

WASECA COUNTY

Waseca, Minnesota

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Year Ended December 31, 2018

WASECA COUNTY

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

Independent Auditors' Report	i – iii
Required Supplementary Information	
Management's Discussion and Analysis (Unaudited)	iv – 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 – 52
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	53
Budgetary Comparison Schedule – Road and Bridge Fund	54
Budgetary Comparison Schedule – Ditch Fund	55
Budgetary Comparison Schedule – Waste Management Fund	56
Schedule of Changes in the Total OPEB Liability and Related Ratios	57
Schedule of County's Proportionate Share of the Net Pension Liability – PERA General Employees' Retirement Fund	58
Schedule of Employer Contributions – PERA General Employees' Retirement Fund	58
Schedule of County's Proportionate Share of the Net Pension Liability – PERA Police and Fire Fund	59
Schedule of Employer Contributions – PERA Police and Fire Fund	59
Schedule of County's Proportionate Share of the Net Pension Liability – PERA Correctional Fund	60
Schedule of Employer Contributions – PERA Correctional Fund	60
Notes to Required Supplementary Information	61 – 66

WASECA COUNTY

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

Supplementary Information

Detailed Budgetary Comparison Schedule – General Fund	67 – 68
Budgetary Comparison Schedule – Debt Service Fund	69
Nonmajor Governmental Funds	70
Combining Balance Sheet – Nonmajor Governmental Funds	71
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	72
Budgetary Comparison Schedule – Special Revenue Fund	73
Agency Funds	74
Combining Statement of Assets and Liabilities – Agency Funds	75
Combining Statement of Changes in Assets and Liabilities – Agency Funds	76 – 77
Schedule of Intergovernmental Revenues	78

Other Reports

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> and <i>Minnesota Legal Compliance</i>	79 – 80
Schedule of Findings and Responses	81 – 82

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, 2018, 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 3.3%, 3.9% and 0%, respectively, of the assets, 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 report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of South Country Health Alliance were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to 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, 2018 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2019 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Waseca County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Waseca County's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
September 30, 2019

WASECA COUNTY, MINNESOTA
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2018

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, 2018.

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 \$76,810,822 (net position). Approximately 22% of this total amount, \$16,532,331 is available for spending at the county's discretion (unrestricted net position).

The county's total net position increased by \$3,049,232.

The county's total general-obligation debt as of December 31, 2018 was \$2,465,000. \$435,000 of principal related to debt issued in prior years was paid off on the general obligation debt during 2018.

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, 2018

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 10 individual governmental funds. 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, road and bridge, ditch, waste management, and debt service, all of which are considered major funds. Data from the other 5 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 6 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 12-52 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, other postemployment benefit information 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 53-66 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 67-78.

WASECA COUNTY, MINNESOTA
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2018

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 \$76,810,822 at the close of 2018.

By far, the largest portion of the County's net position (76%) reflects its investment in capital assets (\$60,813,330) (i.e., land, buildings, improvements, equipment, and infrastructure), less any related debt (excluding unspent proceeds) and premium/discount (\$2,403,672) 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 (\$58,409,658), 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 \$1,868,833 for debt service, statutory requirements, ARMER radio system, missing heirs, road and bridge, and small cities development.

The remaining balance of \$16,532,331 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>2018</u>	<u>2017</u>
Current and other assets	\$ 25,825,783	\$ 21,188,947
Capital assets (net)	60,813,330	60,403,113
Investment in joint ventures	<u>2,989,928</u>	<u>4,099,352</u>
Total assets	<u>89,629,041</u>	<u>85,691,412</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>2,348,194</u>	<u>3,393,030</u>
LIABILITIES		
Current liabilities	1,162,150	1,002,397
Noncurrent liabilities	<u>10,038,056</u>	<u>10,753,243</u>
Total liabilities	<u>11,200,206</u>	<u>11,755,640</u>
DEFERRED INFLOWS OF RESOURCES	<u>3,966,207</u>	<u>3,567,212</u>
NET POSITION		
Net investment in capital assets	58,409,658	57,500,083
Restricted	1,868,833	1,624,900
Unrestricted	<u>16,532,331</u>	<u>14,636,607</u>
Total Net position	<u>\$ 76,810,822</u>	<u>\$ 73,761,590</u>

WASECA COUNTY, MINNESOTA
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2018

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

REVENUES	<u>2018</u>	<u>2017</u>
Program revenues:		
Charges for services	\$ 3,298,026	\$ 2,845,331
Operating grants and contributions	3,688,640	3,371,603
Capital grants and contributions	3,246,070	4,658,513
General revenues:		
Taxes	15,189,109	14,369,335
Intergovernmental revenues	1,253,003	1,167,766
Investment income (including unrealized gains/losses)	249,147	89,633
Gain on disposal of capital assets	1,553,596	-
Miscellaneous	<u>335,184</u>	<u>349,010</u>
Total Revenues	<u>28,812,775</u>	<u>26,851,191</u>
EXPENSES		
Program expenses:		
General government	5,718,793	5,310,535
Public safety	4,597,026	4,203,421
Public works	7,010,593	6,608,676
Sanitation	852,751	872,055
Health and human services	5,313,208	3,983,733
Culture, recreation, and education	368,297	376,165
Conservation and development	1,878,779	1,469,985
Interest and fiscal charges	<u>24,096</u>	<u>83,722</u>
Total Expenses	<u>25,763,543</u>	<u>22,908,292</u>
Change in net position	3,049,232	3,942,899
Net position – beginning of year (as restated)	<u>73,761,590</u>	<u>69,818,691</u>
Net position – end of year	<u>\$ 76,810,822</u>	<u>\$ 73,761,590</u>

Governmental Activities

Governmental activities increased the county's net position by \$3,049,232. This is down from the increase of \$3,942,899 in 2017 primarily due to a substantial increase in capital related grants for highway projects in 2017 for which the costs were capitalized and will be depreciated over several years.

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, 2018

As of December 31, 2018, the county's governmental funds reported combined ending fund balances of \$20,255,529 which represents an increase of \$1,963,462 from the previous year's fund balance. Approximately 83% of this total (\$16,827,884) constitutes the unassigned, assigned, and committed fund balances, which is available for spending at the government's discretion. The remainder of fund balance (\$3,427,645) is included in restricted or nonspendable fund balance to indicate that it is not available for new spending primarily due to the following:

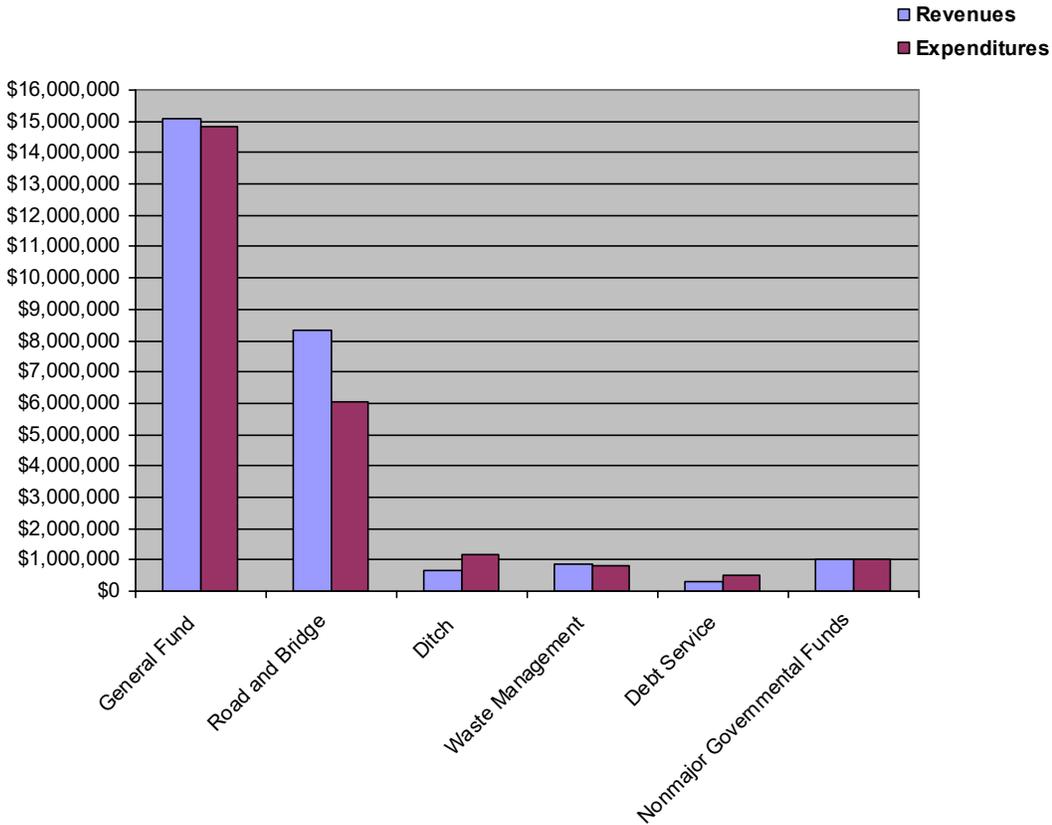
- The Small Cities Development fund originated from a federal grant for housing rehabilitation loans. One of the conditions of the grant is that the fund balance (\$39,358) derived from loan repayments be used for other housing rehabilitation activities.
- Funds that have been set aside in the Special Revenue fund (\$831,163) are subject to various statutory requirements.
- Debt Service funds (\$690,882) are restricted solely to repayment of the County's outstanding bonded indebtedness.
- Missing heirs (\$23,159) is set by court order and held by the County for missing heirs of estates pursuant to MN Statutes.
- Nonspendable inventory (\$242,886) 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.
- A portion of the General fund nonspendable balance (\$1,267,520) represents advances to other funds that are not anticipated to be repaid within one year.

WASECA COUNTY, MINNESOTA
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2018

2018 Revenues & Expenditures By Fund

Funds	Revenues	Expenditures	Balance
General Fund	\$ 15,083,969	\$ 14,840,956	\$ 243,013
Road and Bridge	8,315,273	6,057,900	2,257,373
Ditch	681,885	1,184,158	(502,273)
Waste Management	865,045	804,667	60,378
Debt Service	299,295	512,711	(213,416)
Nonmajor Governmental Funds	995,795	1,031,422	(35,627)
	\$ 26,241,262	\$ 24,431,814	\$ 1,809,448

Revenues and Expenditures by Fund



WASECA COUNTY, MINNESOTA
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2018

2018 Revenues By Fund

Fund	Percent	Revenues
General Fund	57.48%	\$ 15,083,969
Road and Bridge	31.69%	8,315,273
Ditch	2.60%	681,885
Waste Management	3.30%	865,045
Debt Service	1.14%	299,295
Nonmajor Governmental Funds	3.79%	995,795
Total Revenue	100.00%	\$26,241,262

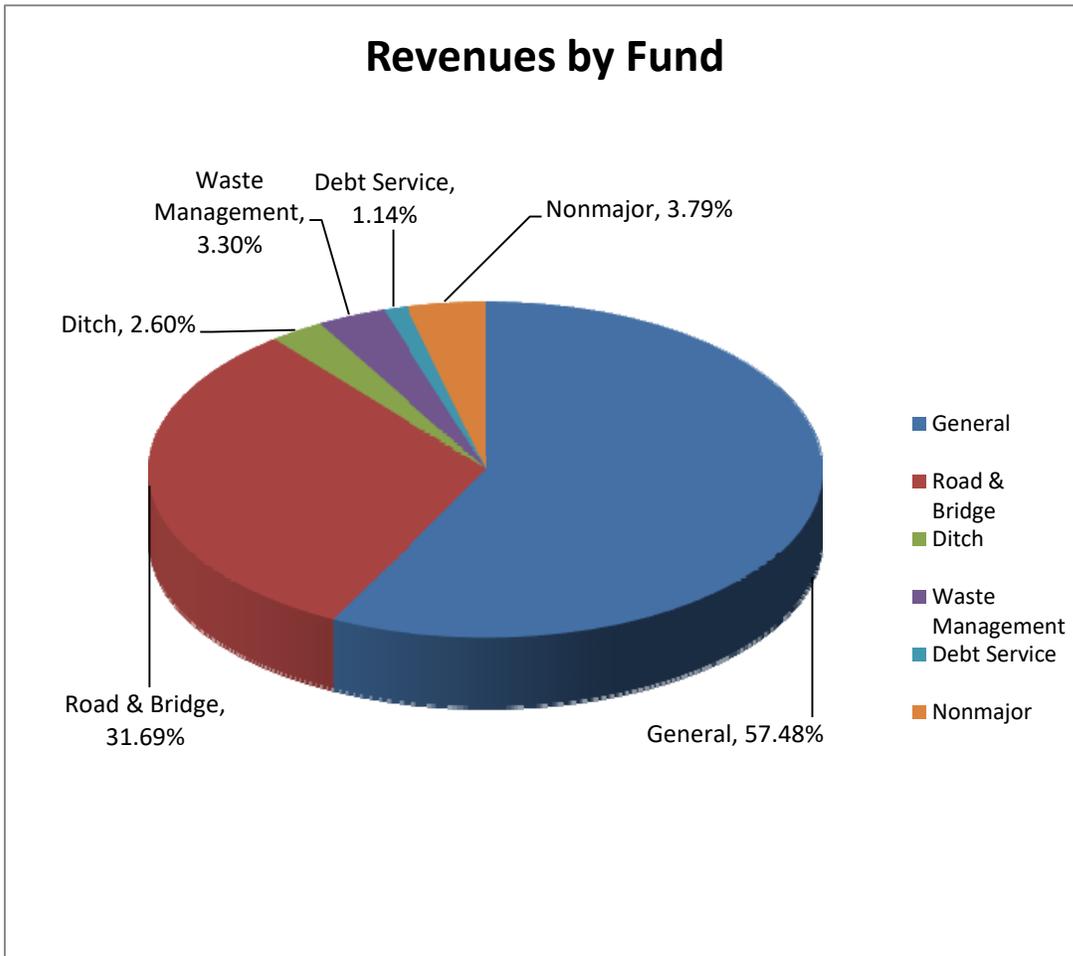


Figure 1

WASECA COUNTY, MINNESOTA
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2018

2018 Expenditures By Fund

Fund	Percent	Expenditures
General Fund	60.74%	\$ 14,840,956
Road and Bridge	24.80%	6,057,900
Ditch	4.85%	1,184,158
Waste Management	3.29%	804,667
Debt Service	2.10%	512,711
Nonmajor Governmental Funds	4.22%	1,031,422
Total Expenditures	100.00%	\$ 24,431,814

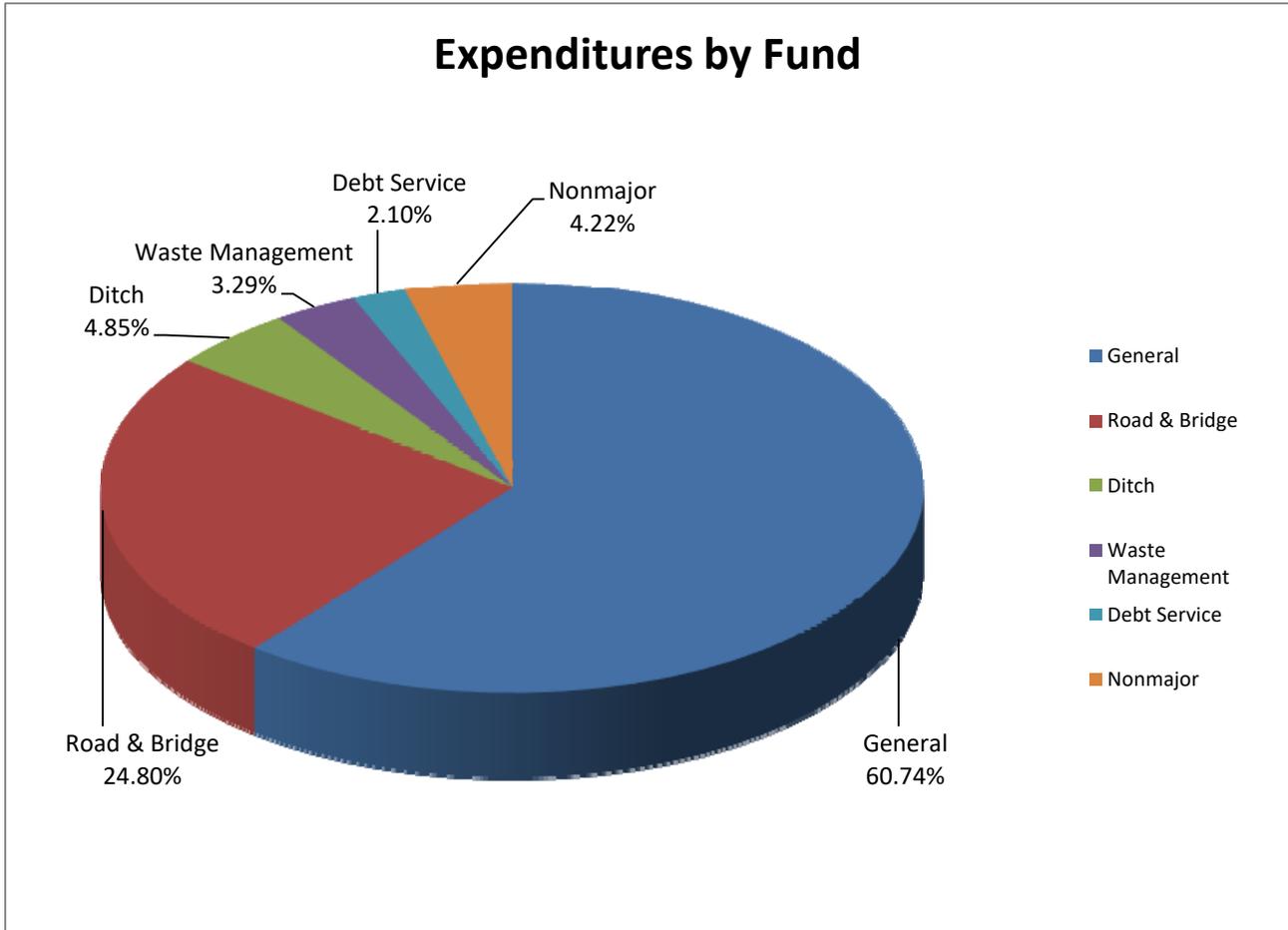


Figure 2

WASECA COUNTY, MINNESOTA
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2018

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 \$8,427,615. The general fund has an unassigned fund balance of \$5,695,663, assigned fund balance of \$1,405,732, restricted fund balance of \$23,159 and a nonspendable fund balance of \$1,303,061. The unassigned portion approximates 38% of the general fund's annual expenditures.

The general fund balance increased by \$256,739 during the current fiscal year mainly due to higher than expected revenues, primarily in the intergovernmental category. Part of this positive variance was the \$140,000 in grant funds received from the Minnesota Historical Society for the courthouse renovation project.

Road & Bridge Fund

The Road and Bridge Fund ended the year with a fund balance of \$9,892,469. The committed fund balance at the end of the fiscal year was \$9,527,972. The fund balance also consists of \$242,886 that is nonspendable related to inventory. The total fund balance of the Road and Bridge Fund increased \$1,894,312 during the current fiscal year primarily due to lower than expected street construction costs.

Ditch Fund

The Ditch Fund had a total fund balance deficit of (\$1,203,336). All of this amount represents unassigned fund balance. The total fund balance of the Ditch Fund decreased by \$502,273 during the current fiscal year due to expenditures being more significant during 2018 than anticipated.

Waste Management Fund

The Waste Management Fund had a total fund balance of \$1,016,815. All of this amount represents committed fund balance. The total fund balance of the Waste Management Fund increased by \$264,354 during the current fiscal year due insurance proceeds received within 60 days of year end. The insurance proceeds were related to a fire that occurred in December 2018.

Debt Service Fund

The Debt Service Fund had a total fund balance of \$690,882. The entire amount represents restricted funds. The total fund balance decreased by \$317 during the current fiscal year which was comparable to budget.

Nonmajor Government Funds

All other government funds had a total fund balance of \$1,431,084. A balance of \$95,250 represents the committed fund balance, \$289,788 for assigned fund balance, \$1,045,434 is classified as restricted and \$612 is nonspendable. Total fund balance of all other government funds increased by \$50,647 during the current fiscal year mainly from favorable results related to grant funding and charges for services.

General Fund Budgetary Highlights

There were no changes made to the original budget for 2018. The variance of budgeted amounts to actual revenues and other financing sources in the general fund was \$448,378 above budget mainly tied to grant funding. The variance of budgeted amounts to actual expenditures and other financing uses in the general fund was \$191,639 over budget due to capital outlay associated with the courthouse renovation project.

WASECA COUNTY, MINNESOTA
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2018

Capital Assets and Debt Administration: Capital Assets

The county's investment in capital assets for its governmental activities as of December 31, 2018 amount to \$60,813,330 (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 an increase in the overall investment in capital assets for the current fiscal year of \$410,217 a 1% increase.

Additional information on the county's capital assets can be found on pages 1, 4, 6, 19, and 28 of this report.

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

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 687,902	\$ -	\$ -	\$ 687,902
Right of Way	1,159,599	-	-	1,159,599
Construction in Progress	143,850	2,074,066	(79,970)	2,137,946
Total Capital Assets Not Being Depreciated	\$ 1,991,351	\$ 2,074,066	\$ (79,970)	\$ 3,985,447
Capital Assets Being Depreciated:				
Buildings	\$ 6,534,588	\$ -	\$ (275,778)	\$ 6,258,810
Improvements	30,311	1,245,438	-	1,275,749
Machinery and Equipment	9,359,635	1,258,995	(576,400)	10,042,230
Roads	71,950,143	124,378	(1,438,217)	70,636,304
Bridges	6,048,081	-	-	6,048,081
Total Capital Assets Being Depreciated	93,922,758	2,628,811	(2,290,395)	94,261,174
Less: Accumulated Depreciation for				
Buildings	(2,523,855)	(86,929)	139,857	(2,470,927)
Improvements	(18,295)	(1,312)	-	(19,607)
Machinery and Equipment	(5,318,190)	(961,209)	508,225	(5,771,174)
Roads	(26,761,670)	(2,266,267)	825,981	(28,201,956)
Bridges	(888,986)	(80,641)	-	(969,627)
Total Accumulated Depreciation	(35,510,996)	(3,396,358)	1,474,063	(37,433,291)
Capital Assets, Net of Depreciation	\$ 58,411,762	\$ (767,547)	\$ (816,332)	\$ 56,827,883

WASECA COUNTY, MINNESOTA
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2018

Long-Term Debt

At the end of the current fiscal year, the county had total bonded debt outstanding of \$2,465,000 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 \$435,000. 57% of Waseca County's general obligation debt is attributable to capital improvement bonds with a final maturity date of 2023. 17% of the general obligation debt is bonded for state-aid highway use with a final maturity date of 2022. 26% 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 \$83 million which is significantly in excess of its outstanding general obligation debt of \$2,465,000. \$1,774,118 is the County's outstanding general obligation debt net of the debt service reserve of \$690,882. 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 20 and 30-31 of this report.

General obligation debt payable for the County at December 31, 2018, 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 12-31-2018</u>
State-Aid Highway Bonds	2007	2022	3.75-4.20%	\$ 1,240,000	\$ 410,000
Capital Improvement Bonds	2013	2023	.8-2.6%	2,145,000	1,400,000
State-Aid Highway Bonds	2015	2025	2.00-2.15%	910,000	655,000
					<u>\$ 2,465,000</u>

Economic and Demographic Factors and County Budget Trends

- The estimated county population was 18,691 in 2018, which consists of 23% under the age of 18 and 18% 65 or older.
- The median income for a household in the county is \$55,189.
- The county unemployment rate is 5.6%. This compares to the state's average unemployment rate of 4.3%.
- 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 \$5,695,663. The county's fund balance policy calls for unassigned general fund balance equal to 45%-55% of the next year's operating budget.
- The county's 2019 adopted budget was balanced, with no budgeted use of available fund balances.

These and other factors are considered in the county's annual budget planning for 2020. 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, 2018

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, 2018

	Governmental Activities
ASSETS	
Cash and investments	\$ 20,578,324
Delinquent taxes receivable	146,481
Accounts receivable	1,900,955
Due from other governments	2,158,558
Interest receivable	34,408
Special assessments receivable	608,945
Notes receivable, net	119,073
Inventories and prepaid items	279,039
Capital Assets	
Land	687,902
Right of way	1,159,599
Construction in progress	2,137,946
Other capital assets, net of depreciation	56,827,883
Investment in joint ventures	2,989,928
Total Assets	<u>89,629,041</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension related amounts	2,348,194
Total Deferred Outflows of Resources	<u>2,348,194</u>
LIABILITIES	
Accounts payable	556,165
Accrued liabilities and deposits	504,823
Due to other governments	101,162
Noncurrent liabilities	
Due within one year	864,129
Due in more than one year	9,173,927
Total Liabilities	<u>11,200,206</u>
DEFERRED INFLOWS OF RESOURCES	
Pension related amounts	3,487,498
Other postemployment benefits related amounts	346,040
Unearned revenues	132,669
Total Deferred Inflows of Resources	<u>3,966,207</u>
NET POSITION	
Net investment in capital assets	58,409,658
Restricted for:	
Debt service	670,264
Statutory requirements	831,163
ARMER radio system	113,585
Missing heirs	23,159
Road and bridge	121,611
Small cities development	109,051
Unrestricted	<u>16,532,331</u>
TOTAL NET POSITION	<u><u>\$ 76,810,822</u></u>

See accompanying notes to the financial statements.

WASECA COUNTY

STATEMENT OF ACTIVITIES For the Year Ended December 31, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues			<u>Net (Expenses) Revenues and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities					
General government	\$ 5,718,793	\$ 539,072	\$ 251,001	\$ 316,749	\$ (4,611,971)
Public safety	4,597,026	298,775	559,366	26,880	(3,712,005)
Public works	7,010,593	326,084	1,659,305	2,902,441	(2,122,763)
Sanitation	852,751	751,985	66,734	-	(34,032)
Health and human services	5,313,208	351,930	852,695	-	(4,108,583)
Culture, recreation, and education	368,297	34,252	657	-	(333,388)
Conservation and development	1,878,779	995,928	298,882	-	(583,969)
Interest and fiscal charges	24,096	-	-	-	(24,096)
Total Governmental Activities	<u>25,763,543</u>	<u>3,298,026</u>	<u>3,688,640</u>	<u>3,246,070</u>	<u>(15,530,807)</u>
Totals	<u>\$ 25,763,543</u>	<u>\$ 3,298,026</u>	<u>\$ 3,688,640</u>	<u>\$ 3,246,070</u>	<u>(15,530,807)</u>
General Revenues					
Taxes					
Property taxes, levied for general purposes					14,635,361
Property taxes, levied for debt service					290,029
Other taxes					263,719
Intergovernmental revenues not restricted to specific programs					1,253,003
Investment income (including unrealized gains/losses)					249,147
Gain on disposal of capital assets					1,553,596
Miscellaneous					335,184
Total General Revenues					<u>18,580,039</u>
Change in Net Position					3,049,232
NET POSITION - Beginning of Year					<u>73,761,590</u>
NET POSITION - END OF YEAR					<u>\$ 76,810,822</u>

See accompanying notes to the financial statements.

WASECA COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS
As of December 31, 2018

	General Fund	Special Revenue			Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
		Road & Bridge	Ditch	Waste Management			
ASSETS							
Cash and investments	\$ 6,748,239	\$ 9,849,448	\$ 695,577	\$ 781,444	\$ 690,994	\$ 1,812,622	\$ 20,578,324
Receivables							
Delinquent taxes	109,001	34,040	-	-	3,440	-	146,481
Accounts	126,027	-	-	1,757,692	-	17,236	1,900,955
Due from other governments	232,863	1,895,377	22,571	-	-	7,747	2,158,558
Interest	34,408	-	-	-	-	-	34,408
Special assessments	-	-	599,807	9,138	-	-	608,945
Notes, net	-	-	-	-	-	119,073	119,073
Inventories and prepaid items	35,541	242,886	-	-	-	612	279,039
Advances to other funds	1,867,520	-	-	-	-	-	1,867,520
TOTAL ASSETS	\$ 9,153,599	\$ 12,021,751	\$ 1,317,955	\$ 2,548,274	\$ 694,434	\$ 1,957,290	\$ 27,693,303
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 249,967	\$ 203,374	\$ 32,781	\$ 25,008	\$ -	\$ 45,035	\$ 556,165
Accrued liabilities	150,007	28,195	-	6,754	-	3,689	188,645
Due to other governments	97,681	873	920	1,688	-	-	101,162
Advances from other funds	-	-	1,867,520	-	-	-	1,867,520
Deposits	-	-	-	3,006	-	289,000	292,006
Total Liabilities	<u>497,655</u>	<u>232,442</u>	<u>1,901,221</u>	<u>36,456</u>	<u>-</u>	<u>337,724</u>	<u>3,005,498</u>
Deferred Inflows of Resources							
Unearned revenues	29,395	-	-	33,865	-	69,409	132,669
Unavailable revenues	198,934	1,896,840	620,070	1,461,138	3,552	119,073	4,299,607
Total Deferred Inflows of Resources	<u>228,329</u>	<u>1,896,840</u>	<u>620,070</u>	<u>1,495,003</u>	<u>3,552</u>	<u>188,482</u>	<u>4,432,276</u>
Fund Balances							
Nonspendable	1,303,061	242,886	-	-	-	612	1,546,559
Restricted	23,159	121,611	-	-	690,882	1,045,434	1,881,086
Committed	-	9,527,972	-	1,016,815	-	95,250	10,640,037
Assigned	1,405,732	-	-	-	-	289,788	1,695,520
Unassigned (deficit)	5,695,663	-	(1,203,336)	-	-	-	4,492,327
Total Fund Balances (Deficit)	<u>8,427,615</u>	<u>9,892,469</u>	<u>(1,203,336)</u>	<u>1,016,815</u>	<u>690,882</u>	<u>1,431,084</u>	<u>20,255,529</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 9,153,599	\$ 12,021,751	\$ 1,317,955	\$ 2,548,274	\$ 694,434	\$ 1,957,290	\$ 27,693,303

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, 2018

Total fund balance - governmental funds		\$ 20,255,529
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in government activities are not financial resources and, therefore, are not reported in the fund statements. See Note III.C.		60,813,330
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. See Note III B.		4,299,607
Investments in joint ventures are not financial resources and, therefore, are not reported in the funds.		2,989,928
Deferred outflows of resources do not relate to current financial resources and are not reported in the fund statements.		
Deferred outflows - pension related amounts		2,348,194
Deferred inflows of resources do not relate to current financial resources and are not reported in the fund statements.		
Deferred inflows - pension related amounts	(3,487,498)	
Deferred inflows - other postemployment benefits related amounts	<u>(346,040)</u>	(3,833,538)
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	(2,465,000)	
Capital lease liability	(39,657)	
Accrued interest on general obligation debt	(24,172)	
Net pension liability	(4,981,781)	
Compensated absences	(926,125)	
Other postemployment benefits	<u>(1,625,493)</u>	<u>(10,062,228)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u>\$ 76,810,822</u>

See accompanying notes to the financial statements.

WASECA COUNTY

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

	General Fund	Special Revenue			Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
		Road & Bridge	Ditch	Waste Management			
REVENUES							
Taxes	\$ 11,017,291	\$ 3,848,060	\$ -	\$ -	\$ 290,216	\$ -	\$ 15,155,567
Special assessments	-	-	578,760	248,861	-	-	827,621
Intergovernmental	2,577,082	3,979,941	103,125	67,729	9,079	666,400	7,403,356
Licenses and permits	260,496	-	-	-	-	14,655	275,151
Public charges for services	750,514	247,966	-	331,368	-	275,985	1,605,833
Investment income (including unrealized gains)	231,649	-	-	3,017	-	1,454	236,120
Miscellaneous	246,937	239,306	-	214,070	-	37,301	737,614
Total Revenues	15,083,969	8,315,273	681,885	865,045	299,295	995,795	26,241,262
EXPENDITURES							
Current							
General government	5,311,026	-	-	-	-	184,693	5,495,719
Public safety	3,169,161	-	-	-	-	639,580	3,808,741
Public works	-	5,489,789	-	-	-	-	5,489,789
Sanitation	-	-	-	793,257	-	-	793,257
Health and human services	4,120,354	-	-	-	-	9,490	4,129,844
Culture, recreation, and education	357,206	-	-	-	-	17,250	374,456
Conservation and development	580,957	-	1,168,842	-	-	55,851	1,805,650
Capital Outlay	1,302,252	568,111	-	11,410	-	124,558	2,006,331
Debt Service							
Principal retirement	-	-	-	-	435,000	-	435,000
Interest and fiscal charges	-	-	15,316	-	77,711	-	93,027
Total Expenditures	14,840,956	6,057,900	1,184,158	804,667	512,711	1,031,422	24,431,814
Excess (deficiency) of revenues over expenditures	243,013	2,257,373	(502,273)	60,378	(213,416)	(35,627)	1,809,448
OTHER FINANCING SOURCES (USES)							
Transfers in	43,726	-	-	-	213,099	130,000	386,825
Transfers out	(30,000)	(213,099)	-	(100,000)	-	(43,726)	(386,825)
Insurance recovery on capital assets	-	-	-	303,976	-	-	303,976
Total Other Financing Sources (Uses)	13,726	(213,099)	-	203,976	213,099	86,274	303,976
Net change in fund balances	256,739	2,044,274	(502,273)	264,354	(317)	50,647	2,113,424
FUND BALANCES (DEFICIT) - Beginning of Year	8,170,876	7,998,157	(701,063)	752,461	691,199	1,380,437	18,292,067
Decrease in inventories	-	(149,962)	-	-	-	-	(149,962)
FUND BALANCES (DEFICIT) - END OF YEAR	\$ 8,427,615	\$ 9,892,469	(1,203,336)	1,016,815	\$ 690,882	\$ 1,431,084	\$ 20,255,529

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, 2018

Net change in fund balances - total governmental funds	\$ 2,113,424
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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.	2,006,331
Some items reported as capital outlay were not capitalized.	(202,353)
Some expenditures charged to the functional areas were capitalized.	2,818,929
Depreciation is reported in the government-wide statements.	(3,396,358)

In the statement of activities, only the gain or loss on the disposal of capital assets is reported.	(816,332)
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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. \$1,773,054 recognized as revenue on the fund statements was recognized in the government-wide statement in prior years. \$4,299,607 is reported as unavailable revenue in the fund statements but recognized as revenue in the government-wide statements in the current year.	2,526,553
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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	435,000
Capital lease repayments	18,407

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:	
Net pension liability (and pension related deferred outflows/inflows of resources)	402,550
Compensated absences	(54,051)
Termination and disability benefits	71,707
Other postemployment benefits (and related deferred outflows/inflows of resources)	(1,684,118)

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.	64,358
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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.	\$ 4,571
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.	(1,109,424)
Change in inventory value	<u>(149,962)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 3,049,232</u>

WASECA COUNTY

STATEMENT OF NET POSITION
INTERNAL SERVICE FUND
As of December 31, 2018

	Self Insurance
ASSETS	
Cash and investments	\$ <u> -</u>
LIABILITIES	
Accounts payable	-
Accrued liabilities	<u> -</u>
Total Liabilities	<u> -</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, 2018

	<u>Self Insurance</u>
OPERATING REVENUES	
Charges for services	\$ 1,896,116
OPERATING EXPENSES	
HSA and VEBA contributions	217,621
Premiums	<u>1,678,495</u>
Total Operating Expenses	<u>1,896,116</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, 2018**

	<u>Self Insurance</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received for interfund services	\$ 1,896,116
Cash paid for HSA and VEBA contributions	(217,621)
Cash paid for premiums	<u>(1,678,495)</u>
Net Cash Provided by Operating Activities	<u>-</u>
Net decrease in cash and cash equivalents	-
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>-</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ -</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	-
Accrued liabilities	<u>-</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ -</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, 2018

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 807,341
TOTAL ASSETS	<u>\$ 807,341</u>
LIABILITIES	
Due to other governments	\$ 508,126
Accounts payable	3,489
Deposits	<u>295,726</u>
TOTAL LIABILITIES	<u>\$ 807,341</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, 2018

NOTE	Page
I. Summary of Significant Accounting Policies	13
A. Reporting Entity	13
B. Government-Wide and Fund Financial Statements	13
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation	15
D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity	17
1. Deposits and Investments	17
2. Receivables	18
3. Inventories and Prepaid Items	19
4. Capital Assets	19
5. Deferred Outflows of Resources	19
6. Compensated Absences	20
7. Long-Term Obligations	20
8. Deferred Inflows of Resources	20
9. Equity Classifications	20
10. Pension	22
11. Postemployment Benefits Other Than Pensions (OPEB)	22
II. Stewardship, Compliance, and Accountability	23
A. Budgetary Information	23
B. Excess Expenditures Over Appropriations	23
C. Deficit Balances	23
III. Detailed Notes on All Funds	24
A. Deposits and Investments	24
B. Receivables	27
C. Capital Assets	28
D. Interfund Advances and Transfers	29
E. Long-Term Obligations	30
F. Net Position/Fund Balances	31
IV. Other Information	33
A. Employee Retirement System	33
B. Other Postemployment Benefits	44
C. Risk Management	48
D. Commitments and Contingencies	48
E. Jointly-Governed Organizations	49
F. Joint Ventures	50
G. Tax Abatements	52
H. Subsequent Events	52
I. Effect of New Accounting Standards on Current Period Financial Statements	52

WASECA COUNTY

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

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. 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, 2018

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

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

Fund Financial Statements

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

Funds are organized as major funds or 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.

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.

Waste Management Special Revenue Fund – used to account for and report resources restricted or committed for the financing of the solid waste and recycling activities of the county.

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, 2018

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).

- 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.

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

WASECA COUNTY

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

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

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

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, 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, 2018

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

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

1. Deposits and Investments

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

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

Investments are limited to:

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

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

Custodial Credit Risk

The county’s investment policy requires that documentation be obtained (e.g. broker certification forms and documentation of perfected security interests in pledged collateral) from institutions with which the county will do business.

Credit Risk

Credit risk is addressed through the investment restrictions detailed above.

Concentration of Credit Risk

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

WASECA COUNTY

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

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

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

1. Deposits and Investments (cont.)

Interest Rate Risk

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

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 portfolio investment is reported at amortized cost. Shares of the county's MAGIC term series investment are purchased to mature upon pre-determined dates and are reported at a net asset value. Financial information for the MAGIC Fund can be obtained online at <https://www.magicfund.org/forms-and-documents/>.

See Note III.A. for further information.

2. Receivables

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

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

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

Notes receivable have been shown net of an allowance for uncollectible accounts. 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.

WASECA COUNTY

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

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

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

2. Receivables (cont.)

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.

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 acquisition value at the date of donation.

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

Machinery and Equipment	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.

WASECA COUNTY

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

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

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

6. Compensated Absences

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

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

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

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, other postemployment benefits, accrued compensated absences and the net pension liability.

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

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.

WASECA COUNTY

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

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

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

9. Equity Classifications (cont.)

Government–Wide Statements (cont.)

- b. Restricted net position – Consists of net position with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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

Fund Statements

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

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

WASECA COUNTY

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

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

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

9. Equity Classifications (cont.)

Fund Statements (cont.)

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, 2018 were as follows: \$5.7 million for the general fund and \$9.5 million for roads and bridges.

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.

11. Postemployment Benefits Other Than Pensions (OPEB)

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

WASECA COUNTY

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

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

<u>Fund</u>	<u>Budgeted Expenditures and Other Financing Uses</u>	<u>Actual Expenditures and Other Financing Uses</u>	<u>Excess Over Budget</u>
General Fund	\$ 14,679,317	\$ 14,870,956	\$ 191,639
Ditch	600,000	1,184,158	584,158
Waste Management	794,840	904,667	109,827
Debt Service	511,737	512,711	974
Special Revenue	678,705	1,035,148	356,443

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, 2018, the Ditch fund held a deficit balance of \$1,203,336 due to expenditures in excess of revenues. 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, 2018

NOTE III – DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The county maintains a cash and investment pool that is available for use by all funds. Each fund's portion in this pool is displayed on statement of net position and balance sheet as cash and investments. 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	\$ 11,723,337	\$ 12,035,826	Custodial credit
Negotiable CD's	2,509,089	2,509,089	Custodial credit, credit, concentration of credit, interest rate
MAGIC portfolio	5,950,040	5,950,040	Credit, interest rate
MAGIC term series	1,000,000	1,000,000	Credit, interest rate
U.S. agencies – implicitly guaranteed	148,847	148,847	Custodial credit, credit, concentration of credit, interest rate
U.S. treasuries	27,402	39,409	Custodial credit, interest rate
Petty cash	26,950	-	N/A
Total Cash and Investments	\$ 21,385,665	\$ 21,683,211	
Reconciliation to financial statements			
Per statement of net position			
Unrestricted cash and investments	\$ 20,578,324		
Per statement of assets and liabilities –			
Agency Funds	807,341		
Total Cash and Investments	\$ 21,385,665		

WASECA COUNTY

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

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

A. DEPOSITS AND INVESTMENTS (cont.)

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. 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.

The county maintains collateral agreements with its banks. At December 31, 2018, the banks had pledged various government securities totaling \$17,697,290 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, 2018			
	Level 1	Level 2	Level 3	Total
Negotiable CD's	\$ -	\$ 2,509,089	\$ -	\$ 2,509,089
U.S. agencies – implicitly guaranteed	-	148,847	-	148,847
U.S. treasuries	-	39,409	-	39,409
Totals	\$ -	\$ 2,697,345	\$ -	\$ 2,697,345

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.

WASECA COUNTY

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

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

A. DEPOSITS AND INVESTMENTS (cont.)

Credit Risk

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

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

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

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. The county does not have any investments exposed to concentration of credit risk.

Interest Rate Risk

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

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

Investment Type	Bank Balance	Maturity (in years)		
		Less than 1 year	1 - 5 years	More than 5 years
Negotiable CD's	\$ 2,509,089	\$ 1,235,708	\$ 1,273,381	\$ -
U.S. agencies – implicitly guaranteed	148,847	-	148,847	-
MAGIC	6,950,040	6,950,040	-	-
U.S. treasuries	39,409	-	39,409	-
Totals	\$ 9,647,385	\$ 8,185,748	\$ 1,461,637	\$ -

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, 2018

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	\$ 502,299	\$ 28,236
Road & Bridge	1,929,417	2,668
Ditch	622,378	400
Waste Management	1,757,692	716
Debt Service	3,440	258
Nonmajor Funds	144,056	115,870

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

	Unearned	Unavailable
Delinquent property taxes receivable	\$ -	\$ 140,751
Accounts receivable	-	1,513,716
Due from other governments	-	1,886,738
Interest receivable	-	34,408
Special assessments receivable	-	604,921
Notes receivable	-	119,073
Grants received in advance of time requirements	132,669	-
 Total Unavailable/Unearned Revenue for Governmental Funds	 \$ 132,669	 \$ 4,299,607

Loans were given out by the county in 1992 and are 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, 2018, there were nine such loans outstanding with a balance of \$69,693.

Economic development loans made by the county are accounted for in the Economic Development fund. Three loans were given out by the county, two during 2005 and one during 2018, and all 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 \$10,104 as of December 31, 2018. 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, 2018, which is offset by an allowance for doubtful accounts to cover the full amount. The third loan, a fifteen-year loan with an interest rate of 3%, has an outstanding balance of \$39,276 as of December 31, 2018.

WASECA COUNTY

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

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

C. CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 687,902	\$ -	\$ -	\$ 687,902
Right of way	1,159,599	-	-	1,159,599
Construction in progress	143,850	2,074,066	(79,970)	2,137,946
Total Capital Assets Not Being Depreciated	\$ 1,991,351	\$ 2,074,066	\$ (79,970)	\$ 3,985,447
Capital Assets Being Depreciated				
Buildings	\$ 6,534,588	\$ -	\$ (275,778)	\$ 6,258,810
Improvements	30,311	1,245,438	-	1,275,749
Machinery and equipment	9,359,635	1,258,995	(576,400)	10,042,230
Roads	71,950,143	124,378	(1,438,217)	70,636,304
Bridges	6,048,081	-	-	6,048,081
Total Capital Assets Being Depreciated	93,922,758	2,628,811	(2,290,395)	94,261,174
Less: Accumulated Depreciation for				
Buildings	(2,523,855)	(86,929)	139,857	(2,470,927)
Improvements	(18,295)	(1,312)	-	(19,607)
Machinery and equipment	(5,318,190)	(961,209)	508,225	(5,771,174)
Roads	(26,761,670)	(2,266,267)	825,981	(28,201,956)
Bridges	(888,986)	(80,641)	-	(969,627)
Total Accumulated Depreciation	(35,510,996)	(3,396,358)	1,474,063	(37,433,291)
Capital Assets Being Depreciated, Net of Depreciation	\$ 58,411,762	\$ (767,547)	\$ (816,332)	\$ 56,827,883

Depreciation expense was charged to functions as follows:

Governmental Activities

General government	\$ 260,289
Public safety	447,985
Public works, which includes the depreciation of roads and bridges	2,638,775
Health and human services	1,075
Conservation and development	48,234
Total Governmental Activities Depreciation Expense	\$ 3,396,358

WASECA COUNTY

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

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

D. INTERFUND ADVANCES AND TRANSFERS

Advances

The general fund is advancing funds to the ditch fund. The amount advanced is the net overdraft in pooled cash and investment accounts. The advance is accruing interest at 1%. No repayment schedule has been established.

The following is a schedule of interfund advances:

Receivable Fund	Payable Fund	Amount	Amount Not Due Within One Year
General Fund	Ditch	\$ 1,867,520	\$ 1,267,520
Less: Fund eliminations		(1,867,520)	
Total - Government-Wide Statement of Net Position		\$ -	

Transfers

The following is a schedule of interfund transfers:

Fund Transferred To	Fund Transferred From	Amount	Principal Purpose
Special Revenue	General Fund	\$ 30,000	HRIS software package
Special Revenue	Waste Management	100,000	Tyler Munis software
General Fund	Special Revenue	43,726	New officer training
Debt Service	Road and Bridge	213,099	Payment of debt
Subtotal - Fund Financial Statements		386,825	
Less: Fund eliminations		(386,825)	
Total - Government-Wide Statement of Activities		\$ -	

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

WASECA COUNTY

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

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

E. LONG-TERM OBLIGATIONS

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

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Bonds Payable					
General obligation debt	\$ 2,900,000	\$ -	\$ 435,000	\$ 2,465,000	\$ 450,000
Premiums/(discounts)	64,358	-	64,358	-	-
Total Bonds Payable	2,964,358	-	499,358	2,465,000	450,000
Other Liabilities					
Termination benefits	32,292	-	32,292	-	-
Other postemployment benefits	287,415	1,857,755	519,677	1,625,493	-
Disability benefits	39,415	-	39,415	-	-
Compensated absences	872,074	425,800	371,749	926,125	394,791
Capital lease liability	58,064	-	18,407	39,657	19,338
Net pension liability	6,499,625	148,386	1,666,230	4,981,781	-
Total Other Liabilities	7,788,885	2,431,941	2,647,770	7,573,056	414,129
 Total Long-Term Liabilities	\$ 10,753,243	\$ 2,431,941	\$ 3,147,128	\$ 10,038,056	\$ 864,129

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, 2018 was approximately \$83 million. General obligation debt outstanding at year end subject to the debt limit was \$1,400,000.

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

	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance December 31, 2018
General Obligation Debt					
State-Aid Highway Bonds	2007	2022	3.75-4.20%	\$ 1,240,000	\$ 410,000
Capital Improvement Bonds	2013	2023	0.80-2.60%	2,145,000	1,400,000
State-Aid Highway Bonds	2015	2025	2.00-2.15%	910,000	655,000
					\$ 2,465,000

WASECA COUNTY

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

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

E. LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt (cont.)

Debt service requirements to maturity are as follows:

<u>Years</u>	<u>General Obligation Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 450,000	\$ 63,316
2020	460,000	49,468
2021	475,000	35,138
2022	495,000	20,948
2023	390,000	9,056
2024 – 2025	195,000	4,175
Totals	<u>\$ 2,465,000</u>	<u>\$ 182,101</u>

Other Debt Information

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

F. NET POSITION / FUND BALANCES

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

Net Investment in Capital Assets	
Land	\$ 687,902
Right of way	1,159,599
Construction in progress	2,137,946
Other capital assets, net of accumulated depreciation	56,827,883
Less: related long-term debt outstanding (excluding unspent capital related debt proceeds, if applicable)	<u>(2,403,672)</u>
Total Net Investment in Capital Assets	<u>\$ 58,409,658</u>

WASECA COUNTY

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

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

F. NET POSITION / FUND BALANCES (cont.)

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

	General Fund	Road and Bridge	Ditch	Waste Management	Debt Service	Nonmajor Funds	Totals
Nonspendable:							
Inventories and prepaids	\$ 35,541	\$ 242,886	\$ -	\$ -	\$ -	\$ 612	\$ 279,039
Long-term advances	1,267,520	-	-	-	-	-	1,267,520
Restricted for:							
Missing heirs	23,159	-	-	-	-	-	23,159
Road and bridge	-	121,611	-	-	-	-	121,611
Debt service	-	-	-	-	690,882	-	690,882
ARMER radio system	-	-	-	-	-	113,585	113,585
Other capital projects	-	-	-	-	-	61,328	61,328
Small cities development	-	-	-	-	-	39,358	39,358
Statutory requirements	-	-	-	-	-	831,163	831,163
Committed to:							
Waste management	-	-	-	1,016,815	-	-	1,016,815
Economic development	-	-	-	-	-	74,591	74,591
Capital projects	-	-	-	-	-	20,659	20,659
Road and bridge	-	9,527,972	-	-	-	-	9,527,972
Assigned to:							
Compensated absences	586,693	-	-	-	-	-	586,693
Squad car purchases	589,399	-	-	-	-	-	589,399
Regional radio upgrade	145,000	-	-	-	-	-	145,000
Fleet car purchase	10,140	-	-	-	-	-	10,140
Veterans van purchase	2,500	-	-	-	-	-	2,500
Land acquisition	35,000	-	-	-	-	-	35,000
Jail monitoring system	37,000	-	-	-	-	-	37,000
Other minor items	-	-	-	-	-	289,788	289,788
Unassigned (deficit):	<u>5,695,663</u>	<u>-</u>	<u>(1,203,336)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,492,327</u>
Total Fund							
Balances (Deficit)	<u>\$ 8,427,615</u>	<u>\$ 9,892,469</u>	<u>\$ (1,203,336)</u>	<u>\$ 1,016,815</u>	<u>\$ 690,882</u>	<u>\$ 1,431,084</u>	<u>\$ 20,255,529</u>

WASECA COUNTY

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

NOTE IV – OTHER INFORMATION

A. EMPLOYEES' RETIREMENT SYSTEM

Public Employees Retirement Association (PERA)

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

1. General Employees Retirement Plan

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

2. Public Employees Police and Fire Plan

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

3. Local Government Correctional Plan

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

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

WASECA COUNTY

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

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Benefits Provided. (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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

2. Police and Fire Plan Benefits

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

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

WASECA COUNTY

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

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Benefits Provided. (cont.)

3. Correctional Plan Benefits

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

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

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

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2018 and the county was required to contribute 7.50 percent for Coordinated Plan members. The county's contributions to the General Employees Fund for the year ended December 31, 2018 were \$386,520. The county's contributions were equal to the required contributions as set by state statute.

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.80 percent of their annual covered salary and the county was required to contribute 16.20 percent of pay for members in fiscal year 2018. The county's contributions to the Police and Fire Fund for the year ended December 31, 2018 were \$139,044. The county's contributions were equal to the required contributions as set by state statute.

3. Correctional Fund Contributions

Plan members were required to contribute 5.83 percent of their annual covered salary and the county was required to contribute 8.75 percent of pay for plan members in fiscal year 2018. The county's contributions to the Correctional Fund for the year ended December 31, 2018, were \$32,573. 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, 2018

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Pension Costs.

1. General Employees Fund Pension Costs

At December 31, 2018, the county reported a liability of \$4,121,859 for its proportionate share of the General Employees Fund's net pension liability. The county's net pension liability reflected a deduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the county totaled \$135,315. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The county's proportion of the net pension liability was based on the county's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018 the county's proportion share was 0.0743 percent which was a decrease of 0.0015 percent from its proportion measured as of June 30, 2017.

County's proportionate share of the net pension liability	\$ 4,121,859
State of Minnesota's proportionate share of the net pension liability associated with the county	<u>135,315</u>
Total	<u>\$ 4,257,174</u>

For the year ended December 31, 2018 the county recognized pension expense of \$111,274 for its proportionate share of the General Employees Plan's pension expense. In addition, the county recognized an additional \$31,555 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

WASECA COUNTY

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

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Pension Costs. (cont.)

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

1. General Employees Fund Pension Costs (cont.)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economical experience	\$ 111,202	\$ 112,613
Changes in actuarial assumptions	368,835	469,535
Net collective difference between projected and actual investment earnings	-	448,198
Changes in proportion	251,705	267,459
Contributions paid to PERA subsequent to the measurement date	191,516	-
Totals	\$ 923,258	\$ 1,297,805

\$191,516 reported as deferred outflows of resources related to pensions resulting from county contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Pension Expense Amount
2019	\$ 23,447
2020	(141,022)
2021	(362,456)
2022	(86,032)

WASECA COUNTY

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

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Pension Costs. (cont.)

1. Police and Fire Fund Pension Costs

At December 31, 2018, the county reported a liability of \$830,334 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The county's proportion of the net pension liability was based on the county's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018 the county's proportionate was 0.0779 percent which was a decrease of 0.0071 percent from its proportion measured as of June 30, 2017. The county also recognized \$7,011 for the year ended December 31, 2018 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014, until the plan is 90 percent funded or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later.

For the year ended December 31, 2018, the county recognized pension expense of \$79,058 for its proportionate share of the Police and Fire Plan's pension expense.

At December 31, 2018, the county reported its proportionate share of the Police and Fire Plan'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 economical experience	\$ 35,232	\$ 217,038
Changes in actuarial assumptions	1,099,895	1,331,235
Net collective difference between projected and actual investment earnings	-	182,374
Changes in proportion	60,710	79,882
Contributions paid to PERA subsequent to the measurement date	71,657	-
Totals	\$ 1,267,494	\$ 1,810,529

WASECA COUNTY

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

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Pension Costs. (cont.)

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

\$71,657 reported as deferred outflows of resources related to pensions resulting from county contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31:</u>	<u>Pension Expense Amount</u>
2019	\$ (27,635)
2020	(68,713)
2021	(137,996)
2022	(361,635)
2023	(18,713)

3. Correctional Plan Pension Costs

At December 31, 2018 the county reported a liability of \$29,588 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The county's proportion of the net pension liability was based on the county's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018 the county's proportion was 0.1799 percent which was a decrease of 0.0001 percent from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the county recognized pension expense of \$(34,745) 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, 2018

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES’ RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Pension Costs. (cont.)

3. Correctional Plan Pension (cont.)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economical experience	\$ 1,544	\$ 3,165
Changes in actuarial assumptions	139,650	342,142
Net collective difference between projected and actual investment earnings	-	33,257
Changes in proportion	-	600
Contributions paid to PERA subsequent to the measurement date	16,248	-
Totals	\$ 157,442	\$ 379,164

\$16,248 reported as deferred outflows of resources related to pensions resulting from county contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Pension Expense Amount
2019	\$ 14,037
2020	(131,518)
2021	(114,293)
2022	(6,196)

Total Pension Expense. The total pension expense for all plans recognized by the county for the year ended December 31, 2018 was \$187,142.

WASECA COUNTY

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

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions:

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

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

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

The following changes in actuarial assumptions and plan provisions occurred in 2018:

General Employees Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- > The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- > Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- > Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- > Contribution stabilizer provisions were repealed.
- > Post-retirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019.

WASECA COUNTY

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

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Actuarial Assumptions (cont.)

General Employees Fund (cont.)

Changes in Plan Provisions: (cont.)

- > For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- > Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

Police and Fire Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

Correctional Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

WASECA COUNTY

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

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Actuarial Assumptions (cont.)

Correctional Fund (cont.)

Changes in Plan Provisions: (cont.)

- > Post-retirement benefit increases were changed from 2.5 percent per year with a provision to reduce to 1.0 percent if the funding status declines to a certain level, to 100 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 2.5 percent, beginning January 1, 2019. If the funding status declines to 85 percent for two consecutive years or 80 percent for one year, the maximum increase will be lowered to 1.5 percent.
- > Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

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

Asset Class	Long-Term Real Rate of Return	Target Allocation
Domestic Stocks	5.10%	36%
International Stocks	5.30	17
Bonds	0.75	20
Alternative Assets	5.90	25
Cash	0.00	2

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

WASECA COUNTY

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

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Public Employees Retirement Association (PERA) (cont.)

Pension Liability Sensitivity. The following presents the county's proportionate share of the net pension liability (asset) 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 (asset) would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease to Discount Rate	Current Discount Rate	1% Increase to Discount Rate
County's proportionate share of the General Employees Fund net pension liability	\$6,698,549	\$4,121,859	\$1,994,875
County's proportionate share of the Police and Fire Fund net pension liability	1,780,288	830,334	44,761
County's proportionate share of the Correctional Fund net pension liability (asset)	253,224	29,588	(149,313)

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

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

Benefits provided. 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 PERA (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 benefit program. Pursuant to the provisions of the plan, retirees are required to pay varying percentages of the total premium cost.

WASECA COUNTY

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

NOTE IV – OTHER INFORMATION (cont.)

B. OTHER POSTEMPLOYMENT BENEFITS (cont.)

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

Inactive plan members or beneficiaries currently receiving benefit payments	17
Active plan members	<u>119</u>
	<u>136</u>

TOTAL OPEB LIABILITY

The county's total OPEB liability of \$1,625,493 was measured as of December 31, 2018, and was determined by an actuarial valuation as of that date.

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

Inflation	2.5 percent
Salary increases	Based on the same assumptions used in the PERA of Minnesota Actuarial Valuations for General employees and Police/Fire as of July 1, 2018
Healthcare cost trend rates	8.0 percent, decreasing 0.5 percent per year to an ultimate rate of 4.5 percent for 2026 and later years
Retirees' share of benefit-related costs	Assumed to increase according to health care trend rates

The discount rate was based on the Bond Buyer GO 20-Bond Municipal Bond Index.

Mortality rates were based on the RP-2018 Total Dataset Mortality Table fully generational using scale MP-2018.

WASECA COUNTY

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

NOTE IV – OTHER INFORMATION (cont.)

B. OTHER POSTEMPLOYMENT BENEFITS (cont.)

CHANGES IN THE TOTAL OPEB LIABILITY

	Total OPEB Liability
Balances at December 31, 2017	\$ 287,415
Change due to implementation of GASB No. 75	1,659,391
Changes for the year:	
Service cost	129,072
Interest	69,292
Differences between expected and actual experience	(362,052)
Changes in assumptions or other inputs	(33,423)
Benefit payments	(124,202)
Net changes	(321,313)
Balances at December 31, 2018	\$ 1,625,493

Changes of assumptions and other inputs reflect a change in the discount rate from 3.44 percent in 2017 to 4.11 percent in 2018.

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

	1% Decrease (3.11%)	Discount Rate (4.11%)	1% Increase (5.11%)
Total OPEB liability	\$ 1,731,569	\$ 1,625,493	\$ 1,526,584

WASECA COUNTY

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

NOTE IV – OTHER INFORMATION (cont.)

B. OTHER POSTEMPLOYMENT BENEFITS (cont.)

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

	1% Decrease (7.0% Decreasing to 3.5%)	Healthcare Cost Trend Rates (8.0% Decreasing to 4.5%)	1% Increase (9.0% Decreasing to 5.5%)
Total OPEB liability	\$ 1,493,263	\$ 1,625,493	\$ 1,776,798

OPEB EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

For the year ended December 31, 2018, the county recognized OPEB expense of \$148,929. At December 31, 2018, the county reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 316,795
Changes of assumptions	29,245
Total	\$ 346,040

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

<u>Year Ended December 31:</u>	<u>OPEB Expense Amount</u>
2019	\$ (49,435)
2020	(49,435)
2021	(49,435)
2022	(49,435)
2023	(49,435)
Thereafter	(98,865)

WASECA COUNTY

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

NOTE IV – OTHER INFORMATION (cont.)

C. RISK MANAGEMENT

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

The workers compensation division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claim liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 per claim in 2018. Should workers compensation liabilities of the MCIT workers compensation division exceed its assets, MCIT may assess the county in a method and amount to be determined by MCIT.

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

D. 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 one tax appeal for multiple years pending 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.

WASECA COUNTY

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

NOTE IV – OTHER INFORMATION (cont.)

D. COMMITMENTS AND CONTINGENCIES (cont.)

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.

E. JOINTLY-GOVERNED ORGANIZATIONS

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

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 \$193,000 to the Minnesota Counties Computer Cooperative and \$420,000 to the Waseca-LeSueur Regional Library during 2018. All other payments to the other jointly-governed organizations were minimal.

WASECA COUNTY

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

NOTE IV – OTHER INFORMATION (cont.)

F. 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 \$2.6 million to MNPrairie. Each county is required to make an annual operating contribution. The operating contribution is based fifty percent on the proportion of each member county's population and fifty percent on each member county's estimated market value. The equity interest at December 31, 2018 is \$1,716,968, down from \$1,753,672 at December 31, 2017. No additional equity was required to be paid in for 2018.

Dodge County is acting as fiscal agent. Complete financial statements for MNPrairie can be obtained from its fiscal agent at 22 6th Street East, Mantorville, Minnesota 55955.

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, 2018 is \$1,272,960, down from \$2,345,680 at December 31, 2017. No additional equity was required to be paid in for 2018.

In 2019, member counties will be required to make an equity contribution. Waseca County's contribution will be \$1,102,341. SCHA has also received notice that Morrison, Todd and Wadena counties will be withdrawing at the end of 2019.

WASECA COUNTY

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

NOTE IV – OTHER INFORMATION (cont.)

F. JOINT VENTURES (cont.)

South Country Health Alliance (cont.)

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 2018, Waseca County's contribution to the SCHRC was minimal. Financial information for 2018 is not available. In 2017, the corporation experienced a positive change in unrestricted net assets of \$111,233. 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.

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 2018, 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 2018, 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.

WASECA COUNTY

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

NOTE IV – OTHER INFORMATION (cont.)

F. JOINT VENTURES (cont.)

South 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 2018, Waseca County's contribution to the Drug Task Force was minimal. The City of Owatonna acts as fiscal agent.

G. 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 2018, none of the county's agreements were above this threshold.

H. SUBSEQUENT EVENTS

On May 30, 2019, the county issued general obligation capital improvement bonds in the amount of \$3,090,000 with an interest rate of 3.00-4.00%. This amount will be used to fund the acquisition and improvement of a building for the county's Public Health and Human Services functions.

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

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

WASECA COUNTY

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended December 31, 2018

	Budget Original / Final	Actual	Variance with Budget
REVENUES			
Taxes	\$ 10,982,983	\$ 11,017,291	\$ 34,308
Intergovernmental	2,269,165	2,577,082	307,917
Licenses and permits	245,780	260,496	14,716
Charges for services	898,184	750,514	(147,670)
Investment income (including unrealized gains)	60,000	231,649	171,649
Miscellaneous	87,050	246,937	159,887
Total Revenues	<u>14,543,162</u>	<u>15,083,969</u>	<u>540,807</u>
EXPENDITURES			
Current			
General government	5,460,562	5,311,026	149,536
Public safety	3,480,339	3,169,161	311,178
Health and human services	4,165,995	4,120,354	45,641
Culture, recreation, and education	372,251	357,206	15,045
Conservation and development	637,013	580,957	56,056
Capital Outlay			
General government	451,500	1,217,475	(765,975)
Public safety	104,000	84,777	19,223
Total Expenditures	<u>14,671,660</u>	<u>14,840,956</u>	<u>(169,296)</u>
Excess (deficiency) of revenues over expenditures	<u>(128,498)</u>	<u>243,013</u>	<u>371,511</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	136,155	43,726	(92,429)
Transfers out	<u>(7,657)</u>	<u>(30,000)</u>	<u>(22,343)</u>
Total Other Financing Sources (Uses)	<u>128,498</u>	<u>13,726</u>	<u>(114,772)</u>
Net change in fund balances	-	256,739	256,739
FUND BALANCES - Beginning of Year	<u>8,170,876</u>	<u>8,170,876</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 8,170,876</u>	<u>\$ 8,427,615</u>	<u>\$ 256,739</u>

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

WASECA COUNTY

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

	Budget Original / Final	Actual	Variance with Budget
REVENUES			
Taxes	\$ 3,838,545	\$ 3,848,060	\$ 9,515
Intergovernmental	5,074,645	3,979,941	(1,094,704)
Public charges for services	185,000	247,966	62,966
Miscellaneous	-	239,306	239,306
Total Revenues	9,098,190	8,315,273	(782,917)
EXPENDITURES			
Current			
Public works			
Administration	297,567	248,440	49,127
Operation and maintenance	2,815,864	2,827,454	(11,590)
Street construction	5,119,933	2,413,395	2,706,538
Other	-	500	(500)
Capital Outlay			
Public works	655,000	568,111	86,889
Total Expenditures	8,888,364	6,057,900	2,830,464
Excess of revenues over expenditures	209,826	2,257,373	2,047,547
OTHER FINANCING USES			
Transfers out	(213,099)	(213,099)	-
Net change in fund balances	(3,273)	2,044,274	2,047,547
FUND BALANCES - Beginning of Year	7,998,157	7,998,157	-
Decrease in inventories	-	(149,962)	(149,962)
FUND BALANCES - END OF YEAR	\$ 7,994,884	\$ 9,892,469	\$ 1,897,585

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

WASECA COUNTY

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

	Budget Original / Final	Actual	Variance with Budget
REVENUES			
Special assessments	\$ 600,000	\$ 578,760	\$ (21,240)
Intergovernmental	-	103,125	103,125
Total Revenues	<u>600,000</u>	<u>681,885</u>	<u>81,885</u>
EXPENDITURES			
Current			
Conservation and development	600,000	1,168,842	(568,842)
Debt Service			
Interest and fiscal charges	-	15,316	(15,316)
Total Expenditures	<u>600,000</u>	<u>1,184,158</u>	<u>(584,158)</u>
Net change in fund balances	-	(502,273)	(502,273)
FUND BALANCES (DEFICIT) - Beginning of Year	<u>(701,063)</u>	<u>(701,063)</u>	-
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ (701,063)</u>	<u>\$ (1,203,336)</u>	<u>\$ (502,273)</u>

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

WASECA COUNTY

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

	Budget <u>Original / Final</u>	Actual	Variance with Budget
REVENUES			
Special assessments	\$ 230,000	\$ 248,861	\$ 18,861
Intergovernmental	69,690	67,729	(1,961)
Public charges for services	230,360	331,368	101,008
Investment income	1,000	3,017	2,017
Miscellaneous	253,190	214,070	(39,120)
Total Revenues	<u>784,240</u>	<u>865,045</u>	<u>80,805</u>
EXPENDITURES			
Current			
Sanitation			
Transfer station	406,284	420,476	(14,192)
Special waste management	25,566	29,029	(3,463)
Recycling	223,908	227,074	(3,166)
Solid waste administration	81,758	116,678	(34,920)
Capital Outlay	<u>16,000</u>	<u>11,410</u>	<u>4,590</u>
Total Expenditures	<u>761,946</u>	<u>804,667</u>	<u>(42,721)</u>
Excess of revenues over expenditures	22,294	60,378	38,084
OTHER FINANCING SOURCES (USES)			
Transfers out	(32,894)	(100,000)	(67,106)
Insurance recovery on capital assets	-	303,976	303,976
Total Other Financing Sources (Uses)	<u>(32,894)</u>	<u>203,976</u>	<u>236,870</u>
Net change in fund balances	(10,600)	264,354	274,954
FUND BALANCES - Beginning of Year	<u>752,461</u>	<u>752,461</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 741,861</u>	<u>\$ 1,016,815</u>	<u>\$ 274,954</u>

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

WASECA COUNTY

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

	<u>2018</u>
Total OPEB Liability	
Change due to implementation of GASB No. 75	\$ 1,659,391
Service cost	129,072
Interest	69,292
Differences between expected and actual experience	(362,052)
Changes of assumptions	(33,423)
Benefit payments	<u>(124,202)</u>
Net Change in Total OPEB Liability	1,338,078
Total OPEB Liability - Beginning	<u>287,415</u>
Total OPEB Liability - Ending	<u>\$ 1,625,493</u>
Covered-employee payroll	\$ 6,557,450
Total OPEB liability as a percentage of covered-employee payroll	24.79%

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

WASECA COUNTY

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

County Fiscal Year End Date	PERA Fiscal Year End Date (Measurement Date)	County's Proportion of the Net Pension Liability	County's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with County (b)	County's and State's Proportionate Share of the Net Pension Liability Associated with County (a+b)	County's Covered Payroll (c)	County's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/18	6/30/18	0.0743%	\$ 4,121,859	\$ 135,315	\$ 4,257,174	\$ 5,005,376	82.35%	79.50%
12/31/17	6/30/17	0.0758%	4,839,022	60,838	4,899,860	4,882,464	99.11%	75.90%
12/31/16	6/30/16	0.0696%	5,651,175	73,797	5,724,972	4,308,908	131.15%	68.90%
12/31/15	6/30/15	0.0847%	4,389,594	n/a	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, 2018

County Fiscal Year End Date	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
12/31/18	\$ 386,520	\$ 386,520	\$ -	\$ 5,162,356	7.50%
12/31/17	360,361	360,361	-	4,804,810	7.50%
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, 2018

County Fiscal Year End Date	PERA Fiscal Year End Date (Measurement Date)	County's Proportion of the Net Pension Liability	County's Proportionate Share of the Net Pension Liability (a)	County's Covered Payroll (b)	County's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/18	6/30/18	0.0779%	\$ 830,334	\$ 821,427	101.08%	88.80%
12/31/17	6/30/17	0.0850%	1,147,601	874,585	131.22%	85.40%
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, 2018

County Fiscal Year End Date	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
12/31/18	\$ 139,044	\$ 139,044	\$ -	\$ 858,294	16.20%
12/31/17	132,889	132,889	-	820,301	16.20%
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, 2018

County Fiscal Year End Date	PERA Fiscal Year End Date (Measurement Date)	County's Proportion of the Net Pension Liability	County's Proportionate Share of the Net Pension Liability (a)	County's Covered Payroll (b)	County's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/18	6/30/18	0.1799%	\$ 29,588	\$ 367,316	8.06%	97.60%
12/31/17	6/30/17	0.1800%	513,002	359,065	142.87%	67.90%
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, 2018

County Fiscal Year End Date	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
12/31/18	\$ 32,573	\$ 32,573	\$ -	\$ 372,262	8.75%
12/31/17	31,425	31,425	-	359,144	8.75%
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, 2018

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 function level of expenditure.

The general fund and two major special revenue funds, the Ditch fund and the Waste Management fund, experienced an overall excess of expenditures over appropriations during 2018. 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 Assumptions and Plan Provisions

General Employees Fund

2018 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

WASECA COUNTY

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

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) (cont.)

Changes in Assumptions and Plan Provisions (cont.)

General Employees Fund (cont.)

2018 Changes (cont.)

Changes in Plan Provisions (cont.)

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

2017 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

2016 Changes

Changes in Actuarial Assumptions:

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

2015 Changes

Changes in Actuarial Assumptions:

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

WASECA COUNTY

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

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) (cont.)

Changes in Assumptions and Plan Provisions (cont.)

General Employees Fund (cont.)

2015 Changes (cont.)

Changes in Plan Provisions:

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

Police and Fire Fund

2018 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

2017 Changes

Changes in Actuarial Assumptions:

- > Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- > Assumed rates of retirement were changed, resulting in fewer retirements.
- > The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- > The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.

WASECA COUNTY

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

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) (cont.)

Changes in Assumptions and Plan Provisions (cont.)

Police and Fire Fund (cont.)

2017 Changes (cont.)

Changes in Actuarial Assumptions: (cont.)

- > Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- > Assumed percentage of married female members was decreased from 65 percent to 60 percent.
- > Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- > The assumed percentage of female members electing Joint and Survivor annuities was increased.
- > The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.
- > The Single Discount Rate was changed from 5.60 percent per annum to 7.50 percent per annum.

2016 Changes

Changes in Actuarial Assumptions:

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

2015 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

WASECA COUNTY

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

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) (cont.)

Changes in Assumptions and Plan Provisions (cont.)

Correctional Fund

2018 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

2017 Changes

Changes in Actuarial Assumptions:

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

2016 Changes

Changes in Actuarial Assumptions:

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

WASECA COUNTY

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

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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 years of data; however, accounting standards allow the presentation of as many years as are available until ten fiscal years are presented.

Accumulation of assets. No assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Changes in benefits terms. There were no changes of benefit terms.

Changes in assumptions. The discount rate was changed from 3.44 percent in 2017 to 4.11 percent in 2018.

SUPPLEMENTARY INFORMATION

WASECA COUNTY

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

	Budget Original / Final	Actual	Variance with Budget
REVENUES			
Taxes	\$ 10,982,983	\$ 11,017,291	\$ 34,308
Intergovernmental	2,269,165	2,577,082	307,917
Licenses and permits	245,780	260,496	14,716
Charges for services	898,184	750,514	(147,670)
Investment income (including unrealized losses)	60,000	231,649	171,649
Miscellaneous	87,050	246,937	159,887
TOTAL REVENUES	<u>\$ 14,543,162</u>	<u>\$ 15,083,969</u>	<u>\$ 540,807</u>
EXPENDITURES			
General Government			
Commissioners	\$ 322,093	\$ 351,563	\$ (29,470)
Court administration	94,800	119,969	(25,169)
Court services	597,699	571,757	25,942
County administration	231,668	207,773	23,895
County auditor / treasurer	524,410	517,182	7,228
Human resources	145,193	156,486	(11,293)
Motor vehicle	245,854	247,208	(1,354)
County assessor	432,450	418,242	14,208
Elections	45,800	46,667	(867)
Data processing	687,475	654,174	33,301
Attorney	741,907	649,855	92,052
Recorder	180,471	178,252	2,219
Buildings and plant	502,203	535,526	(33,323)
Veterans services	221,239	186,397	34,842
Central services	397,300	380,409	16,891
Other	90,000	89,566	434
Total General Government	<u>5,460,562</u>	<u>5,311,026</u>	<u>149,536</u>
Public Safety			
Sheriff	3,274,444	3,015,658	258,786
Electronic monitoring	25,000	11,907	13,093
Coroner	25,000	23,134	1,866
Ambulance	5,000	5,000	-
Emergency government	150,895	113,462	37,433
Total Public Safety	<u>3,480,339</u>	<u>3,169,161</u>	<u>311,178</u>
Health and Human Services			
Nursing service	1,083,429	961,485	121,944
Community health services	473,151	549,455	(76,304)
Contributions to local organizations	2,609,415	2,609,414	1
Total Health and Human Services	<u>4,165,995</u>	<u>4,120,354</u>	<u>45,641</u>

WASECA COUNTY

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

	Budget Original / Final	Actual	Variance with Budget
EXPENDITURES (cont.)			
Culture, Recreation, and Education			
County extension	\$ 151,165	\$ 142,836	\$ 8,329
Parks	114,129	65,809	48,320
Snowmobile	-	52,261	(52,261)
Historical society	65,000	65,000	-
Arts	10,500	10,500	-
Other	31,457	20,800	10,657
Total Culture, Recreation, and Education	<u>372,251</u>	<u>357,206</u>	<u>15,045</u>
Conservation and Development			
Soil and water conservation	96,794	95,407	1,387
Agricultural society	47,775	47,775	-
Planning and zoning	445,945	391,276	54,669
Community development	35,119	35,119	-
Economic development	10,880	10,880	-
Other	500	500	-
Total Conservation and Development	<u>637,013</u>	<u>580,957</u>	<u>56,056</u>
Capital Outlay			
General government	451,500	1,217,475	(765,975)
Public safety	104,000	84,777	19,223
Total Capital Outlay	<u>555,500</u>	<u>1,302,252</u>	<u>(746,752)</u>
TOTAL EXPENDITURES	<u>\$ 14,671,660</u>	<u>\$ 14,840,956</u>	<u>\$ (169,296)</u>

WASECA COUNTY

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

	Budget Original / Final	Actual	Variance with Budget
REVENUES			
Taxes	\$ 289,559	\$ 290,216	\$ 657
Intergovernmental	9,079	9,079	-
Total Revenues	<u>298,638</u>	<u>299,295</u>	<u>657</u>
EXPENDITURES			
Debt Service			
Principal	435,000	435,000	-
Interest and fiscal charges	<u>76,737</u>	<u>77,711</u>	<u>(974)</u>
Total Expenditures	<u>511,737</u>	<u>512,711</u>	<u>(974)</u>
Excess (deficiency) of revenues over expenditures	(213,099)	(213,416)	(317)
OTHER FINANCING SOURCES			
Transfers in	<u>213,099</u>	<u>213,099</u>	<u>-</u>
Net change in fund balances	-	(317)	(317)
FUND BALANCES - Beginning of Year	<u>691,199</u>	<u>691,199</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 691,199</u>	<u>\$ 690,882</u>	<u>\$ (317)</u>

WASECA COUNTY

NONMAJOR GOVERNMENTAL FUNDS

December 31, 2018

Special Revenue Funds

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, 2018

	Special Revenue					Total Nonmajor Funds
	Library	Special Revenue	Small Cities Development	Economic Development	Capital Projects	
ASSETS						
Cash	\$ 27,076	\$ 1,476,051	\$ 39,358	\$ 74,565	\$ 195,572	\$ 1,812,622
Receivables						
Accounts	-	17,210	-	26	-	17,236
Due from other governments	-	7,747	-	-	-	7,747
Notes, net	-	-	69,693	49,380	-	119,073
Inventories and prepaid items	-	612	-	-	-	612
TOTAL ASSETS	<u>\$ 27,076</u>	<u>\$ 1,501,620</u>	<u>\$ 109,051</u>	<u>\$ 123,971</u>	<u>\$ 195,572</u>	<u>\$ 1,957,290</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 27,076	\$ 17,959	\$ -	\$ -	\$ -	\$ 45,035
Accrued liabilities	-	3,689	-	-	-	3,689
Deposits	-	289,000	-	-	-	289,000
Total Liabilities	<u>27,076</u>	<u>310,648</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>337,724</u>
Deferred Inflows of Resources						
Unearned revenues	-	69,409	-	-	-	69,409
Unavailable revenues	-	-	69,693	49,380	-	119,073
Total Deferred Inflows of Resources	<u>-</u>	<u>69,409</u>	<u>69,693</u>	<u>49,380</u>	<u>-</u>	<u>188,482</u>
Fund Balances						
Nonspendable	-	612	-	-	-	612
Restricted	-	831,163	39,358	-	174,913	1,045,434
Committed	-	-	-	74,591	20,659	95,250
Assigned	-	289,788	-	-	-	289,788
Total Fund Balances	<u>-</u>	<u>1,121,563</u>	<u>39,358</u>	<u>74,591</u>	<u>195,572</u>	<u>1,431,084</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 27,076</u>	<u>\$ 1,501,620</u>	<u>\$ 109,051</u>	<u>\$ 123,971</u>	<u>\$ 195,572</u>	<u>\$ 1,957,290</u>

WASECA COUNTY

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

	Special Revenue				Total Nonmajor Funds
	Special Revenue	Small Cities Development	Economic Development	Capital Projects	
REVENUES					
Intergovernmental	\$ 639,520	\$ -	\$ -	\$ 26,880	\$ 666,400
Licenses and permits	14,655	-	-	-	14,655
Public charges for services	275,985	-	-	-	275,985
Investment income	-	-	1,454	-	1,454
Miscellaneous	22,110	13,333	1,858	-	37,301
Total Revenues	<u>952,270</u>	<u>13,333</u>	<u>3,312</u>	<u>26,880</u>	<u>995,795</u>
EXPENDITURES					
Current					
General government	184,693	-	-	-	184,693
Public safety	639,580	-	-	-	639,580
Health and human services	9,490	-	-	-	9,490
Culture, recreation, and education	17,250	-	-	-	17,250
Conservation and development	15,851	-	40,000	-	55,851
Capital Outlay	124,558	-	-	-	124,558
Total Expenditures	<u>991,422</u>	<u>-</u>	<u>40,000</u>	<u>-</u>	<u>1,031,422</u>
Excess (deficiency) of revenues over expenditures	<u>(39,152)</u>	<u>13,333</u>	<u>(36,688)</u>	<u>26,880</u>	<u>(35,627)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	130,000	-	-	-	130,000
Transfers out	(43,726)	-	-	-	(43,726)
Total Other Financing Sources (Uses)	<u>86,274</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>86,274</u>
Net change in fund balances	47,122	13,333	(36,688)	26,880	50,647
FUND BALANCES - Beginning of Year	<u>1,074,441</u>	<u>26,025</u>	<u>111,279</u>	<u>168,692</u>	<u>1,380,437</u>
FUND BALANCES - END OF YEAR	<u>\$ 1,121,563</u>	<u>\$ 39,358</u>	<u>\$ 74,591</u>	<u>\$ 195,572</u>	<u>\$ 1,431,084</u>

WASECA COUNTY

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

	Budget Original / Final	Actual	Variance with Budget
REVENUES			
Intergovernmental	\$ 491,931	\$ 639,520	\$ 147,589
Licenses and permits	5,000	14,655	9,655
Public charges for services	103,958	275,985	172,027
Miscellaneous	49,400	22,110	(27,290)
Total Revenues	650,289	952,270	301,981
EXPENDITURES			
Current			
General government	69,896	184,693	(114,797)
Public safety	585,981	639,580	(53,599)
Health and human services	-	9,490	(9,490)
Culture, recreation, and education	-	17,250	(17,250)
Conservation and development	-	15,851	(15,851)
Capital Outlay	3,900	124,558	(120,658)
Total Expenditures	659,777	991,422	(331,645)
Excess (deficiency) of revenues over expenditures	(9,488)	(39,152)	(29,664)
OTHER FINANCING SOURCES (USES)			
Transfers in	12,000	130,000	118,000
Transfers out	(18,928)	(43,726)	(24,798)
Total Other Financing Sources (Uses)	(6,928)	86,274	93,202
Net change in fund balances	(16,416)	47,122	63,538
FUND BALANCES - Beginning of Year	1,074,441	1,074,441	-
FUND BALANCES - END OF YEAR	\$ 1,058,025	\$ 1,121,563	\$ 63,538

WASECA COUNTY

AGENCY FUNDS
December 31, 2018

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

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, 2018

	<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	\$ 729,261	\$ 3,489	\$ 70,422	\$ 4,169	\$ 807,341
TOTAL ASSETS	<u>\$ 729,261</u>	<u>\$ 3,489</u>	<u>\$ 70,422</u>	<u>\$ 4,169</u>	<u>\$ 807,341</u>
LIABILITIES					
Due to other governments	\$ 437,704	\$ -	\$ 70,422	\$ -	\$ 508,126
Accounts payable	-	3,489	-	-	3,489
Deposits	<u>291,557</u>	<u>-</u>	<u>-</u>	<u>4,169</u>	<u>295,726</u>
TOTAL LIABILITIES	<u>\$ 729,261</u>	<u>\$ 3,489</u>	<u>\$ 70,422</u>	<u>\$ 4,169</u>	<u>\$ 807,341</u>

WASECA COUNTY

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

	Balance Jan. 1, 2018	Additions	Deletions	Balance Dec. 31, 2018
<u>Taxes and Penalties</u>				
Assets:				
Cash and investments	\$ 1,091,801	\$ 31,934,585	\$ 32,297,125	\$ 729,261
Liabilities:				
Unapportioned taxes and assessments	\$ -	\$ 14,919,853	\$ 14,919,853	\$ -
Due to other governments	494,692	16,723,175	16,780,163	437,704
Deposits	597,109	291,557	597,109	291,557
Total Liabilities	\$ 1,091,801	\$ 31,934,585	\$ 32,297,125	\$ 729,261
<u>Insurance</u>				
Assets:				
Cash and investments	\$ 4,567	\$ 31,263	\$ 32,341	\$ 3,489
Liabilities:				
Accounts payable	\$ 4,567	\$ 31,263	\$ 32,341	\$ 3,489
<u>State Revenue</u>				
Assets:				
Cash and investments	\$ 77,923	\$ 813,724	\$ 821,225	\$ 70,422
Liabilities:				
Due to other governments	\$ 77,923	\$ 813,724	\$ 821,225	\$ 70,422
<u>Social Welfare Trust Account</u>				
Assets:				
Cash and investments	\$ 4,729	\$ 20,000	\$ 20,560	\$ 4,169
Liabilities:				
Deposits	\$ 4,729	\$ 20,000	\$ 20,560	\$ 4,169

WASECA COUNTY

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

	Balance Jan. 1, 2018	Additions	Deletions	Balance Dec. 31, 2018
<u>Total All Agency Funds</u>				
Assets:				
Cash and investments	<u>\$ 1,179,020</u>	<u>\$ 32,799,572</u>	<u>\$ 33,171,251</u>	<u>\$ 807,341</u>
Liabilities:				
Unapportioned taxes and assessments	\$ -	\$ 14,919,853	\$ 14,919,853	\$ -
Due to other governments	572,615	17,536,899	17,601,388	508,126
Accounts payable	4,567	31,263	32,341	3,489
Deposits	<u>601,838</u>	<u>311,557</u>	<u>617,669</u>	<u>295,726</u>
Total Liabilities	<u>\$ 1,179,020</u>	<u>\$ 32,799,572</u>	<u>\$ 33,171,251</u>	<u>\$ 807,341</u>

WASECA COUNTY

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

	General Fund	Special Revenue				Total	Debt Service	Capital Projects	Total All Funds
		Road and Bridge	Ditch	Waste Management	Special Revenue				
Shared Revenue									
State									
Highway users tax	\$ -	\$ 3,654,803	\$ -	\$ -	\$ -	\$ 3,654,803	\$ -	\$ -	\$ 3,654,803
State aid bond	-	213,099	-	-	-	213,099	-	-	213,099
County program aid	867,568	-	-	-	143,496	143,496	-	-	1,011,064
Conservation credit	58,926	25,648	-	-	-	25,648	2,044	-	86,618
PERA aid	54,157	-	-	-	-	-	-	-	54,157
State police aid	119,207	-	-	-	-	-	-	-	119,207
Agricultural preservation	195,572	82,431	-	-	-	82,431	6,719	-	284,722
Disparity aid	9,099	3,960	-	-	-	3,960	316	-	13,375
Total Shared Revenue	1,304,529	3,979,941	-	-	143,496	4,123,437	9,079	-	5,437,045
Reimbursement for Services									
Other counties, cities or townships	-	-	-	-	25,998	25,998	-	26,880	52,878
Total Reimbursement for Services	-	-	-	-	25,998	25,998	-	26,880	52,878
Grants									
State									
Minnesota Department of									
Secretary of State	-	-	-	-	40,876	40,876	-	-	40,876
Health	339,170	-	-	-	-	-	-	-	339,170
Public Safety	14,725	-	25,781	-	191,195	216,976	-	-	231,701
Natural Resources	52,260	-	-	-	-	-	-	-	52,260
Corrections	142,863	-	-	-	-	-	-	-	142,863
Veterans Affairs	-	-	-	-	7,495	7,495	-	-	7,495
Pollution Control Agency	27,793	-	-	67,729	-	67,729	-	-	95,522
Board of Water and Soil Resources	73,080	-	-	-	25,472	25,472	-	-	98,552
Trial Court	-	-	-	-	110,644	110,644	-	-	110,644
Total State	649,891	-	25,781	67,729	375,682	469,192	-	-	1,119,083
Federal									
U.S. Department of									
Agriculture	276,154	-	-	-	-	-	-	-	276,154
Transportation	657	-	-	-	-	-	-	-	657
Education	6,224	-	-	-	-	-	-	-	6,224
Homeland Security	20,840	-	77,344	-	-	77,344	-	-	98,184
Justice	-	-	-	-	94,344	94,344	-	-	94,344
Health and Human Services	178,067	-	-	-	-	-	-	-	178,067
Total Federal	481,942	-	77,344	-	94,344	171,688	-	-	653,630
Other									
Minnesota Historical Society	140,000	-	-	-	-	-	-	-	140,000
Prairie Lakes Regional Arts	720	-	-	-	-	-	-	-	720
Total Other	140,720	-	-	-	-	-	-	-	140,720
Total Grants	1,272,553	-	103,125	67,729	470,026	640,880	-	-	1,913,433
TOTAL INTERGOVERNMENTAL REVENUE	\$ 2,577,082	\$ 3,979,941	\$ 103,125	\$ 67,729	\$ 639,520	\$ 4,790,315	\$ 9,079	\$ 26,880	\$ 7,403,356

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

INDEPENDENT AUDITORS' REPORT

To the County Board of Commissioners
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, 2018, 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 30, 2019.

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 2018-001 and 2018-002 that we consider to be material weaknesses.

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: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test the provisions for tax increment financing because 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*, except as described in the Schedule of Findings and Responses as item 2018-003. 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.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
September 30, 2019

WASECA COUNTY

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

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

FINDING 2018-001: INTERNAL CONTROL OVER FINANCIAL REPORTING

Repeat of prior year finding 2017-001

Criteria: According to Statement on Auditing Standards (SAS) AU-C Section 315, 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 2018-002: INTERNAL CONTROL ENVIRONMENT

Repeat of prior year finding 2017-002

Criteria: According to Statement on Auditing Standards (SAS) AU-C Section 315, 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.

WASECA COUNTY

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

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

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

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.

MINNESOTA LEGAL COMPLIANCE FINDINGS

Finding 2018-003: Electronic Funds Transfer Policy

Criteria: The county is required to enact specific policy controls related to the use of electronic funds transfers as outlined in Minnesota Statute 471.38 subd. 3a.

Condition: As of December 31, 2018, the county does not have an electronic funds transfers policy covering all the required controls.

Cause: The county failed to create the required policy prior to year end.

Effect: The county is at risk of inappropriate transfers of funds.

Recommendation: We recommend that the county implement the policy controls as soon as possible.

Management's Response/Planned Corrective Action: The county implemented a policy on May 21, 2019.