grant for housing rehabilitation loans. One of the conditions of the grant is that the fund balance (\$18,388) derived from loan repayments be used for other housing rehabilitation activities.
- Funds that have been set aside in the Special Revenue fund (\$519,529) are subject to various statutory requirements.
- Debt Service funds (\$590,937) are restricted solely to repayment of the County's outstanding bonded indebtedness.
- Missing heirs (\$29,093) is set by court order and held by the County for missing heirs of estates pursuant to MN Statutes.
- Nonspendable inventory (\$368,908) for Road and Bridge is recorded as expenditure when it is acquired per MN DOT requirements. Road and Bridge reports inventory as an expense when the inventory is consumed. Thus, a journal entry moves the inventory from an expense item to a nonspendable fund balance item.

WASECA COUNTY, MINNESOTA
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2016

2016 Revenues & Expenditures By Fund

Funds	Revenues	Expenditures	Balance
General Fund	\$ 11,043,829	\$ 10,354,056	\$ 689,773
Human Services	2,110,319	2,198,598	(88,279)
Road and Bridge	7,807,082	7,413,665	393,417
Ditch	911,240	570,859	340,381
Debt Service	299,262	520,269	(221,007)
Nonmajor Governmental Funds	1,673,136	1,670,146	2,990
	\$ 23,844,868	\$ 22,727,593	\$ 1,117,275

Revenues and Expenditures by Fund



WASECA COUNTY, MINNESOTA
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2016

2016 Revenues By Fund

Fund	Percent	Revenues
General Fund	46.31%	\$ 11,043,829
Human Services	8.85%	2,110,319
Road and Bridge	32.74%	7,807,082
Ditch	3.82%	911,240
Debt Service	1.26%	299,262
Nonmajor Governmental Funds	7.02%	1,673,136
Total Revenue	100.00%	\$ 23,844,868

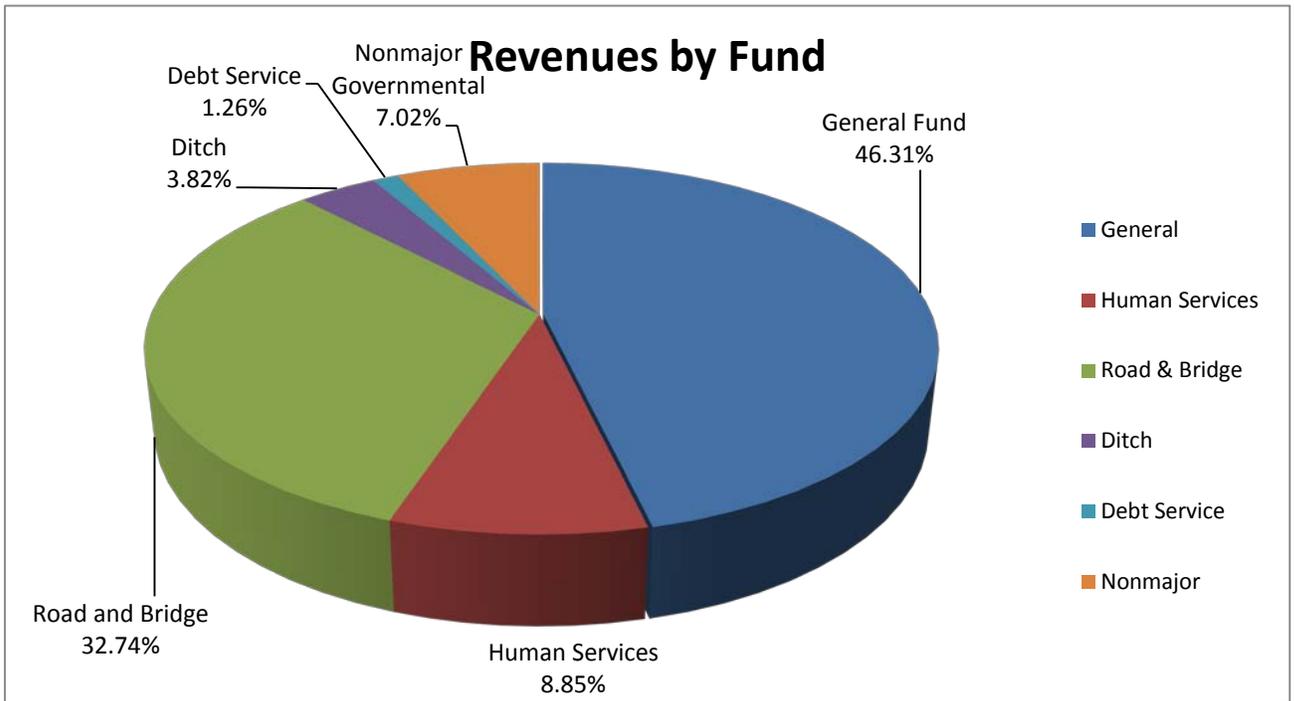
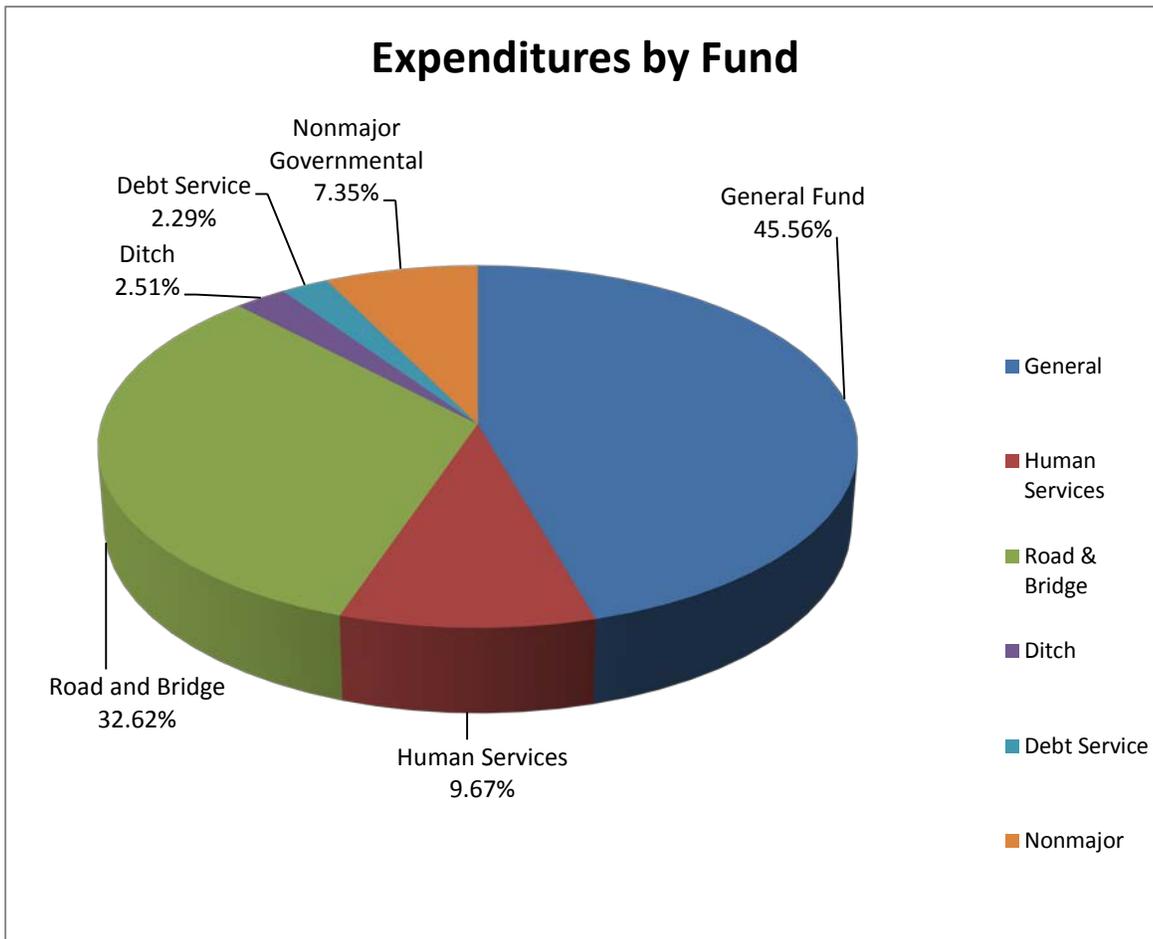


Figure 1

WASECA COUNTY, MINNESOTA
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2016

2016 Expenditures By Fund

Fund	Percent	Expenditures
General Fund	45.56%	\$ 10,354,056
Human Services	9.67%	2,198,598
Road and Bridge	32.62%	7,413,665
Ditch	2.51%	570,859
Debt Service	2.29%	520,269
Nonmajor Governmental Funds	7.35%	1,670,146
Total Expenditures	100.00%	\$ 22,727,593



WASECA COUNTY, MINNESOTA
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2016

General Fund

The general fund is the chief operating fund of the County. At the end of the current fiscal year, the total fund balance was \$7,239,208. The general fund has an unassigned fund balance of \$5,922,183, assigned fund balance of \$1,181,259, restricted fund balance of \$29,093 and a nonspendable fund balance of \$106,673. The unassigned portion approximates 57.2% of the general fund's annual expenditures.

The general fund balance increased by \$459,707 during the current fiscal year mainly due to cost containment measures, notably related to public safety expenditures.

Road & Bridge Fund

The Road and Bridge Fund ended the year with a fund balance of \$5,125,881. The committed fund balance at the end of the fiscal year was \$4,756,973. The fund balance also consists of \$368,908 that is nonspendable. The total fund balance of the Road and Bridge Fund increased \$271,206 during the current fiscal year primarily resulting from cost containment and a year over year increase in inventory.

Human Services Fund

The Human Services Fund was closed out during 2016 with the final required fund balance contribution of \$699,680 transferred to MNPrairie. The resulting deficit in the fund was cleared with a transfer in from the General Fund, bringing the ending fund balance to \$0.

Ditch Fund

The Ditch Fund had a total fund balance deficit of (\$593,327). All of this amount represents unassigned fund balance. The total fund balance of the Ditch Fund increased by \$340,381 during the current fiscal year related to special assessment revenue exceeding budget by nearly \$312,000.

Debt Service Fund

The Debt Service Fund had a total fund balance of \$590,937. The entire amount represents restricted funds. The total fund balance decreased by \$1,198 during the current fiscal year.

Nonmajor Government Funds

All other government funds had a total fund balance of \$1,696,902. A balance of \$747,724 represents the committed fund balance, \$175,129 for assigned fund balance, \$675,648 is classified as restricted and \$98,401 is nonspendable. Total fund balance of all other government funds increased by \$3,009 during the current fiscal year.

General Fund Budgetary Highlights

There were no changes made to the original budget for 2016. The variance of budgeted amounts to actual revenues and other financing sources in the general fund was \$377,697 above the budget. The variance of budgeted amounts to actual expenditures and other financing uses in the general fund was \$82,010 under the budget.

Revenues and Transfers In to the General Fund Were Above Budgetary Estimates

During 2016, actual non-property tax revenues to the general fund were above budget projections by \$192,564.

Expenditures and Transfers Out of the General Fund Were Below Budgetary Estimates

The variance of actual expenditures to budgeted amounts in the general fund was primarily due to the public safety category, specifically the Sheriff's department, partially offset by higher than budgeted transfers out related to the closeout of the Human Services fund.

WASECA COUNTY, MINNESOTA
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2016

Capital Assets and Debt Administration: Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2016 amount to \$59,770,828 (net of accumulated depreciation). Investment in capital assets includes land, buildings, improvements, machinery and equipment, roads, highways, bridges, right of ways, and construction in progress. The County showed a decrease in the overall investment in capital assets for the current fiscal year of \$825,895 a 1.38% decrease.

Additional information on the County's capital assets can be found on pages 1, 4, 6, 19, and 27 of this report.

Capital asset activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 524,107	\$ -	\$ -	\$ 524,107
Right of Way	1,159,599	-	-	1,159,599
Construction in Progress	7,687,611	20,086	(7,570,852)	136,845
Total Capital Assets Not Being Depreciated	\$ 9,371,317	\$ 20,086	\$ (7,570,852)	\$ 1,820,551
Capital Assets Being Depreciated:				
Buildings	\$ 6,534,588	\$ -	\$ -	\$ 6,534,588
Improvements	30,311	-	-	30,311
Machinery and Equipment	9,033,275	820,058	(190,735)	9,662,598
Roads	65,165,317	8,476,810	(361,901)	73,280,226
Bridges	5,643,621	136,844	-	5,780,465
Total Capital Assets Being Depreciated	86,407,112	9,433,712	(552,636)	95,288,188
Less: Accumulated Depreciation For:				
Buildings	(2,368,686)	(77,584)	-	(2,446,270)
Improvements	(15,671)	(1,312)	-	(16,983)
Machinery and Equipment	(4,862,552)	(774,291)	177,018	(5,459,825)
Roads	(27,191,959)	(1,765,416)	360,628	(28,596,747)
Bridges	(742,838)	(75,248)	-	(818,086)
Total Accumulated Depreciation	(35,181,706)	(2,693,851)	537,646	(37,337,911)
Capital Assets, Net of Depreciation	\$ 51,225,406	\$ (6,739,861)	\$ (14,990)	\$ 57,950,277

WASECA COUNTY, MINNESOTA
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2016

Long-Term Debt

At the end of the current fiscal year, the County had total bonded debt outstanding of \$3,325,000 backed by the full faith and credit of the County. General obligation bonds will be retired by future tax levies accumulated by the debt service fund.

The County's total general obligation bonds payable decreased during the current year by 410,000. 57.29% of Waseca County's general obligation debt is attributable to capital improvements with a final maturity date of 2023. 17.89% of the general obligation debt is bonded for state-aid highway use with a final maturity date of 2022. 24.81% of the general obligation debt is attributable to capital improvements with a final maturity date of 2025.

State statute limits the amount of net debt a governmental entity may issue to 3 percent of the total market value of taxable property in the County. The current debt limitation for the County is approximately \$78 million which is significantly in excess of its outstanding general obligation debt of \$3,325,000. \$2,734,063 is the County's outstanding general obligation debt net of the debt service reserve of \$590,937. It should also be noted that the State-Aid highway bonds are not subject to the debt limitation.

Additional information on the County's long-term debt can be found in the footnotes on pages 19-20, and 29-30 of this report.

General obligation debt payable for the County at December 31, 2016, consists of the following:

<u>General Obligation Debt</u>	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance 12-31-2016</u>
State-Aid Highway Bonds	2007	2022	3.75-4.20%	\$ 1,240,000	\$ 595,000
Capital Improvement Bonds	2013	2023	.8-2.6%	2,145,000	1,905,000
State-Aid Highway Bonds	2015	2025	2.00-2.15%	910,000	825,000
					<u>\$ 3,325,000</u>

Economic and Demographic Factors and County Budget Trends

- The estimated County population was 18,911 in 2016, which consists of 23% under the age of 18, 17% 65 or older. The median age was 39 years.
- The median income for a household in the County is \$53,564.
- The County unemployment rate is 3.6%. This compares to the state's average unemployment rate of 3.4%.
- Inflationary trends in the region compare favorably to national indices and have trended downward in recent years.
- The County is most noted for agribusiness, printing and electronics industries. Historically, these industries have tended to maintain relative stability in both good and bad economic times.
- The general fund finished the year with an unassigned fund balance of \$5,922,183. Based on our informal fund balance policy, this amount is above our working capital requirements of approximately \$5.3 million.

These and other factors are considered in the County's annual budget planning for 2018. Historically, Waseca County has been quite conservative concerning property tax increases.

WASECA COUNTY, MINNESOTA
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2016

Request For Information

This financial report is designed to provide a general overview of Waseca County, Minnesota's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Waseca County Administrator's Office
307 North State Street
Waseca, Minnesota 56093
Phone: 507-835-0630

WASECA COUNTY

STATEMENT OF NET POSITION As of December 31, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 14,165,000
Taxes receivable	194,972
Accounts receivable	48,076
Due from other governments	2,422,907
Interest receivable	15,419
Special assessments receivable	354,471
Notes receivable, net	94,978
Inventories and prepaid items	573,982
Capital Assets	
Land	524,107
Right of way	1,159,599
Construction in progress	136,845
Other capital assets, net of depreciation	57,950,277
Investment in joint ventures	4,095,034
Total Assets	<u>81,735,667</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension related amounts	<u>5,341,043</u>
Total Deferred Outflows of Resources	<u>5,341,043</u>
LIABILITIES	
Accounts payable	547,076
Accrued liabilities and deposits	531,243
Due to other governments	97,541
Noncurrent liabilities	
Due within one year	994,329
Due in more than one year	<u>13,042,528</u>
Total Liabilities	<u>15,212,717</u>
DEFERRED INFLOWS OF RESOURCES	
Pension related amounts	1,883,502
Unearned revenues	<u>161,800</u>
Total Deferred Inflows of Resources	<u>2,045,302</u>
NET POSITION	
Net investment in capital assets	56,506,541
Restricted for:	
Debt service	560,731
Statutory requirements	519,529
Missing heirs	29,093
Small cities development	101,075
Unrestricted	<u>12,101,722</u>
TOTAL NET POSITION	<u>\$ 69,818,691</u>

See accompanying notes to the financial statements.

WASECA COUNTY

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions		
Governmental Activities					
General government	\$ 5,598,452	\$ 484,022	\$ 169,800	\$ 43,354	\$ (4,901,276)
Public safety	4,634,361	173,559	563,495	26,024	(3,871,283)
Public works	8,030,071	255,451	1,345,735	2,063,569	(4,365,316)
Sanitation	897,450	780,600	145,940	-	29,090
Health and human services	3,622,635	493,380	896,213	-	(2,233,042)
Culture, recreation, and education	368,361	34,290	-	-	(334,071)
Conservation and development	1,245,688	917,944	80,326	-	(247,418)
Interest and fiscal charges	109,873	-	-	-	(109,873)
Total Governmental Activities	<u>24,506,891</u>	<u>3,139,246</u>	<u>3,201,509</u>	<u>2,132,947</u>	<u>(16,033,189)</u>
Totals	<u>\$ 24,506,891</u>	<u>\$ 3,139,246</u>	<u>\$ 3,201,509</u>	<u>\$ 2,132,947</u>	<u>(16,033,189)</u>
General Revenues					
Taxes					
Property taxes, levied for general purposes					13,193,412
Property taxes, levied for debt service					291,435
Other taxes					237,290
Intergovernmental revenues not restricted to specific programs					1,038,090
Investment income (including unrealized gains/losses)					87,582
Miscellaneous					242,831
Total General Revenues					<u>15,090,640</u>
Change in Net Position					(942,549)
NET POSITION - Beginning of Year					<u>70,761,240</u>
NET POSITION - END OF YEAR					<u>\$ 69,818,691</u>

See accompanying notes to the financial statements.

WASECA COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS
As of December 31, 2016

	General Fund	Special Revenue		Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
		Road & Bridge	Ditch			
ASSETS						
Cash and investments	\$ 6,580,817	\$ 4,767,342	\$ 283,619	\$ 588,986	\$ 1,624,696	\$ 13,845,460
Receivables						
Delinquent taxes	138,878	51,157	-	4,937	-	194,972
Accounts	44,940	-	-	-	3,136	48,076
Due from other governments	197,175	2,023,800	89,856	-	112,076	2,422,907
Interest	15,419	-	-	-	-	15,419
Special assessments	-	-	345,659	-	8,812	354,471
Notes, net	-	-	-	-	94,978	94,978
Due from other funds	717,041	-	-	-	-	717,041
Inventories and prepaid items	106,673	368,908	-	-	98,401	573,982
TOTAL ASSETS	\$ 7,800,943	\$ 7,211,207	\$ 719,134	\$ 593,923	\$ 1,942,099	\$ 18,267,306
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 144,431	\$ 154,227	\$ 165,793	\$ -	\$ 81,681	\$ 546,132
Accrued liabilities	117,257	47,318	-	-	11,880	176,455
Due to other governments	95,345	38	2,158	-	-	97,541
Due to other funds	-	-	717,041	-	-	717,041
Special deposits	-	-	-	-	3,000	3,000
Total Liabilities	<u>357,033</u>	<u>201,583</u>	<u>884,992</u>	<u>-</u>	<u>96,561</u>	<u>1,540,169</u>
Deferred Inflows of Resources						
Unearned revenues	116,954	-	-	-	44,846	161,800
Unavailable revenues	87,748	1,883,743	427,469	2,986	103,790	2,505,736
Total Deferred Inflows of Resources	<u>204,702</u>	<u>1,883,743</u>	<u>427,469</u>	<u>2,986</u>	<u>148,636</u>	<u>2,667,536</u>
Fund Balances						
Nonspendable	106,673	368,908	-	-	98,401	573,982
Restricted	29,093	-	-	590,937	675,648	1,295,678
Committed	-	4,756,973	-	-	747,724	5,504,697
Assigned	1,181,259	-	-	-	175,129	1,356,388
Unassigned (deficit)	5,922,183	-	(593,327)	-	-	5,328,856
Total Fund Balances (Deficit)	<u>7,239,208</u>	<u>5,125,881</u>	<u>(593,327)</u>	<u>590,937</u>	<u>1,696,902</u>	<u>14,059,601</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 7,800,943	\$ 7,211,207	\$ 719,134	\$ 593,923	\$ 1,942,099	\$ 18,267,306

See accompanying notes to the financial statements.

WASECA COUNTY

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET POSITION
As of December 31, 2016

Total fund balance - governmental funds	\$ 14,059,601
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in government activities are not financial resources and therefore are not reported in the fund statements. Capital assets at year end consist of:

Capital assets	\$ 97,108,739	
Accumulated depreciation	<u>(37,337,911)</u>	59,770,828

Certain receivables that are not considered available are reported as unavailable revenue in the fund financial statements and are recognized as revenue when earned in the government-wide financial statements. These types of unavailable revenues at year end consist of:

Taxes receivable	114,084	
Special assessments receivable	345,659	
Due from other governments	1,937,864	
Interest receivable	13,150	
Notes receivable	<u>94,979</u>	2,505,736

Investments in joint ventures are not financial resources and therefore are not reported in the funds.	4,095,034
--	-----------

Deferred outflows of resources related to pensions do not relate to current financial resources and are not reported in the fund statements.	5,341,043
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Deferred inflows of resources related to pensions do not relate to current financial resources and are not reported in the fund statements.	(1,883,502)
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Long-term liabilities, including bond and notes payable, are not due in the current period and therefore are not reported in the fund statements.

Long-term liabilities at year end consist of:

General obligation debt	(3,325,000)	
Unamortized premium on debt	(77,018)	
Accrued interest on general obligation debt	(33,192)	
Net pension liability	(9,639,674)	
Compensated absences	(825,113)	
Termination and disability benefits	(97,959)	
Other postemployment benefits	<u>(72,093)</u>	<u>(14,070,049)</u>

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$ <u>69,818,691</u>
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WASECA COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2016

	General Fund	Special Revenue			Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
		Human Services	Road & Bridge	Ditch			
REVENUES							
Taxes	\$ 7,626,635	\$ 2,110,319	\$ 3,711,303	\$ -	\$ 291,435	\$ -	\$ 13,739,692
Special assessments	-	-	-	878,204	-	246,842	1,125,046
Intergovernmental	2,076,930	-	3,815,571	-	7,827	649,645	6,549,973
Licenses and permits	242,452	-	-	-	-	25,555	268,007
Public charges for services	878,107	-	178,645	-	-	509,376	1,566,128
Investment income (including unrealized gains)	80,788	-	-	-	-	1,053	81,841
Miscellaneous	138,917	-	101,563	33,036	-	240,665	514,181
Total Revenues	11,043,829	2,110,319	7,807,082	911,240	299,262	1,673,136	23,844,868
EXPENDITURES							
Current							
General government	4,907,965	-	-	-	-	42,254	4,950,219
Public safety	2,857,713	-	-	-	-	589,608	3,447,321
Public works	-	-	7,019,622	-	-	-	7,019,622
Sanitation	-	-	-	-	-	865,326	865,326
Health and human services	1,397,330	2,198,598	-	-	-	84,111	3,680,039
Culture, recreation, and education	331,487	-	-	-	-	15,817	347,304
Conservation and development	579,531	-	-	548,691	-	6,466	1,134,688
Capital Outlay	280,030	-	394,043	-	-	66,564	740,637
Debt Service							
Principal retirement	-	-	-	-	410,000	-	410,000
Interest and fiscal charges	-	-	-	22,168	110,269	-	132,437
Total Expenditures	10,354,056	2,198,598	7,413,665	570,859	520,269	1,670,146	22,727,593
Excess (deficiency) of revenues over expenditures	689,773	(88,279)	393,417	340,381	(221,007)	2,990	1,117,275
OTHER FINANCING SOURCES (USES)							
Transfers in	691	230,047	-	-	219,809	710	451,257
Transfers out	(230,757)	-	(219,809)	-	-	(691)	(451,257)
Total Other Financing Sources (Uses)	(230,066)	230,047	(219,809)	-	219,809	19	-
SPECIAL ITEM							
Transfer fund balance to MNPrairie	-	(699,680)	-	-	-	-	(699,680)
Net change in fund balances	459,707	(557,912)	173,608	340,381	(1,198)	3,009	417,595
FUND BALANCES (DEFICIT) - Beginning of Year	6,779,501	557,912	4,854,675	(933,708)	592,135	1,693,893	13,544,408
Increase in inventories	-	-	97,598	-	-	-	97,598
FUND BALANCES (DEFICIT) - END OF YEAR	\$ 7,239,208	\$ -	\$ 5,125,881	\$ (593,327)	\$ 590,937	\$ 1,696,902	\$ 14,059,601

See accompanying notes to the financial statements.

WASECA COUNTY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

Net change in fund balances - total governmental funds	\$ 417,595
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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 these assets is allocated over their estimated useful lives and reported as depreciation expense. The following differ in their presentation in the two statements:

Capital outlay is reported as an expenditure in the fund financial statements but is capitalized in the government-wide financial statements.	740,637
Some expenditures charged to the functional areas were capitalized.	1,142,309
Depreciation is reported in the government-wide statements.	(2,693,851)

In the statement of activities, only the gain or loss on the disposal of capital assets is reported.	(14,990)
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Delinquent taxes, special assessments and certain accounts receivable are reported as unavailable revenue in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements. This is the amount recognized as revenue on the fund statement that was recognized in the government-wide statement in prior years.

Taxes receivable	(15,696)
Special assessments receivable	(47,356)
Due from other governments	(248,795)
Interest receivable	5,741
Notes receivable	(8,929)

Debt issued provides current financial resources to governmental funds, but issuing debt governmental increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal repaid	410,000
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Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This amount is the change in the following liabilities:

Compensated absences	(4,054)
Termination and disability benefits	51,524
Other postemployment benefits	(44,824)
Net pension liability (and pension related deferred outflows/inflows of resources)	(665,348)

Governmental funds reported the effect of losses on refunding, premiums, discounts, and similar items when debt was first issued, whereas these amounts were amortized in the statement of activities.	12,660
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See accompanying notes to the financial statements.

Interest on long-term debt in the statement of activities differs from the amount reported in the fund financial statements because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities interest expense is recognized as the interest accrues regardless of when it is due.	\$ 9,910
The proportionate share of the change in net position related to joint ventures reported in the statement of activities neither provides or uses current financial resources are not reported in the fund statements.	(86,680)
Change in inventory value	<u>97,598</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (942,549)</u>

WASECA COUNTY

STATEMENT OF NET POSITION
INTERNAL SERVICE FUND
As of December 31, 2016

	<u>Self Insurance</u>
ASSETS	
Cash and investments	<u>\$ 319,540</u>
LIABILITIES	
Accounts payable	944
Accrued liabilities	<u>318,596</u>
Total Liabilities	<u>319,540</u>
NET POSITION	
Unrestricted	<u>-</u>
TOTAL NET POSITION	<u>\$ -</u>

See accompanying notes to the financial statements.

WASECA COUNTY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
INTERNAL SERVICE FUND
For the Year Ended December 31, 2016

	<u>Self Insurance</u>
OPERATING REVENUES	
Charges for services	<u>\$ 1,588,940</u>
OPERATING EXPENSES	
HSA contributions	651,957
Administration	6,568
Premiums	772,291
Claims	<u>158,124</u>
Total Operating Expenses	<u>1,588,940</u>
Change in net position	-
NET POSITION - Beginning of Year	<u>-</u>
NET POSITION - END OF YEAR	<u><u>\$ -</u></u>

See accompanying notes to the financial statements.

WASECA COUNTY

**STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUND
For the Year Ended December 31, 2016**

	<u>Self Insurance</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received for interfund services	\$ 1,588,940
Cash paid for HRA contributions	(651,957)
Cash paid for administrative services	(5,624)
Cash paid for premiums	(772,291)
Cash paid for claims	<u>(217,604)</u>
Net Cash Provided by Operating Activities	<u>(58,536)</u>
Net decrease in cash and cash equivalents	(58,536)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>378,076</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 319,540</u></u>
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income	\$ -
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Accounts payable	944
Accrued liabilities	<u>(59,480)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ (58,536)</u></u>
NONCASH CAPITAL, INVESTING, AND FINANCING ACTIVITIES	
None	

See accompanying notes to the financial statements.

WASECA COUNTY

STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS
As of December 31, 2016

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 767,199
TOTAL ASSETS	<u>\$ 767,199</u>
LIABILITIES	
Due to other governments	\$ 758,272
Accounts payable	4,198
Deposits	<u>4,729</u>
TOTAL LIABILITIES	<u>\$ 767,199</u>

See accompanying notes to the financial statements.

WASECA COUNTY

INDEX TO NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE	Page
I. Summary of Significant Accounting Policies	13
A. Reporting Entity	13
B. Government-Wide and Fund Financial Statements	13
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation	15
D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity	17
1. Deposits and Investments	17
2. Receivables	18
3. Inventories and Prepaid Items	19
4. Capital Assets	19
5. Deferred Outflows of Resources	19
6. Compensated Absences	19
7. Long-Term Obligations	20
8. Deferred Inflows of Resources	20
9. Equity Classifications	20
10. Pension	22
II. Stewardship, Compliance, and Accountability	22
A. Budgetary Information	22
B. Excess Expenditures Over Appropriations	22
C. Deficit Balances	22
III. Detailed Notes on All Funds	23
A. Deposits and Investments	23
B. Receivables	26
C. Capital Assets	27
D. Interfund Receivables/Payables and Transfers	28
E. Long-Term Obligations	29
F. Net Position/Fund Balances	30
IV. Other Information	32
A. Employee Retirement System	32
B. Other Postemployment Benefits	41
C. Termination Benefits	43
D. Risk Management	43
E. Commitments and Contingencies	45
F. Jointly-Governed Organizations	46
G. Joint Ventures	46
H. Tax Abatements	48
I. Effect of New Accounting Standards on Current Period Financial Statements	49

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

Waseca County was established February 27, 1857, and is an organized County having the powers, duties, and privileges granted counties by Minn. Statute ch. 373. The county is governed by a five member board of commissioners elected from districts within the county. The board is organized with a chair and vice chair elected at the annual meeting in January of each year. The county auditor-treasurer serves as the clerk of the board of commissioners but has no vote.

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard was implemented January 1, 2016.

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. This statement addresses accounting and financial reporting issues related to tax abatements. This standard was implemented January 1, 2016.

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. All of Waseca County's activities are considered governmental activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

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

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

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

Fund Financial Statements

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

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

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

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

Waseca County reports the following major governmental funds:

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

Human Services Special Revenue Fund – used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures relating to social services and income maintenance.

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

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

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

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

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

Fund Financial Statements (cont.)

Waseca County reports the following non-major governmental funds:

Special Revenue Funds – used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes (other than debt service or capital projects).

- Waste Management
- Library
- Special Revenue
- Small Cities Development
- Economic Development

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

In addition, Waseca County reports the following fund types:

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the county, or to other governmental units, on a cost-reimbursement basis.

- Self-Insurance

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

- Taxes and Penalties
- Insurance
- State Revenue
- Social Welfare Trust Account

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

Government-Wide Financial Statements

The government-wide statement of net position and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Special assessments are recorded as revenue when earned. Unbilled receivables are recorded as revenues when services are provided.

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

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

Fund Financial Statements

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

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

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

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

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

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

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

All Financial Statements

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

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

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

1. Deposits and Investments

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

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

Investments are limited to:

- > Bonds, notes, bills, mortgages, and other securities, which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by Congress.
- > State and local securities that meet specified bond ratings by a national rating service.
- > Commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less.
- > Mutual fund through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments.
- > Banker's acceptances of United States banks.

The county has adopted an investment policy. This policy follows the state statutes for allowable investments.

Custodial Credit Risk

Collateral will be maintained as required by Minnesota Chapter 118A.03.

Credit Risk

Waseca County's investment policy does not address credit risk.

Concentration of Credit Risk

Waseca County's investment policy does not address concentration of credit risk.

Interest Rate Risk

Assets shall be invested in instruments whose maturities do not exceed seven years from the date of purchase. Maturity shall be staggered to avoid undue concentration of assets for specific time periods. The maturities selected shall provide for stability of income and reasonable availability.

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

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

1. Deposits and Investments (cont.)

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

Waseca County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Statute 471.59. The county's MAGIC investment is reported at amortized cost. Financial information for the MAGIC Fund can be obtained online at <https://www.magicfund.org/forms-and-documents/>.

See Note III.A. for further information.

2. Receivables

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

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

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

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

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

It is the county's policy to record unavailable revenue for the net amount of the notes receivable balances. As loans are repaid, revenue is recognized. When new loans are made from the repayments, expenditures are recorded. Interest received from loan repayments is recognized as revenue when received in cash. Any unspent loan repayments at year end are presented as restricted or committed fund balance in the fund financial statements.

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

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

3. Inventories and Prepaid Items

Inventory, if material, is valued at cost based on average costs using the purchases method and consists of supplies held for consumption.

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

4. Capital Assets

Government –Wide Statements

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

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

Machinery, Equipment and Vehicles	5-25	Years
Improvements	20	Years
Buildings	50-150	Years
Roads	25-50	Years
Bridges	75	Years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

5. Deferred Outflows of Resources

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

6. Compensated Absences

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

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

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

6. Compensated Absences (cont.)

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

Payments for vacation and sick leave will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave liabilities at December 31, 2016 are determined on the basis of current salary rates and include salary related payments.

7. Long-Term Obligations

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

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

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

8. Deferred Inflows of Resources

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

9. Equity Classifications

Government-Wide Statements

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

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

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

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

9. Equity Classifications (cont.)

Government–Wide Statements (cont.)

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

Fund Statements

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

- a. Nonspendable - Includes fund balance amounts that cannot be spent either because they are not in spendable form or because legal or contractual requirements require them to be maintained intact.
- b. Restricted - Consists of fund balances with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- c. Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority. Fund balance amounts are committed through a formal action (resolution) of the county board. This formal action must occur prior to the end of the reporting period, but the amount of the commitment, which will be subject to the constraints, may be determined in the subsequent period. Any changes to the constraints imposed required the same formal action of the county board that originally created the commitment.
- d. Assigned - Includes spendable fund balance amounts that are intended to be used for specific purposes that are not considered restricted or committed. The county board can assign amounts for a specific purpose. Assignments may take place after the end of the reporting period.
- e. Unassigned - Includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those purposes.

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

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

The county board has approved maintaining approximately six months' worth of expenditures in fund balance for cash flow purposes. Approximate amounts available for such cash flow coverage at December 31, 2016 were as follows: \$5.9 million for the general fund and \$4.8 million for roads and bridges.

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

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

10. Pension

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

NOTE II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

A budget has been adopted for the general fund, certain special revenue funds and the debt service fund. A budget has not been formally adopted for the Library, Small Cities Development, Economic Development or Capital Projects fund.

B. EXCESS EXPENDITURES OVER APPROPRIATIONS

Budgeted expenditures in the Human Services fund were \$2,198,219. Total expenditures and special items were \$2,898,278. This results in excess expenditures of \$700,059.

Budgeted expenditures in the Ditch fund were \$566,000. Total expenditures were \$570,859. This results in excess expenditures of \$4,859.

Budgeted expenditures in the Debt Service fund were \$298,563. Total expenditures were \$520,269. This results in excess expenditures of \$221,706.

Budgeted expenditures in the Special Revenue fund were \$633,518. Total expenditures and other financing uses were \$736,771. This results in excess expenditures of \$103,253.

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

C. DEFICIT BALANCES

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

As of December 31, 2016, the Ditch fund held a deficit balance of \$593,327. The deficit is anticipated to be funded with future special assessments.

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The county maintains a cash and investment pool that is available for use by all funds. Each fund's portion in this pool is displayed on statement of net position and balance sheet as cash and investments. In addition, investments are separately held by several of the county's funds. The county's cash and investments at year end were comprised of the following:

	Carrying Value	Bank Balance	Associated Risks
Deposits	\$ 12,340,604	\$ 12,809,236	Custodial credit
Negotiable CD's	1,389,127	1,387,199	Custodial credit, credit, concentration of credit, interest rate
MAGIC	842,932	843,848	Credit, interest rate
U.S. agencies – implicitly guaranteed	299,250	299,250	Custodial credit, credit, concentration of credit, interest rate
U.S. treasuries	33,336	43,550	Custodial credit, interest rate
Petty cash	26,950	-	N/A
Total Cash and Investments	\$ 14,932,199	\$ 15,383,083	
Reconciliation to financial statements			
Per statement of net position			
Unrestricted cash and investments	\$ 14,165,000		
Per statement of assets and liabilities –			
Agency Funds	767,199		
Total Cash and Investments	\$ 14,932,199		

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

The Securities Investor Protection Corporation (SIPC), created by the Securities Investor Protection Act of 1970, is an independent government-sponsored corporation (not an agency of the U.S. government).

SIPC membership provides account protection up to a maximum of \$500,000 per customer, of which \$250,000 may be in cash. \$299,250 of the county's investments are covered by SIPC. Additionally, through Lexington Insurance Company, accounts have additional securities coverage of up to a firm aggregate of \$1 billion, including \$1.9 million for cash per client.

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

A. DEPOSITS AND INVESTMENTS (cont.)

The county maintains collateral agreements with its banks. At December 31, 2016, the banks had pledged various government securities totaling \$16,417,640 to secure the county's deposits.

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

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

- > Quoted market prices
- > Matrix pricing models

Investment Type	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Negotiable CD's	\$ -	\$ 1,387,199	\$ -	\$ 1,387,199
U.S. agencies – implicitly guaranteed	-	299,250	-	299,250
U.S. treasuries	-	43,550	-	43,550
Totals	\$ -	\$ 1,729,999	\$ -	\$ 17,29,999

Custodial Credit Risk

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

Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the county will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The county does not have any investments exposed to custodial credit risk.

Credit Risk

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

As of December 31, 2016, the county's investments were rated as follows:

Investment Type	Standard & Poor's	Moody's Investor Service
U.S. agencies – implicitly guaranteed	AA+	AAA

The county also held investments in Minnesota Association of Governments Investing for Counties (MAGIC), which is an unrated external investment pool. In addition the county's Negotiable CD's are not rated.

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

A. DEPOSITS AND INVESTMENTS (cont.)

Concentration of Credit Risk

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

At December 31, 2016, the investment portfolio was concentrated as follows:

Issuer	Investment Type	Percentage of Portfolio
Federal Home Loan Mortgage Corporation	US agencies	11.63%
Wells Fargo	Negotiable CD	9.58%
Discover Bank	Negotiable CD	7.76%
GE Capital Retail Bank	Negotiable CD	9.61%
JP Morgan Chase Bank	Negotiable CD	9.54%
World's Foremost Bank	Negotiable CD	7.77%
HSBC Bank USA	Negotiable CD	9.50%

Interest Rate Risk

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

As of December 31, 2016, the county's investments were as follows:

Investment Type	Bank Balance	Maturity (in years)		
		Less than 1 year	1 - 5 years	More than 5 years
Negotiable CD's	\$ 1,387,199	\$ -	\$ 1,387,199	\$ -
U.S. agencies – implicitly guaranteed	299,250	-	299,250	-
MAGIC	843,848	843,848	-	-
U.S. treasuries	43,550	-	-	43,550
Totals	\$ 2,573,847	\$ 843,848	\$ 1,686,449	\$ 43,550

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

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

B. RECEIVABLES

Receivables as of year end for the county's individual major funds and nonmajor funds in the aggregate are as follows:

Fund	Receivables	Amounts Not Expected to Be Collected Within One Year
General Fund	\$ 396,412	\$ 42,780
Road and Bridge	2,074,957	15,840
Ditch	435,515	110
Debt Service	4,937	1,497
Nonmajor Funds	219,002	85,448

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

	Unavailable
Property taxes receivable	\$ 114,084
Special assessments receivable	345,659
Due from other governments	1,937,864
Interest receivable	13,150
Notes receivable	94,979
Total Unavailable Revenue for Governmental Funds	\$ 2,505,736

Loans were given out by the county in 1992 and accounted for in the Small Cities Development fund. These loans are due and payable upon the sale of real estate and are offset by unavailable revenues. At December 31, 2016, there were 11 such loans outstanding with a balance of \$82,687.

Economic development loans made by the county are accounted for in the Economic Development fund. Two loans were given out by the county during 2005 and were accounted for in this fund. The first loan, a twenty-year loan with an interest rate of 7.25%, has an outstanding balance of \$12,291 as of December 31, 2016. The second loan, an eight-year loan with an interest rate of 5.9%, has an outstanding balance of \$17,587 as of December 31, 2016 which is offset by an allowance for doubtful accounts to cover the full amount.

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

C. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 524,107	\$ -	\$ -	\$ 524,107
Right of way	1,159,599	-	-	1,159,599
Construction in progress	7,687,611	20,086	(7,570,852)	136,845
Total Capital Assets Not Being Depreciated	\$ 9,371,317	\$ 20,086	\$ (7,570,852)	\$ 1,820,551
Capital Assets Being Depreciated				
Buildings	\$ 6,534,588	\$ -	\$ -	\$ 6,534,588
Improvements	30,311	-	-	30,311
Machinery and equipment	9,033,275	820,058	(190,735)	9,662,598
Roads	65,165,317	8,476,810	(361,901)	73,280,226
Bridges	5,643,621	136,844	-	5,780,465
Total Capital Assets Being Depreciated	86,407,112	9,433,712	(552,636)	95,288,188
Less: Accumulated Depreciation for				
Buildings	(2,368,686)	(77,584)	-	(2,446,270)
Improvements	(15,671)	(1,312)	-	(16,983)
Machinery and equipment	(4,862,552)	(774,291)	177,018	(5,459,825)
Roads	(27,191,959)	(1,765,416)	360,628	(28,596,747)
Bridges	(742,838)	(75,248)	-	(818,086)
Total Accumulated Depreciation	(35,181,706)	(2,693,851)	537,646	(37,337,911)
Capital Assets Being Depreciated, Net of Depreciation	\$ 51,225,406	\$ 6,739,861	\$ (14,990)	\$ 57,950,277

Depreciation expense was charged to functions as follows:

Governmental Activities

General government	\$ 126,058
Public safety	441,226
Public works, which includes the depreciation of roads and bridges	2,077,515
Health and human services	448
Conservation and development	48,604
 Total Governmental Activities Depreciation Expense	 \$ 2,693,851

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

D. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

Interfund Receivables/Payables

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

Receivable Fund	Payable Fund	Amount
General Fund	Ditch	\$ 717,041
Subtotal - Fund financial statements		717,041
Less: Fund eliminations		<u>(717,041)</u>
Total - Government-Wide Statement of Net Position		<u>\$ -</u>

All amounts are expected to be repaid within one year.

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

Transfers

The following is a schedule of interfund transfers:

Fund Transferred To	Fund Transferred From	Amount	Principal Purpose
General Fund	Special Revenue	\$ 691	GIS revenue
Special Revenue	General Fund	710	Transfer grant proceeds to proper fund
Human Services	General Fund	230,047	Close out human services fund
Debt Service	Road and Bridge	<u>219,809</u>	Debt service on highway bonds
Subtotal - Fund Financial Statements		451,257	
Less: Fund eliminations		<u>(451,257)</u>	
Total - Government-Wide Statement of Activities		<u>\$ -</u>	

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

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

E. LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Bonds Payable:					
General obligation debt	\$ 3,735,000	\$ -	\$ 410,000	\$ 3,325,000	\$ 425,000
Premiums/(discounts)	89,678	-	12,660	77,018	-
Total Bonds Payable	3,824,678	-	422,660	3,402,018	425,000
Other Liabilities:					
Termination benefits	101,507	-	47,271	54,236	N/A
Other postemployment benefits	27,269	44,824	-	72,093	N/A
Disability benefits	47,976	-	4,253	43,723	N/A
Compensated absences	821,059	573,379	569,325	825,113	569,329
Net pension liability	5,362,042	6,486,888	2,209,256	9,639,674	N/A
Total Other Liabilities	6,359,853	7,105,091	2,830,105	10,634,839	569,329
 Total Long-Term Liabilities	 \$ 10,184,531	 \$ 7,105,091	 \$ 3,252,765	 \$ 14,036,857	 \$ 994,329

General Obligation Debt

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

In accordance with Minnesota Statutes, net indebtedness of the county may not exceed 3% of the market value of taxable property within the county's jurisdiction. The debt limit as of December 31, 2016 was approximately \$78 million. General obligation debt outstanding at year end subject to the debt limit was \$1,905,000.

General obligation debt payable for the county at December 31, 2016, consists of the following:

General Obligation Debt	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance December 31, 2016
State-Aid Highway Bonds	2007	2022	3.75-4.20%	\$ 1,240,000	\$ 595,000
Capital Improvement Bonds	2013	2023	0.80-2.60%	2,145,000	1,905,000
State-Aid Highway Bonds	2015	2025	2.00-2.15%	910,000	825,000
					\$ 3,325,000

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

E. LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt (cont.)

Debt service requirements to maturity are as follows:

<u>Years</u>	General Obligation Debt	
	Principal	Interest
2017	\$ 425,000	\$ 89,735
2018	435,000	76,737
2019	450,000	63,316
2020	460,000	49,468
2021	475,000	35,138
2022 – 2025	1,080,000	34,176
Totals	\$ 3,325,000	\$ 348,570

Other Debt Information

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

F. NET POSITION / FUND BALANCES

Net position reported on the government wide statement of net position at December 31, 2016 includes the following:

Net Investment in Capital Assets	
Land	\$ 524,107
Right of way	1,159,599
Construction in progress	136,845
Other capital assets, net of accumulated depreciation	57,950,277
Less: related long-term debt outstanding (excluding unspent capital related debt proceeds, if applicable)	(3,187,269)
Less: Unamortized premium	(77,018)
Total Net Investment in Capital Assets	\$ 56,506,541

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

F. NET POSITION / FUND BALANCES (cont.)

Governmental fund balances reported on the fund financial statements at December 31, 2016, include the following:

	General Fund	Road and Bridge	Ditch	Debt Service	Nonmajor Funds	Totals
Nonspendable:						
Inventories and prepaids	\$ 106,673	\$ 368,908	\$ -	\$ -	\$ 98,401	\$ 573,982
Restricted for:						
Missing heirs	29,093	-	-	-	-	29,093
Debt service	-	-	-	590,937	-	590,937
ARMER radio system	-	-	-	-	76,403	76,403
Other capital projects	-	-	-	-	61,328	61,328
Small cities development	-	-	-	-	18,388	18,388
Statutory requirements	-	-	-	-	519,529	519,529
Committed to:						
Waste management	-	-	-	-	617,891	617,891
Economic development	-	-	-	-	109,174	109,174
Capital projects	-	-	-	-	20,659	20,659
Road and bridge	-	4,756,973	-	-	-	4,756,973
Assigned to:						
Compensated absences	510,072	-	-	-	-	510,072
Squad car purchases	460,399	-	-	-	-	460,399
Regional radio upgrade	120,000	-	-	-	-	120,000
Fleet car purchase	1,288	-	-	-	-	1,288
Veterans van purchase	2,500	-	-	-	-	2,500
Land acquisition	50,000	-	-	-	-	50,000
Jail monitoring system	37,000	-	-	-	-	37,000
Other minor items	-	-	-	-	175,129	175,129
Unassigned (deficit):	<u>5,922,183</u>	<u>-</u>	<u>(593,327)</u>	<u>-</u>	<u>-</u>	<u>5,328,856</u>
Total Fund Balances (Deficit)	<u>\$ 7,239,208</u>	<u>\$ 5,125,881</u>	<u>\$ (593,327)</u>	<u>\$ 590,937</u>	<u>\$ 1,696,902</u>	<u>\$ 14,059,601</u>

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV – OTHER INFORMATION

A. EMPLOYEES' RETIREMENT SYSTEM

Public Employees Retirement Association (PERA)

General Information About the Pension Plan

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

1. General Employees Retirement Plan (General Employees Plan)

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

2. Public Employees Police and Fire Fund (Police and Fire Plan)

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

3. Local Government Correctional Plan (Correctional Plan)

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

Benefits Provided. PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

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

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

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

General Information About the Pension Plan (cont.)

1. General Employees Plan Benefits

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 and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

2. Police and Fire Plan Benefits

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

3. Correctional Plan Benefits

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

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

1. General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2016. The county was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2016. The county's contributions to the General Employees Fund for the year ended December 31, 2016 were \$335,582. The county's contributions were equal to the required contributions as set by state statute.

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

General Information About the Pension Plan (cont.)

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.8 percent of their annual covered salary in calendar year 2016. The county was required to contribute 16.20 percent of pay for members in calendar year 2016. The county's contributions to the Police and Fire Fund for the year ended December 31, 2016 were \$134,482. The county's contributions were equal to the required contributions as set by state statute.

3. Correctional Fund Contributions

In calendar year 2016 plan members were required to contribute 5.83 percent of their annual covered salary. The county was required to contribute 8.75 percent of pay for plan members in calendar year 2016. The county's contributions to the Correctional Fund for the year ended December 31, 2016 were \$29,486. The county's contributions were equal to the required contributions as set by state statute.

Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2016, the county reported a liability of \$5,651,175 for its proportionate share of the General Employees Fund's net pension liability. The county's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. 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 \$73,797. The net pension liability was measured as of June 30, 2016 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, 2015 through June 30, 2016 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016 the county's proportion share was .0696 percent which was a decrease of .0151 percent from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the county recognized pension expense of \$406,266 for its proportionate share of the General Employees Plan's pension expense. In addition, the county recognized an additional \$22,004 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Pension Costs (cont.)

1. General Employees Fund Pension Costs (cont.)

At December 31, 2016, the county reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 485,377
Changes in actuarial assumptions	1,106,505	-
Differences between projected and actual investment earnings	1,128,177	-
Changes in proportion	-	1,007,346
Contributions paid to PERA subsequent to the measurement date	171,991	-
Totals	\$ 2,406,673	\$ 1,492,723

\$171,991 reported as deferred outflows related to pension 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended December 31:	Deferred Outflows of Resources	Deferred Inflows of Resources
2017	\$ 676,851	\$ 592,235
2018	676,851	592,235
2019	676,849	308,253
2020	204,131	-

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Pension Costs (cont.)

2. Police and Fire Fund Pension Costs

At December 31, 2016 the county reported a liability of \$3,330,934 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2016 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, 2015 through June 30, 2016 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016 the county's proportion was .0830 percent which is unchanged from its proportion measured as of June 30, 2015. The county also recognized \$7,470 for the year ended December 31, 2016 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

For the year ended December 31, 2016 the county recognized pension expense of \$573,213 for its proportionate share of the Police and Fire Plan's pension expense.

At December 31, 2016, the county reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 382,122
Changes in actuarial assumptions	1,833,159	-
Differences between projected and actual investment earnings	508,324	-
Changes in proportion	14,401	-
Contributions paid to PERA subsequent to the measurement date	69,350	-
Totals	\$ 2,425,234	\$ 382,122

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Pension Costs (cont.)

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

\$69,350 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Deferred Outflows of Resources	Deferred Inflows of Resources
2017	\$ 507,583	\$ 82,542
2018	507,583	82,542
2019	507,582	82,542
2020	466,504	82,542
2021	366,632	51,954

3. Correctional Plan Pension Costs

At December 31, 2016 the county reported a liability of \$657,565 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2016 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, 2015 through June 30, 2016 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016 the county's proportion was .1800 percent which was a decrease of .0100 percent from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the county recognized pension expense of \$185,420 for its proportionate share of the Correctional Plan's pension expense.

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES’ RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Pension Costs (cont.)

3. Correctional Plan Pension Costs (cont.)

At December 31, 2016, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 515	\$ 7,497
Changes in actuarial assumptions	418,948	-
Net differences between projected and actual earnings	74,846	-
Changes in proportion	-	1,160
Employer contributions subsequent to the measurement date	<u>14,827</u>	<u>-</u>
Totals	<u>\$ 509,136</u>	<u>\$ 8,657</u>

\$14,827 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 160,063	\$ 4,136
2018	160,063	4,135
2019	160,062	386
2020	14,121	-

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan and Correctional Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years for the General Employees Plan and Police and Fire Plan, and 2.5 percent for all years for the Correctional Plan.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The experience study for Police and Fire Plan was for the period July 1, 2004 through June 30, 2009. Experience studies have not been prepared for the Correctional Plan, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

- > 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.

Police and Fire Fund

- > 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.

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Actuarial Assumptions (cont.)

Correctional Fund

- > 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.

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

Asset Class	Long-Term Real Rate of Return	Target Allocation
Domestic Stocks	5.50%	45%
International Stocks	6.00	15
Bonds	1.45	18
Alternative Assets	6.40	20
Cash	0.50	2

Discount rate. The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. 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 was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Police and Fire Fund and the Correctional Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056 and June 30, 2058 respectively. Beginning in fiscal years ended June 30, 2057 for the Police and Fire Fund and June 30, 2059 for the Correctional Fund, when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% for the Police and Fire Fund and 5.31% for the Correctional Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% after.

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

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

	1% Decrease to Discount Rate	Current Discount Rate	1% Increase to Discount Rate
General Employees Fund			
County's proportionate share of net pension liability	\$8,026,343	\$5,651,175	\$3,694,683
Discount rate	6.50%	7.50%	8.50%
Police and Fire Fund			
County's proportionate share of net pension liability	\$4,662,886	\$3,330,934	\$2,242,645
Discount rate	4.60%	5.60%	6.60%
Correctional Fund			
County's proportionate share of net pension liability	\$990,090	\$657,565	\$397,966
Discount rate	4.31%	5.31%	6.31%

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.

B. OTHER POSTEMPLOYMENT BENEFITS

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. 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 eligible dependent(s) under the county's health benefits program. Pursuant to the provisions of the plan, retirees are required to pay varying percentages of the total premium cost. As of January 1, 2014, there were 25 retirees receiving health benefits from the county's plan health plan.

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV – OTHER INFORMATION (cont.)

B. OTHER POSTEMPLOYMENT BENEFITS (cont.)

The county's annual other post employment benefit (OPEB) cost is based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the county's annual OPEB cost for 2016, the amount actually contributed to the plan, and changes in the county's net OPEB obligation:

Annual required contribution (ARC)	\$ 372,573
Interest on net OPEB obligation	1,091
Annual OPEB cost	<u>373,664</u>
Contributions during the year	<u>(328,840)</u>
Increase in net OPEB obligation	44,824
 Net OPEB - Beginning of Year	 <u>27,269</u>
 Net OPEB - End of Year	 <u><u>\$ 72,093</u></u>

The county's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2016	\$ 373,664	\$ 328,840	88%	\$ 72,093
December 31, 2015	369,842	393,285	106%	27,269
December 31, 2014	369,358	357,248	97%	50,712

The county currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero.

The county has evaluated its options in funding its OPEB liabilities. It has preliminarily determined that it will use a combination of small incremental property tax levy and non-levy increases. Under these scenarios the county has determined that it will be able to meet its OPEB obligations and fund the necessary reserves using a 10 year amortization assumption.

<u>Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
1/1/2014	\$ -	\$ 2,345,391	\$ 2,345,391	0.00%	N/A	N/A

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV – OTHER INFORMATION (cont.)

B. OTHER POSTEMPLOYMENT BENEFITS (cont.)

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

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

In the January 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% discount rate, which is based on the estimated long-term investment yield on the general assets of the county using an underlying long-term inflation assumption of 3%. The annual healthcare cost trend rate is 6% initially, reduced incrementally to an ultimate rate of 3.5% after five years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 10-year period.

C. TERMINATION BENEFITS

As part of early retirement incentive plans, Waseca County provides post-retirement health insurance for any eligible employees who accepted the offer during the middle of 2009, for those who accepted/retired during the first part of 2011, and for those who accepted between March 1 and May 1 of 2012 and retired by October 31, 2012. The county is providing a cash payment or continued insurance coverage in amount equal to 100% of the county's monthly contribution for individual coverage, at the rate on the date of retirement, for various periods depending on the length of service provided to the county. The plan is financed on a pay-as-you-go basis.

D. RISK MANAGEMENT

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

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV – OTHER INFORMATION (cont.)

D. RISK MANAGEMENT (cont.)

The workers compensation division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claim liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 per claim in 2016. Should workers compensation liabilities of the MCIT workers compensation division exceed its assets, MCIT may assess the county in a method and amount to be determined by MCIT.

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

Self-Insurance

The county is partially self insured for health insurance claims. The county purchased a commercial health insurance policy with a \$6,000 deductible per covered individual. The county is self insured for the amount under \$6,000 per individual. The county developed a health insurance plan and has hired a third party administrator to process claims.

All funds of the county participate in the self insurance program. Amounts payable to the health insurance fund are based on prior year commercial insurance premiums as this is the county's best estimate of the amount necessary to pay current year commercial premiums, self-insurance claims, and to establish a reserve for future claims or commercial premium increases.

South Central Service Cooperative (SCSC) contracts with Blue Cross Blue Shield, to administer the health insurance plan. All claims are pooled at year-end for the purpose of setting rates and reserves for the upcoming year. SCSC provides financial risk management services that embody the concept of pooling risks for the purpose of stabilizing and/or reducing cost. Group employee benefits shall include, but not be limited to, health benefits coverage and other services as directed by the joint powers board. Members do not pay for deficiencies that arise in the current year.

Premiums are paid by the appropriate funds. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of coverage for the past three fiscal years.

A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable. Liabilities include an amount for claims that have been incurred but not reported. The county does not allocate overhead costs or other non-incremental costs to the claims liability.

Claims Liability

	<u>2016</u>	<u>2015</u>
Unpaid claims - Beginning of Year	\$ 378,076	\$ 457,318
Current year claims and changes in estimates	86,394	107,161
Claim payments	<u>(145,874)</u>	<u>(186,403)</u>
Unpaid Claims - End of Year	<u>\$ 318,596</u>	<u>\$ 378,076</u>

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV – OTHER INFORMATION (cont.)

E. COMMITMENTS AND CONTINGENCIES

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

From time to time, the county is party to various other pending claims and legal proceedings. At the present time, there is a tax appeal in process that could result in a significant refund to the taxpayer. The potential dollar value of the refund has not been calculated.

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

In 1993, the South Central Minnesota Multi-County Housing Authority issued \$20,315,000 of revenue bonds to construct housing units in Waseca County and four surrounding counties. The Authority has since defaulted on these bonds. In 2000, the counties entered into a settlement agreement where each of the counties will approve a special benefit tax levy on behalf of the Authority from 2001 through 2024 to cover the operating deficits based on each county's proportionate share of housing units constructed. The proportionate shares of the counties may change for years through 2024 if there are changes in the taxable market value over the 2001 taxable market value.

The county has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source water pollution. While the county is not liable for repayment of the loans in any manner, it does have certain responsibilities under the agreement.

The county entered into a lease agreement with Waseca Properties LLC to provide working space for the human services department. The current lease term extends to November 31, 2018 with monthly rates ranging from \$16,555 to \$16,803 over the period of the lease term.

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV – OTHER INFORMATION (cont.)

F. JOINTLY-GOVERNED ORGANIZATIONS

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

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

- > South Central Minnesota Region Nine Emergency Medical Services
- > Minnesota River Board (formerly Minnesota River Basin Joint Powers Board)
- > South Central Regional IMMTRACK Joint Powers Board
- > Waseca County Collaborative for Families
- > Waseca-LeSueur Regional Library
- > Southeastern Minnesota Private Industry Council
- > Minnesota Counties Computer Cooperative
- > Greater Blue Earth River Basin Alliance
- > HSEM Emergency Managers Region 1
- > Sentence to Service Program
- > South Central Minnesota County Comprehensive Water Planning Project
- > South Central Service Cooperative
- > Southeast Minnesota Recyclers' Exchange
- > Three Rivers Resource Conservation & Development

The county made payments of approximately \$117,000 to the Minnesota Counties Computer Cooperative and \$376,000 to the Waseca-LeSueur Regional Library during 2016. All other payments to the other jointly-governed organizations were minimal.

G. JOINT VENTURES

Minnesota Prairie County Alliance

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

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

During the year, Waseca County made payments of approximately \$2.9 million to MNPrairie, including a \$699,680 equity contribution. A corresponding \$699,680 addition to the investment in joint venture has been recorded on the county's government-wide financial statements. The county is not committed to making an equity contribution in 2017. Each county will be required to make an annual operating contribution. The operating contribution is based fifty percent on the proportion of each member county's population and fifty percent on each member county's estimated market value. Dodge County is acting as fiscal agent. Complete financial statements for MNPrairie can be obtained from its fiscal agent at 22 6th Street East, Mantorville, Minnesota 55955.

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV – OTHER INFORMATION (cont.)

G. JOINT VENTURES (cont.)

South Country Health Alliance

South Country Health Alliance (SCHA) was created by a Joint Powers Agreement between Brown, Cass, Crow Wing, Dodge, Freeborn, Goodhue, Kanabec, Morrison, Mower, Sibley, Steele, Todd, Wabasha, Wadena, and Waseca counties on July 24, 1998, under Minnesota Statute §471.59. Mower, Freeborn, Cass, and Crow Wing counties have since withdrawn. The agreement was in accordance with Section 256B.692, which allows the formation of a board of directors to operate, control, and manage all matters concerning the eleven participating member counties health care functions, referred to as County Based Purchasing.

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

While SCHA was created on July 2, 1998, it did not begin providing health maintenance services until November 1, 2001. At that time, SCHA began coverage of the beneficiaries enrolled under Medicaid and General Assistance Medical Care in the specified counties. Funding is provided from the State of Minnesota based on eligible participants within the member counties. In the event SCHA incurs operating deficits, the member counties would maintain SCHA's reserves to meet statutory and regulatory reserves requirements. Minnesota Statutes require SCHA to maintain capital surplus equal to or greater than one month's expenditures, but less than three months' expenditures. The county has an equity interest in the organization equal to its share of participation. The equity interest at December 31, 2016 is \$1,937,187 down from \$2,655,141 at December 31, 2015. No additional equity was required to be paid in for 2016.

Complete financial statements for SCHA can be obtained from its fiscal agent at 630 Florence Avenue, P.O. Box 890, Owatonna, Minnesota 55060-0890.

South Central Human Relations Center

Waseca County is a participant with Dodge and Steele Counties in a joint venture to contract with the South Central Human Relations Center (SCHRC) (a nonprofit corporation) for mental health services and in-home family services. On dissolution of the corporation, net position shall be divided in proportion to the contributions made by all participants. The counties are obligated by contract to provide financial support annually based on population and usage factors.

During 2016, Waseca County's contribution to the SCHRC was minimal. In 2016, the corporation experienced a positive change in unrestricted net assets of \$223,166. Complete financial statements for the SCHRC can be obtained from its administrative office at 610 Florence Avenue, Owatonna, Minnesota 55060.

South Central Minnesota Regional Radio Board

The South Central Minnesota Regional Radio Board (Radio Board) was established pursuant to Minn. Stat. §§ 471.59 and 403.39 and a joint powers agreement effective May 27, 2008. It is comprised of Blue Earth, Brown, Faribault, Le Sueur, Martin, McLeod, Nicollet, Sibley, Waseca, and Watonwan Counties, and the Cities of Hutchinson and Mankato. The primary function of the joint venture is to provide regional administration of enhancements to the Statewide Public Safety Radio and Communication System for the Allied Radio Matrix for Emergency Response (ARMER) owned and operated by the State of Minnesota and to enhance and improve interoperable public safety communications.

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV – OTHER INFORMATION (cont.)

G. JOINT VENTURES (cont.)

South Central Minnesota Regional Radio Board

The Radio Board consists of one County Commissioner from each county included in the agreement, one City Council member from each city included in the agreement, a member of the South Central Minnesota Regional Advisory Committee, a member of the South Central Minnesota Regional Radio System User Committee, and a member of the Owners and Operators Committee.

During 2016, Waseca County's contribution to the Radio Board was minimal. Blue Earth County acts as the fiscal agent for the Radio Board.

South Central Workforce Service Area Joint Powers Board

In June 2012, the Waseca County entered into a joint powers agreement with Blue Earth, Brown, Faribault, LeSueur, Martin, Nicollet, Sibley, and Watonwan Counties, creating the South Central Workforce Services Area Joint Powers Board. The agreement is authorized by Minn. Stat. §471.59. The Board is comprised of one voting member and one alternate member for each participating county. The goal of the Board is to develop and maintain a quality workforce for South Central Minnesota.

During 2016, Waseca County's contribution to the Board was minimal. Separate financial information can be obtained from the South Central Workforce Council, 706 North Victory Drive, Mankato, Minnesota 56001.

South Central Drug Investigation Unit (Drug Task Force)

The South Central Drug Investigation Unit (Drug Task Force) was established to coordinate efforts among participating local governments to apprehend and prosecute drug offenders. During 2016, Waseca County's contribution to the Drug Task Force was minimal. The City of Owatonna acts as fiscal agent.

H. TAX ABATEMENTS

Tax abatements are a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

The county is disclosing individual abatement agreements over \$100,000. For 2016, none of the county's agreements were above this threshold.

WASECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV – OTHER INFORMATION (cont.)

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

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

- > *Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- > *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- > *Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- > *Statement No. 80, Blending Requirements for Certain Component Units*
- > *Statement No. 81, Irrevocable Split-Interest Agreements*
- > *Statement No. 82, Pension Issues - an amendment of GASB Statements 67, 68, 73*
- > *Statement No. 83, Certain Asset Retirement Obligations*
- > *Statement No. 84, Fiduciary Activities*
- > *Statement No. 85, Omnibus 2017*
- > *Statement No. 86, Certain Debt Extinguishment Issues*

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

REQUIRED SUPPLEMENTARY INFORMATION

WASECA COUNTY

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2016

	Budget Original / Final	Actual	Variance with Budget
REVENUES			
Taxes	\$ 7,441,593	\$ 7,626,635	\$ 185,042
Intergovernmental	2,002,387	2,076,930	74,543
Licenses and permits	237,700	242,452	4,752
Charges for services	810,043	878,107	68,064
Investment income (including unrealized gains)	50,000	80,788	30,788
Miscellaneous	124,500	138,917	14,417
Total Revenues	<u>10,666,223</u>	<u>11,043,829</u>	<u>377,606</u>
EXPENDITURES			
Current			
General government	4,743,999	4,907,965	(163,966)
Public safety	3,304,677	2,857,713	446,964
Health and human services	1,318,711	1,397,330	(78,619)
Culture, recreation, and education	421,480	331,487	89,993
Conservation and development	608,897	579,531	29,366
Capital Outlay			
General government	145,000	165,375	(20,375)
Public safety	95,000	114,655	(19,655)
Total Expenditures	<u>10,637,764</u>	<u>10,354,056</u>	<u>283,708</u>
Excess (deficiency) of revenues over expenditures	<u>28,459</u>	<u>689,773</u>	<u>661,314</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	600	691	91
Transfers out	<u>(29,059)</u>	<u>(230,757)</u>	<u>(201,698)</u>
Total Other Financing Sources (Uses)	<u>(28,459)</u>	<u>(230,066)</u>	<u>(201,607)</u>
Net change in fund balances	-	459,707	459,707
FUND BALANCES - Beginning of Year	<u>6,779,501</u>	<u>6,779,501</u>	-
FUND BALANCES - END OF YEAR	<u>\$ 6,779,501</u>	<u>\$ 7,239,208</u>	<u>\$ 459,707</u>

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

WASECA COUNTY

BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES FUND
For the Year Ended December 31, 2016

	Budget Original / Final	Actual	Variance with Budget
REVENUES			
Taxes	\$ 2,198,219	\$ 2,110,319	\$ (87,900)
EXPENDITURES			
Current			
Human services	<u>2,198,219</u>	<u>2,198,598</u>	<u>(379)</u>
Excess (deficiency) of revenues over expenditures	-	(88,279)	(88,279)
OTHER FINANCING SOURCES			
Transfers in	-	230,047	230,047
SPECIAL ITEM			
Transfer fund balance to MNPrairie	<u>-</u>	<u>(699,680)</u>	<u>(699,680)</u>
Net change in fund balances	-	(557,912)	(557,912)
FUND BALANCES - Beginning of Year	<u>557,912</u>	<u>557,912</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 557,912</u>	<u>\$ -</u>	<u>\$ (557,912)</u>

WASECA COUNTY

BUDGETARY COMPARISON SCHEDULE ROAD AND BRIDGE FUND For the Year Ended December 31, 2016

	Budget Original / Final	Actual	Variance with Budget
REVENUES			
Taxes	\$ 3,677,353	\$ 3,711,303	\$ 33,950
Intergovernmental	4,240,748	3,815,571	(425,177)
Public charges for services	325,000	178,645	(146,355)
Miscellaneous	-	101,563	101,563
Total Revenues	8,243,101	7,807,082	(436,019)
EXPENDITURES			
Current			
Public works			
Administration	276,101	262,226	13,875
Operation and maintenance	3,065,277	2,797,022	268,255
Street construction	4,062,364	3,960,374	101,990
Capital Outlay			
Public works	620,000	394,043	225,957
Total Expenditures	8,023,742	7,413,665	610,077
Excess (deficiency) of revenues over expenditures	219,359	393,417	174,058
OTHER FINANCING USES			
Transfers out	(219,359)	(219,809)	(450)
Net change in fund balances	-	173,608	173,608
FUND BALANCES - Beginning of Year	4,854,675	4,854,675	-
Increase in inventories	-	97,598	97,598
FUND BALANCES - END OF YEAR	\$ 4,854,675	\$ 5,125,881	\$ 271,206

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

WASECA COUNTY

BUDGETARY COMPARISON SCHEDULE

DITCH FUND

For the Year Ended December 31, 2016

	Budget Original / Final	Actual	Variance with Budget
REVENUES			
Special assessments	\$ 566,000	\$ 878,204	\$ 312,204
Miscellaneous	-	33,036	33,036
Total Revenues	<u>566,000</u>	<u>911,240</u>	<u>345,240</u>
EXPENDITURES			
Current			
Conservation and development	566,000	548,691	17,309
Debt Service			
Interest and fiscal charges	-	22,168	(22,168)
Total Expenditures	<u>566,000</u>	<u>570,859</u>	<u>(4,859)</u>
Net change in fund balances	-	340,381	340,381
FUND BALANCES (DEFICIT) - Beginning of Year	<u>(933,708)</u>	<u>(933,708)</u>	-
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ (933,708)</u>	<u>\$ (593,327)</u>	<u>\$ 340,381</u>

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

WASECA COUNTY

OTHER POSTEMPLOYMENT BENEFITS PLAN SCHEDULE OF FUNDING PROGRESS For the Year Ended December 31, 2016

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2014	\$ -	\$ 2,345,391	\$ 2,345,391	0.0%	N/A	N/A
1/1/2011	-	1,769,528	1,769,528	0.0%	N/A	N/A
1/1/2008	-	1,845,537	1,845,537	0.0%	N/A	N/A

Data in the schedule of funding progress was taken from the reports issued by the actuary.

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

WASECA COUNTY

SCHEDULE OF COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
PERA GENERAL EMPLOYEES' RETIREMENT FUND
For the Year Ended December 31, 2016

County Fiscal Year End Date	PERA Fiscal Year End Date (Measurement Date)	County's Proportion of the Net Pension Liability	County's Proportionate Share of the Net Pension Liability (a)	County's Covered Payroll (b)	County's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/16	6/30/16	0.0696%	\$ 5,651,175	\$ 4,308,908	131.15%	68.90%
12/31/15	6/30/15	0.0847%	4,389,594	4,937,614	88.90%	78.20%

SCHEDULE OF EMPLOYER CONTRIBUTIONS -
PERA GENERAL EMPLOYEES' RETIREMENT FUND
For the Year Ended December 31, 2016

County Fiscal Year End Date	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
12/31/16	\$ 335,582	\$ 335,582	\$ -	\$ 4,474,435	7.50%
12/31/15	322,696	322,696	-	4,302,976	7.50%

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

WASECA COUNTY

SCHEDULE OF COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
PERA POLICE AND FIRE FUND
For the Year Ended December 31, 2016

County Fiscal Year End Date	PERA Fiscal Year End Date (Measurement Date)	County's Proportion of the Net Pension Liability	County's Proportionate Share of the Net Pension Liability (a)	County's Covered Payroll (b)	County's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/16	6/30/16	0.0830%	\$ 3,330,934	\$ 800,833	415.93%	63.90%
12/31/15	6/30/15	0.0830%	943,074	757,517	124.50%	86.60%

SCHEDULE OF EMPLOYER CONTRIBUTIONS -
PERA POLICE AND FIRE FUND
For the Year Ended December 31, 2016

County Fiscal Year End Date	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
12/31/16	\$ 134,482	\$ 134,482	\$ -	\$ 830,133	16.20%
12/31/15	127,622	127,622	-	787,790	16.20%

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

WASECA COUNTY

SCHEDULE OF COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
PERA CORRECTIONAL FUND
For the Year Ended December 31, 2016

County Fiscal Year End Date	PERA Fiscal Year End Date (Measurement Date)	County's Proportion of the Net Pension Liability	County's Proportionate Share of the Net Pension Liability (a)	County's Covered Payroll (b)	County's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/16	6/30/16	0.1800%	\$ 657,565	\$ 338,762	194.11%	58.20%
12/31/15	6/30/15	0.1900%	29,374	333,023	8.82%	96.90%

SCHEDULE OF EMPLOYER CONTRIBUTIONS -
PERA CORRECTIONAL FUND
For the Year Ended December 31, 2016

County Fiscal Year End Date	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
12/31/16	\$ 29,486	\$ 29,486	\$ -	\$ 336,983	8.75%
12/31/15	29,470	29,470	-	336,803	8.75%

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

WASECA COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION As of and for the Year Ended December 31, 2016

BUDGETARY INFORMATION

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described in Note I.C.

The budgeted amounts presented include any amendments made. Changes to the overall budget must be approved by board action.

Appropriations lapse at year end unless specifically carried over. There were no carryovers to the following year. Budgets are adopted at the department level of expenditure.

The major special revenue funds that experienced an overall excess of expenditures over appropriations during 2016 were Human Services and Ditch. See Note II.B. for information on all funds with excess expenditures over appropriations.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

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

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

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

Changes in Assumptions.

General Employees Fund

- > 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.

Police and Fire Fund

- > 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.

WASECA COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION As of and for the Year Ended December 31, 2016

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) (cont.)

Correctional Fund

- > 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.

SUPPLEMENTARY INFORMATION

WASECA COUNTY

DETAILED BUDGETARY COMPARISON SCHEDULE GENERAL FUND For the Year Ended December 31, 2016

	Budget Original / Final	Actual	Variance with Budget
REVENUES			
Taxes	\$ 7,441,593	\$ 7,626,635	\$ 185,042
Intergovernmental	2,002,387	2,076,930	74,543
Licenses and permits	237,700	242,452	4,752
Charges for services	810,043	878,107	68,064
Investment income (including unrealized losses)	50,000	80,788	30,788
Miscellaneous	124,500	138,917	14,417
TOTAL REVENUES	<u>\$ 10,666,223</u>	<u>\$ 11,043,829</u>	<u>\$ 377,606</u>
EXPENDITURES			
General Government			
Commissioners	\$ 297,130	\$ 280,997	\$ 16,133
Court administration	66,300	89,306	(23,006)
Court services	466,945	483,471	(16,526)
County administration	333,971	370,812	(36,841)
County auditor / treasurer	478,978	473,219	5,759
Motor vehicle	230,794	311,571	(80,777)
County assessor	396,883	385,111	11,772
Elections	44,300	40,223	4,077
Data processing	621,940	609,752	12,188
Attorney	612,406	678,147	(65,741)
Recorder	173,637	170,907	2,730
Buildings and plant	487,979	429,727	58,252
Veterans services	188,848	215,360	(26,512)
Central services	257,800	283,274	(25,474)
Other	86,088	86,088	-
Total General Government	<u>4,743,999</u>	<u>4,907,965</u>	<u>(163,966)</u>
Public Safety			
Sheriff	3,116,269	2,692,370	423,899
Electronic monitoring	28,000	27,059	941
Coroner	20,000	28,841	(8,841)
Ambulance	5,000	5,000	-
Emergency government	135,408	104,443	30,965
Total Public Safety	<u>3,304,677</u>	<u>2,857,713</u>	<u>446,964</u>
Health and Human Services			
Nursing service	909,353	922,255	(12,902)
Community health services	409,358	475,075	(65,717)
Total Health and Human Services	<u>1,318,711</u>	<u>1,397,330</u>	<u>(78,619)</u>

WASECA COUNTY

DETAILED BUDGETARY COMPARISON SCHEDULE GENERAL FUND For the Year Ended December 31, 2016

	Budget Original / Final	Actual	Variance with Budget
EXPENDITURES (cont.)			
Culture, Recreation, and Education			
County extension	\$ 154,620	\$ 148,765	\$ 5,855
Snowmobile	40,000	30,532	9,468
Historical society	60,000	60,000	-
Arts	9,500	9,500	-
Other	157,360	82,690	74,670
Total Culture, Recreation, and Education	<u>421,480</u>	<u>331,487</u>	<u>89,993</u>
Conservation and Development			
Soil and water conservation	96,794	90,793	6,001
Agricultural society	47,775	47,775	-
Planning and zoning	388,528	399,060	(10,532)
Community development	62,800	31,603	31,197
Economic development	12,500	9,800	2,700
Other	500	500	-
Total Conservation and Development	<u>608,897</u>	<u>579,531</u>	<u>29,366</u>
Capital Outlay			
General government	145,000	165,375	(20,375)
Public safety	95,000	114,655	(19,655)
Total Capital Outlay	<u>240,000</u>	<u>280,030</u>	<u>(40,030)</u>
TOTAL EXPENDITURES	<u>\$ 10,637,764</u>	<u>\$ 10,354,056</u>	<u>\$ 283,708</u>

WASECA COUNTY

BUDGETARY COMPARISON SCHEDULE

DEBT SERVICE FUND

For the Year Ended December 31, 2016

	Budget Original / Final	Actual	Variance with Budget
REVENUES			
Taxes	\$ 290,736	\$ 291,435	\$ 699
Intergovernmental	<u>7,827</u>	<u>7,827</u>	<u>-</u>
Total Revenues	<u>298,563</u>	<u>299,262</u>	<u>699</u>
EXPENDITURES			
Debt Service			
Principal	240,000	410,000	(170,000)
Interest and fiscal charges	<u>58,563</u>	<u>110,269</u>	<u>(51,706)</u>
Total Expenditures	<u>298,563</u>	<u>520,269</u>	<u>(221,706)</u>
Excess (deficiency) of revenues over expenditures	-	(221,007)	(221,007)
OTHER FINANCING SOURCES			
Transfers in	<u>-</u>	<u>219,809</u>	<u>219,809</u>
Net change in fund balances	-	(1,198)	(1,198)
FUND BALANCES - Beginning of Year	<u>592,135</u>	<u>592,135</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 592,135</u>	<u>\$ 590,937</u>	<u>\$ (1,198)</u>

WASECA COUNTY

NONMAJOR GOVERNMENTAL FUNDS December 31, 2016

Special Revenue Funds

Waste Management Fund – Used to account for the solid waste and recycling activities of the county.

Library Fund – Used to account for money collected for the library.

Special Revenue Fund – Used for various purposes (technology equipment, etc).

Small Cities Development Fund – Used for development activities.

Economic Development Fund – Used for economic development activities.

Capital Projects Fund – Used to account for financial resources to be used for the acquisition or construction of major capital facilities and other capital assets.

WASECA COUNTY

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
As of December 31, 2016

	Special Revenue						Total Nonmajor Funds
	Waste Management	Library	Special Revenue	Small Cities Development	Economic Development	Capital Projects	
ASSETS							
Cash	\$ 592,053	\$ 25,585	\$ 721,106	\$ 18,388	\$ 109,174	\$ 158,390	\$ 1,624,696
Accounts receivable	-	-	3,136	-	-	-	3,136
Due from other governments	112,076	-	-	-	-	-	112,076
Special assessment receivable	8,812	-	-	-	-	-	8,812
Notes receivable, net	-	-	-	82,687	12,291	-	94,978
Inventories and prepaid items	60	-	54,102	-	-	44,239	98,401
TOTAL ASSETS	<u>\$ 713,001</u>	<u>\$ 25,585</u>	<u>\$ 778,344</u>	<u>\$ 101,075</u>	<u>\$ 121,465</u>	<u>\$ 202,629</u>	<u>\$ 1,942,099</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 38,635	\$ 25,585	\$ 17,461	\$ -	\$ -	\$ -	\$ 81,681
Accrued liabilities	9,757	-	2,123	-	-	-	11,880
Special deposits	3,000	-	-	-	-	-	3,000
Total Liabilities	<u>51,392</u>	<u>25,585</u>	<u>19,584</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>96,561</u>
Deferred Inflows of Resources							
Unearned revenues	34,846	-	10,000	-	-	-	44,846
Unavailable revenues	8,812	-	-	82,687	12,291	-	103,790
Total Deferred Inflows of Resources	<u>43,658</u>	<u>-</u>	<u>10,000</u>	<u>82,687</u>	<u>12,291</u>	<u>-</u>	<u>148,636</u>
Fund Balances							
Nonspendable	60	-	54,102	-	-	44,239	98,401
Restricted	-	-	519,529	18,388	-	137,731	675,648
Committed	617,891	-	-	-	109,174	20,659	747,724
Assigned	-	-	175,129	-	-	-	175,129
Total Fund Balances	<u>617,951</u>	<u>-</u>	<u>748,760</u>	<u>18,388</u>	<u>109,174</u>	<u>202,629</u>	<u>1,696,902</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 713,001</u>	<u>\$ 25,585</u>	<u>\$ 778,344</u>	<u>\$ 101,075</u>	<u>\$ 121,465</u>	<u>\$ 202,629</u>	<u>\$ 1,942,099</u>

WASECA COUNTY

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS For the Year Ended December 31, 2016

	Special Revenue						Total Nonmajor Funds
	Waste Management	Library	Special Revenue	Small Cities Development	Economic Development	Capital Projects	
REVENUES							
Special assessments	\$ 246,842	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 246,842
Intergovernmental	145,940	-	477,680	-	-	26,025	649,645
Licenses and permits	-	-	25,555	-	-	-	25,555
Public charges for services	371,019	-	138,357	-	-	-	509,376
Investment income	-	-	-	-	1,053	-	1,053
Miscellaneous	207,986	-	23,750	7,953	976	-	240,665
Total Revenues	971,787	-	665,342	7,953	2,029	26,025	1,673,136
EXPENDITURES							
Current							
General government	-	-	42,254	-	-	-	42,254
Public safety	-	-	589,608	-	-	-	589,608
Sanitation	865,326	-	-	-	-	-	865,326
Health and human services	-	-	84,111	-	-	-	84,111
Culture, recreation, and education	-	15,356	461	-	-	-	15,817
Conservation and development	-	-	5,466	-	1,000	-	6,466
Capital Outlay	27,790	-	14,180	-	-	24,594	66,564
Total Expenditures	893,116	15,356	736,080	-	1,000	24,594	1,670,146
Excess (deficiency) of revenues over expenditures	78,671	(15,356)	(70,738)	7,953	1,029	1,431	2,990
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	710	-	-	-	710
Transfers out	-	-	(691)	-	-	-	(691)
Total Other Financing Sources (Uses)	-	-	19	-	-	-	19
Net change in fund balances	78,671	(15,356)	(70,719)	7,953	1,029	1,431	3,009
FUND BALANCES - Beginning of Year	539,280	15,356	819,479	10,435	108,145	201,198	1,693,893
FUND BALANCES - END OF YEAR	\$ 617,951	\$ -	\$ 748,760	\$ 18,388	\$ 109,174	\$ 202,629	\$ 1,696,902

WASECA COUNTY

BUDGETARY COMPARISON SCHEDULE WASTE MANAGEMENT FUND For the Year Ended December 31, 2016

	Budget Original / Final	Actual	Variance with Budget
REVENUES			
Special assessments	\$ 230,000	\$ 246,842	\$ 16,842
Intergovernmental	69,729	145,940	76,211
Public charges for services	230,300	371,019	140,719
Investment income	2,000	-	(2,000)
Miscellaneous	245,000	207,986	(37,014)
Total Revenues	<u>777,029</u>	<u>971,787</u>	<u>194,758</u>
EXPENDITURES			
Current			
Sanitation			
Transfer station	471,912	446,824	25,088
Special waste management	23,782	26,889	(3,107)
Recycling	307,864	284,214	23,650
Yardwaste management and education	7,931	298	7,633
Solid waste administration	68,739	107,101	(38,362)
Capital Outlay	16,000	27,790	(11,790)
Total Expenditures	<u>896,228</u>	<u>893,116</u>	<u>3,112</u>
Excess (deficiency) of revenues over expenditures	(119,199)	78,671	197,870
OTHER FINANCING SOURCES			
Transfers in	<u>119,199</u>	<u>-</u>	<u>(119,199)</u>
Net change in fund balances	-	78,671	78,671
FUND BALANCES - Beginning of Year	<u>539,280</u>	<u>539,280</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 539,280</u>	<u>\$ 617,951</u>	<u>\$ 78,671</u>

WASECA COUNTY

BUDGETARY COMPARISON SCHEDULE SPECIAL REVENUE FUND For the Year Ended December 31, 2016

	Budget Original / Final	Actual	Variance with Budget
REVENUES			
Intergovernmental	\$ 479,512	\$ 477,680	\$ (1,832)
Licenses and permits	6,000	25,555	19,555
Public charges for services	91,100	138,357	47,257
Miscellaneous	27,000	23,750	(3,250)
Total Revenues	<u>603,612</u>	<u>665,342</u>	<u>61,730</u>
EXPENDITURES			
Current			
General government	74,249	42,254	31,995
Public safety	425,517	589,608	(164,091)
Health and human services	62,447	84,111	(21,664)
Culture, recreation, and education	-	461	(461)
Conservation and development	49,305	5,466	43,839
Capital Outlay	22,000	14,180	7,820
Total Expenditures	<u>633,518</u>	<u>736,080</u>	<u>(102,562)</u>
Excess (deficiency) of revenues over expenditures	<u>(29,906)</u>	<u>(70,738)</u>	<u>(40,832)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	38,457	710	(37,747)
Transfers out	-	(691)	(691)
Total Other Financing Sources (Uses)	<u>38,457</u>	<u>19</u>	<u>(38,438)</u>
Net change in fund balances	8,551	(70,719)	(79,270)
FUND BALANCES - Beginning of Year	<u>819,479</u>	<u>819,479</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 828,030</u>	<u>\$ 748,760</u>	<u>\$ (79,270)</u>

WASECA COUNTY

AGENCY FUNDS
December 31, 2016

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

Insurance – Used to account for insurance premiums held by the county before remitting to insurance carrier.

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

Social Welfare Trust Account – Used to account for funds held by the county for clients in a representative payee capacity.

WASECA COUNTY

COMBINING STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS
As of December 31, 2016

	<u>Taxes and Penalties</u>	<u>Insurance</u>	<u>State Revenue</u>	<u>Social Welfare Trust Account</u>	<u>Total</u>
ASSETS					
Cash and Investments	\$ 714,922	\$ 4,198	\$ 43,350	\$ 4,729	\$ 767,199
TOTAL ASSETS	<u>\$ 714,922</u>	<u>\$ 4,198</u>	<u>\$ 43,350</u>	<u>\$ 4,729</u>	<u>\$ 767,199</u>
LIABILITIES					
Due to other governments	\$ 714,922	\$ -	\$ 43,350	\$ -	\$ 758,272
Accounts payable	-	4,198	-	-	4,198
Deposits	-	-	-	4,729	4,729
TOTAL LIABILITIES	<u>\$ 714,922</u>	<u>\$ 4,198</u>	<u>\$ 43,350</u>	<u>\$ 4,729</u>	<u>\$ 767,199</u>

WASECA COUNTY

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS For the Year Ended December 31, 2016

	Balance Jan. 1, 2016	Additions	Deletions	Balance Dec. 31, 2016
<u>Taxes and Penalties</u>				
Assets:				
Cash and investments	\$ 497,297	\$ 31,340,731	\$ 31,123,106	\$ 714,922
Liabilities:				
Unapportioned taxes and assessments	\$ -	\$ 13,416,426	\$ 13,416,426	\$ -
Due to other governments	497,297	17,924,305	17,706,680	714,922
Total Liabilities	<u>\$ 497,297</u>	<u>\$ 31,340,731</u>	<u>\$ 31,123,106</u>	<u>\$ 714,922</u>
<u>Insurance</u>				
Assets:				
Cash and investments	\$ -	\$ 71,988	\$ 67,790	\$ 4,198
Accounts receivable	138,460	-	138,460	-
Total Assets	<u>\$ 138,460</u>	<u>\$ 71,988</u>	<u>\$ 206,250</u>	<u>\$ 4,198</u>
Liabilities:				
Due to other governments	\$ 130,465	\$ -	\$ 130,465	\$ -
Accounts payable	7,995	71,988	75,785	4,198
Total Liabilities	<u>\$ 138,460</u>	<u>\$ 71,988</u>	<u>\$ 206,250</u>	<u>\$ 4,198</u>
<u>State Revenue</u>				
Assets:				
Cash and investments	\$ 44,411	\$ 877,686	\$ 878,747	\$ 43,350
Liabilities:				
Due to other governments	\$ 44,411	\$ 877,686	\$ 878,747	\$ 43,350
<u>Social Welfare Trust Account</u>				
Assets:				
Cash and investments	\$ 74,993	\$ 15,725	\$ 85,989	\$ 4,729
Liabilities:				
Deposits	\$ 74,993	\$ 15,725	\$ 85,989	\$ 4,729

WASECA COUNTY

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS For the Year Ended December 31, 2016

	<u>Balance</u> <u>Jan. 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Dec. 31, 2016</u>
<u>Total All Agency Funds</u>				
Assets:				
Cash and investments	\$ 616,701	\$ 32,306,130	\$ 32,155,632	\$ 767,199
Accounts receivable	<u>138,460</u>	<u>-</u>	<u>138,460</u>	<u>-</u>
 Total Assets	 <u>\$ 755,161</u>	 <u>\$ 32,306,130</u>	 <u>\$ 32,294,092</u>	 <u>\$ 767,199</u>
Liabilities:				
Unapportioned taxes and assessments	\$ -	\$ 13,416,426	\$ 13,416,426	\$ -
Due to other governments	672,173	18,801,991	18,715,892	758,272
Accounts payable	7,995	71,988	75,785	4,198
Deposits	<u>74,993</u>	<u>15,725</u>	<u>85,989</u>	<u>4,729</u>
 Total Liabilities	 <u>\$ 755,161</u>	 <u>\$ 32,306,130</u>	 <u>\$ 32,294,092</u>	 <u>\$ 767,199</u>

WASECA COUNTY

SCHEDULE OF INTERGOVERNMENTAL REVENUES
For the Year Ended December 31, 2016

	Special Revenue				Total	Debt Service	Capital Projects	Total All Funds
	General Fund	Road and Bridge	Waste Management	Special Revenue				
Shared Revenue								
State								
Highway users tax	\$ -	\$ 3,501,493	\$ -	\$ -	\$ 3,501,493	\$ -	\$ -	\$ 3,501,493
State aid bond	-	219,359	-	-	219,359	-	-	219,359
County program aid	675,740	-	-	49,794	49,794	-	-	725,534
Conservation credit	58,234	21,230	-	-	21,230	1,754	-	81,218
PERA aid	25,886	-	-	-	-	-	-	25,886
State police aid	105,641	-	-	-	-	-	-	105,641
Agricultural preservation	191,982	69,992	-	-	69,992	5,784	-	267,758
Disparity aid	9,590	3,497	-	-	3,497	289	-	13,376
Total Shared Revenue	1,067,073	3,815,571	-	49,794	3,865,365	7,827	-	4,940,265
Reimbursement for Services								
Other counties, cities or townships	-	-	-	-	-	-	26,025	26,025
Total Reimbursement for Services	-	-	-	-	-	-	26,025	26,025
Grants								
State								
Minnesota Department of Health	467,594	-	-	57,637	57,637	-	-	525,231
Public Safety	-	-	28,019	92,969	120,988	-	-	120,988
Natural Resources	30,532	-	-	-	-	-	-	30,532
Corrections	99,185	-	-	-	-	-	-	99,185
Pollution Control Agency	2,682	-	33,864	-	33,864	-	-	36,546
Board of Water and Soil Resources	-	-	-	8,778	8,778	-	-	8,778
Trial Court	-	-	-	129,202	129,202	-	-	129,202
Total State	599,993	-	61,883	288,586	350,469	-	-	950,462
Federal								
U.S. Department of Agriculture	137,803	-	-	-	-	-	-	137,803
Education	2,721	-	-	-	-	-	-	2,721
Homeland Security	29,850	-	84,057	-	84,057	-	-	113,907
Justice	-	-	-	139,300	139,300	-	-	139,300
Health and Human Services	239,490	-	-	-	-	-	-	239,490
Total Federal	409,864	-	84,057	139,300	223,357	-	-	633,221
Total Grants	1,009,857	-	145,940	427,886	573,826	-	-	1,583,683
TOTAL INTERGOVERNMENTAL REVENUE	\$ 2,076,930	\$ 3,815,571	\$ 145,940	\$ 477,680	\$ 4,439,191	\$ 7,827	\$ 26,025	\$ 6,549,973

OTHER REPORTS

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

Independent Auditors' Report

To the Board of Commissioners
Waseca County
Waseca, 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 Waseca County, Minnesota as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Waseca County's basic financial statements, and have issued our report thereon dated September 20, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2016-001 and 2016-002 that we consider to be material weaknesses.

To the Board of Commissioners
Waseca County

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. Section 6.65, contains seven categories of compliance to be tested: depositories of public funds and public investments, conflicts of interest, public indebtedness, contracting – bid laws, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test the provisions for tax increment financing because Waseca County does not have any tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Waseca County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Waseca County's noncompliance with the above referenced provisions.

Waseca County's Response to Findings

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

Purpose of this Report

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



Minneapolis, Minnesota
September 20, 2017

WASECA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES For the Year Ended December 31, 2016

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

Finding 2016-001: Internal Control over Financial Reporting

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

Condition: The county relies on its external auditors to draft the financial statements, and there were material journal entries made to the county's records.

Cause: Due to its size, the county has chosen to have the auditors prepare its annual financial statements.

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

Recommendation: The county's management should consider whether it is cost effective to hire additional staff and/or arrange for significant additional training so that the county can draft its own materially correct financial statements.

Views of Responsible Officials: The county has improved in this area and will continue to develop a training plan and time-line for having county staff record material year-end adjustments and will review the financial statements for accuracy.

Finding 2016-002: Internal Control Environment

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

Condition: There is a lack of controls over payroll, receipting, and monthly and year-end accounting transaction cycles due to a lack segregation of duties in the accounting functions.

Cause: Due to its size, the county does not have an adequate number of employees needed to implement the controls over these transaction cycles.

Effect: Because of the lack of internal controls, it is less likely that errors or irregularities would be discovered internally. Because of the lack of segregation of duties, the accounting records may be misstated.

Recommendation: Most of the key controls lacking for these transaction cycles are not possible to cure without adding a significant number of staff. The county board should rely more heavily on their direct knowledge of the county's operations and day-to-day contact with employees to control and safeguard assets. The county board should also continue to make a reasonable effort to be knowledgeable about the county's key transaction cycles.

Views of Responsible Officials: The county is aware of the lack of controls over the payroll, receipting, and monthly and year-end accounting functions. In an organization the size of Waseca County, it is difficult to maintain the ideal segregation of duties. We will continue to develop additional internal controls and procedures to properly safeguard the county's assets.

WASECA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES (cont.)
For the Year Ended December 31, 2016

MINNESOTA LEGAL COMPLIANCE FINDINGS AND QUESTIONED COSTS

None noted.