

STATE OF MINNESOTA

Office of the State Auditor



Julie Blaha
State Auditor

MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA

YEAR ENDED DECEMBER 31, 2018

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 100 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice – conducts financial and legal compliance audits of local governments;

Government Information – collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations – provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension – monitors investment, financial, and actuarial reporting for approximately 600 public pension funds; and

Tax Increment Financing – promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Year Ended December 31, 2018



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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MAHNOMEN, MINNESOTA**

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MAHNOMEN, MINNESOTA**

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2018**

Office	Name	Term Expires
Commissioners		
1st District	Darvin Schoenborn ²	January 2021
2nd District	Scott McCollum	January 2019
3rd District	Brad Athmann	January 2019
4th District	Karen Ahmann ¹	January 2021
5th District	David Geray	January 2021
Officials		
Elected		
Attorney	Darlene Rivera Spalla	January 2019
Auditor	Frank Thompson	January 2019
County Recorder	Susan Bendickson	January 2019
Registrar of Titles	Susan Bendickson	January 2019
Sheriff	Douglas Krier	January 2019
Treasurer	Brenda Lundon	January 2019
Appointed		
Assessor	Terrie Johnson	December 2020
Court Administrator	Camille Bessler	Indefinite
Highway Engineer	Jonathan Large	May 2021
Veterans Service Officer	John Nelson	Indefinite
Medical Examiner	Dr. Mary Ann Sens	Indefinite
Solid Waste Officer	Mark Diekman	Indefinite
Social Services Director	Julie Hanson	Indefinite

¹Chair

²Vice Chair

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JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Mahnomen County
Mahnomen, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mahnomen County, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Mahnomen Health Center, the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Mahnomen Health Center, 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are

appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mahnomen County as of December 31, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1.E. to the financial statements, in 2018, the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which represents a change in accounting principles. Our opinion is 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 Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, 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 Mahnomen 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. The Supplementary 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 July 24, 2019, on our consideration of Mahanomen 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 Mahanomen 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 Mahanomen County's internal control over financial reporting and compliance. It does not include the Mahanomen Health Center, which was audited by other auditors.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA), as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 24, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018
(Unaudited)**

INTRODUCTION

Mahnomen County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2018. Since this information is designed to focus on the current year and past year's activities, resulting changes, and known facts, it should be read in conjunction with Mahnomen County's financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities: total net position is \$37,480,876, of which Mahnomen County has a net investment in capital assets of \$33,600,948; \$4,773,361 is restricted to specific purposes/uses; and (\$893,433) is classified as unrestricted by the County.
- The County's net position increased by \$3,462,412 for the year ended December 31, 2018.
- The net costs (expenses) of Mahnomen County's governmental activities for the year ended December 31, 2018, were \$2,875,805. General property tax revenues and other revenue sources funded those costs.
- Mahnomen County's total governmental funds' fund balances increased by \$249,060.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) and certain budgetary comparison schedules are required to accompany the basic financial statements and, therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are inter-related.

Management’s Discussion and Analysis (Required Supplementary Information)

Government-Wide Financial Statements	Fund Financial Statements
Notes to the Financial Statements	

Required Supplementary Information (Other than Management’s Discussion and Analysis)
--

Mahnomen County presents two government-wide financial statements. They are the Statement of Net Position and the Statement of Activities. These two government-wide financial statements provide information about the activities of the County as a whole and present a longer-term view of the County’s finances. Mahnomen County’s fund financial statements follow these two government-wide financial statements. For governmental activities, these statements tell how the County financed services in the short term as well as what remains for future spending. Fund financial statements also report the County’s operations in more detail than the government-wide statements by providing information about the County’s most significant/major funds. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

Government-Wide Financial Statements—The Statement of Net Position and the Statement of Activities

The Statement of Net Position and the Statement of Activities report information about Mahnomen County as a whole and about its activities in a way that helps the reader determine whether the County’s financial condition has improved or declined as a result of the current year’s activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

These two statements consider all of Mahnomen County’s current year revenues and expenses regardless of when the County receives the revenue or pays the expenditure. These two statements report Mahnomen County’s net position and changes in net position. You can think of the County’s net position as the difference between assets and liabilities. This is one way to measure the County’s financial health or financial position. Over time, increases or decreases in the County’s net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, such as changes in the County’s property tax base and the general economic conditions of the state and County, in order to assess the overall financial health of Mahnomen County.

In the Statement of Net Position and the Statement of Activities, we divide Mahnomen County into two kinds of activities:

- Governmental activities – Mahnomen County reports its basic services in the “Governmental Activities” column of these reports. The activities reported by the County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, economic development, and interest. Mahnomen County finances the majority of these activities with local property taxes, state-paid aids, fees, charges for services, and federal and state grants.
- Component unit – The County includes a separate legal entity in its report. This entity is the Mahnomen Health Center. Although legally separate, this component unit is important because the County is financially accountable for it.

Fund Financial Statements

Mahnomen County’s fund financial statements provide detailed information about the significant funds—not the County as a whole. Funds may be established by the County to meet requirements of a specific state law; to help control and manage money for a particular purpose/project; or to show that it is meeting specific legal responsibilities and obligations when expending property tax revenues, grants, and/or other funds designated for a specific purpose.

Governmental Funds

The County’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Mahnomen County reports these funds in its financial statements using an accounting method called modified accrual accounting. This accounting method measures cash and other financial assets that the County can readily convert to cash. The County’s governmental fund statements provide a detailed short-term view of the County’s general government operations and the basic services it provides. Governmental fund information helps determine whether financial resources are available that the County can spend in the near future to finance various programs within the County. Mahnomen County has described the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.

Reporting the County’s Fiduciary Responsibilities

Mahnomen County is the trustee, or fiduciary, over assets which can be used only for the trust beneficiaries, based on the trust arrangement. The County reports all of its fiduciary activities in a separate Statement of Fiduciary Net Position and Changes in Fiduciary Net Position. We exclude these activities from the County’s other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE COUNTY AS A WHOLE

Mahnomen County's combined total net position, as reported for the year ended December 31, 2018, was \$37,480,876. The analysis below focuses on the net position (Table 1) and change in net position (Table 2) of the County's governmental activities.

**Table 1
Net Position**

	<u>2018</u>	<u>2017</u>
Assets		
Current and other assets	\$ 10,958,440	\$ 8,563,458
Capital assets	<u>33,605,993</u>	<u>32,057,745</u>
Total Assets	<u>\$ 44,564,433</u>	<u>\$ 40,621,203</u>
Deferred Outflows of Resources		
Deferred pension outflows	\$ 2,271,771	\$ 3,344,629
Deferred OPEB outflows	<u>87,463</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>\$ 2,359,234</u>	<u>\$ 3,344,629</u>
Liabilities		
Long-term liabilities	\$ 5,323,021	\$ 6,063,147
Other liabilities	<u>1,279,461</u>	<u>710,980</u>
Total Liabilities	<u>\$ 6,602,482</u>	<u>\$ 6,774,127</u>
Deferred Inflows of Resources		
Deferred pension inflows	\$ 2,803,340	\$ 2,554,453
Prepaid taxes	<u>36,969</u>	<u>100,019</u>
Total Deferred Inflows of Resources	<u>\$ 2,840,309</u>	<u>\$ 2,654,472</u>
Net Position		
Net investment in capital assets	\$ 33,600,948	\$ 32,049,091
Restricted	4,773,361	3,299,547
Unrestricted	<u>(893,433)</u>	<u>(811,405)</u>
Total Net Position	<u>\$ 37,480,876</u>	<u>\$ 34,537,233</u>

Unrestricted net assets totaling (\$893,433) are not available to Mahnomen County to finance day-to-day operations.

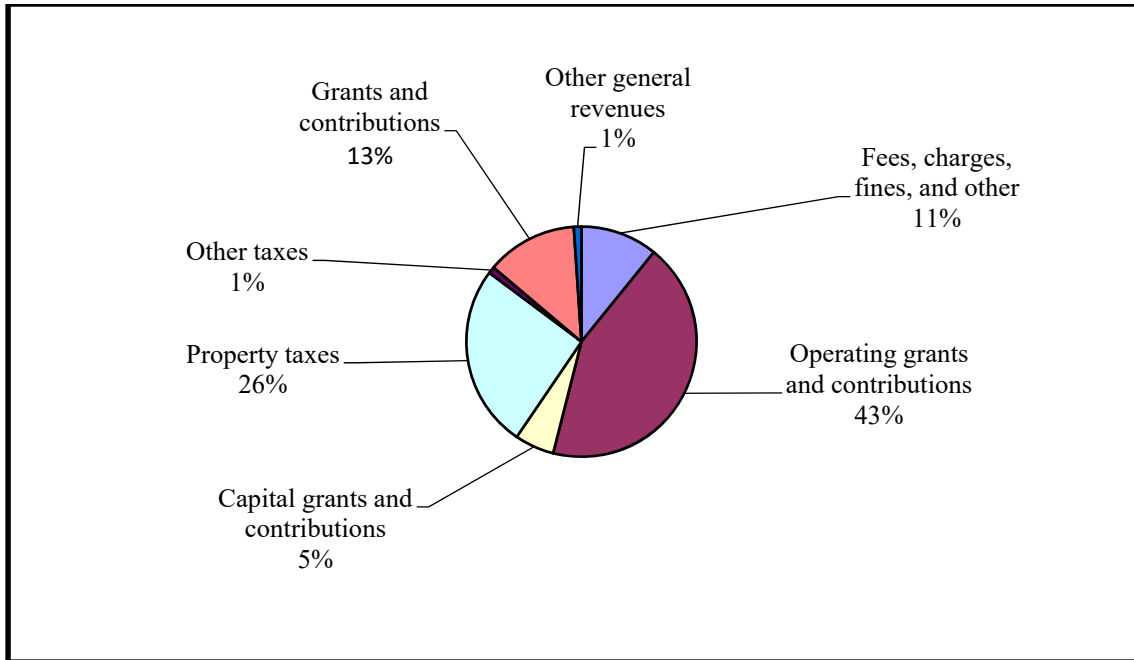
Table 2
Change in Net Position

	2018	2017
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 1,695,555	\$ 1,019,763
Operating grants and contributions	6,750,124	5,688,494
Capital grants and contributions	866,771	54,029
General revenues		
Property taxes	4,025,149	3,865,779
Other taxes	149,068	127,928
Grants and contributions	1,995,980	1,699,325
Other general revenues	168,020	150,856
Total Revenues	\$ 15,650,667	\$ 12,606,174
Expenditures		
Program expenses		
General government	\$ 2,462,034	\$ 2,510,125
Public safety	2,672,849	3,360,370
Highways and streets	2,870,214	3,515,435
Sanitation	222,848	256,920
Human services	2,741,223	2,308,000
Health	114,139	99,596
Culture and recreation	121,298	231,851
Conservation of natural resources	698,865	252,353
Economic development	283,741	281,787
Interest	1,044	1,128
Total Expenditures	\$ 12,188,255	\$ 12,817,565
Change in Net Position	\$ 3,462,412	\$ (211,391)
Net Position – January 1, as restated (1)	34,018,464	34,748,624
Net Position – December 31	<u><u>\$ 37,480,876</u></u>	<u><u>\$ 34,537,233</u></u>

(1) Restated for change in accounting principles; see note 1.E.

Mahnomen County's total revenues for the year ended December 31, 2018, were \$15,650,667. The total cost of County programs and services for the year ended December 31, 2018, was \$12,188,255. The net position for governmental activities increased by \$3,462,412. The following pie chart depicts those revenues in seven categories.

**Total County Revenues
(Percent of Total)**



Governmental Activities

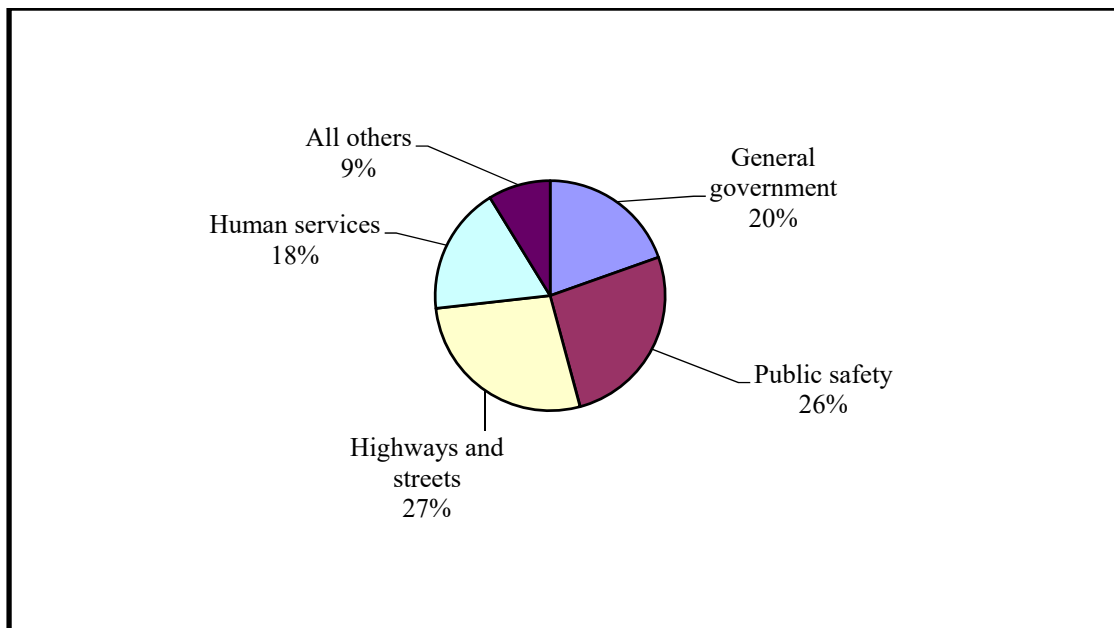
Mahnomen County’s costs for all governmental activities for the year ended December 31, 2018, were \$12,188,255, as shown on the Statement of Activities. The net cost of services was ultimately funded through local property taxes and applicable offsetting revenues such as fees, fines, interest income, and grants.

Table 3 presents the cost of each of Mahnomen County’s four largest program functions, as well as each function’s net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden placed on the County’s taxpayers by each of these functions.

**Table 3
Governmental Activities**

	2018	
	Total Cost of Services	Net Cost of Services
Program Expenses		
General government	\$ 2,462,034	\$ 2,031,826
Public safety	2,672,849	2,297,269
Highways and streets	2,870,214	(2,202,806)
Human services	2,741,223	992,433
All others	1,441,935	(242,917)
Totals	<u>\$ 12,188,255</u>	<u>\$ 2,875,805</u>

**Governmental Activities' Expenses
(Percent of Total)**



The County's Funds

As Mahanomen County completed the year, its governmental funds, as presented in the balance sheet, reported a combined fund balance of \$5,071,232, which is above last year's total combined fund balance of \$4,822,172. This increase of \$249,060 represents a 5.16 percent total increase. Included in this total fund balance is the County's General Fund balance of \$3,043,126. The General Fund's change in fund balance (an increase of \$267,585 from 2017) represented a 9.64 percent increase in the General Fund balance. The General Fund's increase was due to excess revenues over expenditures of \$287,585 offset by net other financing sources (uses) in the amount of \$20,000. The Road and Bridge Revenue Fund balance increased by \$4,609, or 0.40 percent, and the Social Services Revenue Fund was increased by \$88,441, or 71.81 percent.

General Fund Budgetary Highlights

The Mahanomen County Board of Commissioners, over the course of a budget year, may amend/revise the County's General Fund budget; however, in 2018, the County Board of Commissioners did not make any budgetary amendments/revisions. If the County Board of Commissioners had made changes to the budget as originally adopted on Tuesday, December 19, 2017, these budget amendments/revisions would have fallen into one of three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and final agreement reached on employee contracts.

In the County’s General Fund, the actual revenues were over the budgeted revenues by \$1,158,987. The total actual expenditures in the County’s General Fund were over the budgeted expenditures by \$484,565. The actual General Fund balance increased by a total of \$267,585.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, Mahnomen County had \$33,605,993 invested in a broad range of capital assets including land, buildings, highways and streets, and equipment (see Table 4). This amount represents a net increase (including additions and deductions) of \$1,548,248, or 4.83 percent, more than last year.

**Table 4
Capital Assets at Year-End
(Net of Depreciation)**

	2018	2017
Land	\$ 534,639	\$ 534,639
Construction in progress	2,202,211	54,029
Land improvements	620,192	662,126
Buildings and improvements	1,268,776	1,342,589
Machinery, furniture, and equipment	1,415,332	1,499,522
Infrastructure	27,564,843	27,964,840
Totals	\$ 33,605,993	\$ 32,057,745

Mahnomen County’s fiscal year 2018 capital budget plans did not call for any other major expenditures outside of the normal equipment, vehicles, and road construction projects. More detailed information about the County’s capital assets can be found in Note 3.A.3. to the Mahnomen County financial statements.

Debt

As of December 31, 2018, Mahnomen County had \$0 in bonds outstanding, compared with \$155,000 as of December 31, 2017, a decrease of 100.00 percent as shown in Table 5.

**Table 5
Outstanding Debt at Year-End**

	2018	2017
Bonds payable – revenue bonds	\$ -	\$ 155,000

It is imperative to point out that Table 5 illustrates the County's amount due on bonded debt. The City of Mahnomen has 22 percent ownership of the Mahnomen Health Center and is responsible for its portion of the bond payments for the general obligation bonds. That amount is included in the totals.

Mahnomen County's gross revenue bonds were non-rated. The last payment on these bonds was made in 2018. The state limits the amount of net debt that the counties can issue to three percent (Minn. Stat. § 475.53) of the market value of all taxable property in the county. Mahnomen County's outstanding 2018 net debt is below this \$20,310,129 state-imposed limit. Other obligations may include Minnesota Housing Finance Agency Revolving Loan Account, capital leases, compensated absences, and other postemployment benefits. Mahnomen County's notes to the financial statements provide detailed information about the County's long-term liabilities.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2018 budget, tax rates, and fees that will be charged for governmental activities.

- The State of Minnesota is addressing its budget surplus issues. This may or may not have a significant impact on future Mahnomen County budgets. Major revenue sources for the County are state-paid aids, credits, and grants.
- Mahnomen County's average net tax capacity rates have remained relatively consistent. The County also has a good seasonal, residential, commercial/industrial, and agricultural base. Keeping this tax base vital and healthy is very important to the County's overall financial health and condition.
- Mahnomen County's annual unemployment rate for 2018 averaged 4.8 percent. The County's unemployment rate for 2017 averaged 5.0 percent according to the Minnesota Department of Employment and Economic Development.
- The Minnesota state demographer's census data has estimated Mahnomen County's 2018 population at 5,526 residents, which is a decrease of 0.826 percent from the estimated 2017 population estimate of 5,572.
- The 2019 net property tax levies are established as of the time of this printing and increased by \$209,089, which is an increase of 5.0 percent from 2018.
- Planning and financing for facility space needs and the possibility of a new public safety facility center project are continuing to be monitored by the County Board.
- Union contracts and employment-related issues have been established for the 2019 budget.

- Reviewing revenue sources and considering cost-effective and efficient means for the delivery of Mahnomen County programs and services will influence the development of future budgets.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

Mahnomen County's financial report provides citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances, and it shows the County's accountability for the money it receives and spends. If you have questions about this report or need additional financial information, contact James Lee, Mahnomen County Auditor, (218) 935-5669, at 311 North Main Street, PO Box 379, Mahnomen, Minnesota 56557.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	Primary Government Governmental Activities	Mahnomen Health Center Component Unit
<u>Assets</u>		
Current assets		
Cash and pooled investments	\$ 5,284,445	\$ 934,515
Departmental cash	130,024	-
Taxes receivable – delinquent	118,785	-
Special assessments receivable		
Delinquent	531	-
Noncurrent	33,000	-
Accounts receivable – net	94,407	1,762,682
Accrued interest receivable	3,898	-
Due from other governments	5,164,294	-
Inventories	110,784	119,126
Prepaid items	-	70,719
Noncurrent assets		
Other long-term investments	-	400,000
Contract for deed	18,272	-
Investment in joint venture	-	222,980
Capital assets		
Non-depreciable	2,736,850	44,229
Depreciable – net of accumulated depreciation	30,869,143	2,713,461
	\$ 44,564,433	\$ 6,267,712
<u>Deferred Outflows of Resources</u>		
Deferred pension outflows	\$ 2,271,771	\$ 642,333
Deferred other postemployment benefits outflows	87,463	1,566
	\$ 2,359,234	\$ 643,899

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	Primary Government Governmental Activities	Mahnomen Health Center Component Unit
<u>Liabilities</u>		
Accounts payable	\$ 267,466	\$ 1,450,013
Salaries payable	213,222	124,905
Compensated absences/vacation/sick payable – current	-	185,250
Contracts payable	151,444	-
Due to other governments	647,329	-
Residents' personal funds	-	5,220
Gross revenue bonds – current	-	42,740
Capital leases payable – current	-	39,983
Long-term liabilities		
Long-term debt payable – noncurrent	-	240,412
Due within one year	128,542	-
Due in more than one year	265,395	-
Other postemployment benefits liability	1,682,397	77,616
Net pension liability	3,246,687	2,795,985
	\$ 6,602,482	\$ 4,962,124
<u>Deferred Inflows of Resources</u>		
Deferred pension inflows	\$ 2,803,340	\$ 740,657
Prepaid property taxes	36,969	-
	\$ 2,840,309	\$ 740,657
<u>Net Position</u>		
Net investment in capital assets	\$ 33,600,948	\$ 2,434,555
Restricted for		
General government	124,114	-
Public safety	65,202	-
Highways and streets	3,720,599	-
Social services	45,621	-
Sanitation	75,945	-
Culture and recreation	112,337	-
Conservation of natural resources	629,043	-
Held in trust for other purposes	500	-
Unrestricted	(893,433)	(1,225,725)
	\$ 37,480,876	\$ 1,208,830

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 2,462,034	\$ 174,570
Public safety	2,672,849	117,508
Highways and streets	2,870,214	69,258
Sanitation	222,848	202,981
Human services	2,741,223	227,233
Health	114,139	38,898
Culture and recreation	121,298	-
Conservation of natural resources	698,865	833,314
Economic development	283,741	31,793
Interest	1,044	-
	\$ 12,188,255	\$ 1,695,555
Total Primary Government	\$ 12,188,255	\$ 1,695,555
 Component unit		
Mahnomen Health Center	\$ 8,692,875	\$ 8,820,374

General Revenues

Property taxes
Special assessments
Mortgage registry and deed tax
Grants and contributions not restricted to specific programs
Payments in lieu of tax
Unrestricted investment earnings
Miscellaneous

Total general revenues

Change in net position

Net Position – Beginning, as restated (Note 1.E.)

Net Position – Ending

EXHIBIT 2

<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>	
<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>	<u>Mahnomen Health Center Component Unit</u>
\$ 255,638	\$ -	\$ (2,031,826)	
258,072	-	(2,297,269)	
4,452,504	551,258	2,202,806	
70,278	-	50,411	
1,521,557	-	(992,433)	
2,566	-	(72,675)	
130,937	-	9,639	
28,823	-	163,272	
29,749	315,513	93,314	
-	-	(1,044)	
<u>\$ 6,750,124</u>	<u>\$ 866,771</u>	<u>\$ (2,875,805)</u>	
<u>\$ 29,765</u>	<u>\$ 23,598</u>		<u>\$ 180,862</u>
		\$ 4,025,149	\$ -
		-	55,814
		2,128	-
		1,995,980	14,690
		146,940	-
		68,252	9,181
		99,768	-
		<u>\$ 6,338,217</u>	<u>\$ 79,685</u>
		\$ 3,462,412	\$ 260,547
		<u>34,018,464</u>	<u>948,283</u>
		<u>\$ 37,480,876</u>	<u>\$ 1,208,830</u>

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>Assets</u>					
Current assets					
Cash and pooled investments	\$ 3,159,342	\$ 1,190,327	\$ 128,269	\$ 663,722	\$ 5,141,660
Petty cash and change funds	1,700	-	-	-	1,700
Undistributed cash in agency funds	95,054	18,294	22,223	5,514	141,085
Departmental cash	130,024	-	-	-	130,024
Taxes receivable – delinquent	82,701	16,694	19,377	13	118,785
Special assessments					
Delinquent	-	113	-	418	531
Noncurrent	-	-	-	33,000	33,000
Accounts receivable	56,547	895	18,462	18,503	94,407
Accrued interest receivable	3,898	-	-	-	3,898
Due from other funds	17,067	1,213	-	-	18,280
Due from other governments	694,141	4,197,088	270,516	2,549	5,164,294
Inventories	-	110,784	-	-	110,784
Noncurrent assets					
Contract for deed	18,272	-	-	-	18,272
Total Assets	\$ 4,258,746	\$ 5,535,408	\$ 458,847	\$ 723,719	\$ 10,976,720
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 182,783	\$ 27,798	\$ 53,941	\$ 2,944	\$ 267,466
Salaries payable	125,700	26,989	58,311	2,222	213,222
Contracts payable	46,985	104,459	-	-	151,444
Due to other funds	-	-	29,061	1,213	30,274
Due to other governments	577,461	8,947	40,508	8,419	635,335
Total Liabilities	\$ 932,929	\$ 168,193	\$ 181,821	\$ 14,798	\$ 1,297,741
Deferred Inflows of Resources					
Unavailable revenue	\$ 257,955	\$ 4,206,428	\$ 58,414	\$ 47,981	\$ 4,570,778
Prepaid property taxes	24,736	5,220	7,013	-	36,969
Total Deferred Inflows of Resources	\$ 282,691	\$ 4,211,648	\$ 65,427	\$ 47,981	\$ 4,607,747

The notes to the financial statements are an integral part of this statement.

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
(Continued)					
Fund Balances					
Nonspendable					
Inventories	\$ -	\$ 110,784	\$ -	\$ -	\$ 110,784
Contract for deed	18,272	-	-	-	18,272
Missing heirs	500	-	-	-	500
Property held for resale	-	-	-	-	-
Restricted for					
Minnesota Housing Finance					
Agency – Revolving Fund	222,578	-	-	-	222,578
Recorder's technology equipment	57,997	-	-	-	57,997
E-911	5,374	25,203	-	-	30,577
Recorder's compliance	66,117	-	-	-	66,117
Child protection grant	-	-	45,621	-	45,621
Boat and water safety	200	-	-	-	200
Extension youth grant	395	-	-	-	395
Handgun permits	29,047	-	-	-	29,047
SCORE	-	-	-	75,945	75,945
Highway projects	-	155,963	-	-	155,963
Gravel pit restoration	-	19,770	-	-	19,770
Ditch maintenance and construction	-	-	-	272,410	272,410
DARE	378	-	-	-	378
Timber development	194,471	-	-	-	194,471
Parks and recreation	112,337	-	-	-	112,337
Riparian protection aid	134,831	-	-	-	134,831
Aquatic invasive species prevention aid	26,936	-	-	-	26,936
Sheriff's contingencies	5,000	-	-	-	5,000
Assigned to					
Highways and streets	-	843,847	-	-	843,847
Social services	-	-	165,978	-	165,978
Solid waste	-	-	-	279,293	279,293
Hospital reserve	-	-	-	33,292	33,292
Unassigned	2,168,693	-	-	-	2,168,693
Total Fund Balances	\$ 3,043,126	\$ 1,155,567	\$ 211,599	\$ 660,940	\$ 5,071,232
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 4,258,746	\$ 5,535,408	\$ 458,847	\$ 723,719	\$ 10,976,720

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION—GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2018**

Fund balances – total governmental funds (Exhibit 3)	\$	5,071,232
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		33,605,993
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds		2,271,771
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		4,570,778
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Capital leases	\$ (5,045)	
Due to Minnesota Housing Finance Agency – Revolving Fund	(222,578)	
Compensated absences	(166,314)	
Other postemployment benefits liability	(1,682,397)	
Net pension liability	<u>(3,246,687)</u>	(5,323,021)
Deferred inflows resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(2,803,340)
Deferred outflows of resources resulting from changes in the components of the other postemployment benefits liability are not reported in the governmental funds.		<u>87,463</u>
Net Position of Governmental Activities (Exhibit 1)	\$	<u>37,480,876</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Revenues					
Taxes	\$ 2,817,686	\$ 565,148	\$ 656,126	\$ 1	\$ 4,038,961
Special assessments	-	6	-	49,706	49,712
Licenses and permits	14,511	-	-	-	14,511
Intergovernmental	2,829,725	3,428,644	1,956,998	72,844	8,288,211
Charges for services	286,854	61,537	62,877	190,519	601,787
Fines and forfeits	9,946	-	-	-	9,946
Gifts and contributions	1,932	-	-	-	1,932
Investment earnings	68,235	-	-	17	68,252
Miscellaneous	986,541	9,182	165,475	100	1,161,298
Total Revenues	\$ 7,015,430	\$ 4,064,517	\$ 2,841,476	\$ 313,187	\$ 14,234,610
Expenditures					
Current					
General government	\$ 2,383,263	\$ -	\$ -	\$ -	\$ 2,383,263
Public safety	2,773,723	-	-	-	2,773,723
Highways and streets	-	3,864,865	-	-	3,864,865
Sanitation	-	-	-	220,823	220,823
Human services	-	-	2,773,035	-	2,773,035
Health	114,139	-	-	-	114,139
Culture and recreation	121,298	-	-	-	121,298
Conservation of natural resources	649,800	-	-	45,374	695,174
Economic development	681,563	-	-	-	681,563
Intergovernmental					
Highways and streets	-	174,221	-	-	174,221
Debt service					
Principal	3,609	-	-	155,000	158,609
Interest	450	-	-	3,565	4,015
Total Expenditures	\$ 6,727,845	\$ 4,039,086	\$ 2,773,035	\$ 424,762	\$ 13,964,728
Excess of Revenues Over (Under) Expenditures	\$ 287,585	\$ 25,431	\$ 68,441	\$ (111,575)	\$ 269,882

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Other Financing Sources (Uses)					
Transfers in	\$ -	\$ -	\$ 20,000	\$ -	\$ 20,000
Transfers out	(20,000)	-	-	-	(20,000)
Total Other Financing Sources (Uses)	<u>\$ (20,000)</u>	<u>\$ -</u>	<u>\$ 20,000</u>	<u>\$ -</u>	<u>\$ -</u>
Net Change in Fund Balance	\$ 267,585	\$ 25,431	\$ 88,441	\$ (111,575)	\$ 269,882
Fund Balance – January 1	2,775,541	1,150,958	123,158	772,515	4,822,172
Increase (decrease) in inventories	-	(20,822)	-	-	(20,822)
Fund Balance – December 31	<u>\$ 3,043,126</u>	<u>\$ 1,155,567</u>	<u>\$ 211,599</u>	<u>\$ 660,940</u>	<u>\$ 5,071,232</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES—GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

Net change in fund balances – total governmental funds (Exhibit 5) \$ 269,882

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

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Unavailable revenue – December 31	\$ 4,570,778	
Unavailable revenue – January 1	<u>(2,933,258)</u>	1,637,520

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

Expenditures for general capital assets and infrastructure	\$ 3,453,290	
Current year depreciation	<u>(1,905,042)</u>	1,548,248

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net position. Also, governmental funds report the net effect of premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of net position.

Principal repayments		
Revenue bonds	\$ 155,000	
Capital lease	<u>3,609</u>	158,609

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

Change in accrued interest payable	\$ 2,971	
Change in compensated absences	13,191	
Change in other postemployment benefits liability	48,530	
Change in net pension liability	1,261,143	
Change in deferred pension outflows of resources	(1,072,858)	
Change in deferred pension inflows of resources	(248,887)	
Change in deferred other postemployment benefits outflows	87,463	
Change in inventories	(20,822)	
Change in due to Minnesota Housing Finance Agency – Revolving Fund	<u>(222,578)</u>	<u>(151,847)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 3,462,412

FIDUCIARY FUNDS

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2018**

	Family Services Collaborative Investment Trust Fund	Agency Funds
	<hr/>	<hr/>
<u>Assets</u>		
Cash and pooled investments	\$ 57,422	\$ 109,810
Receivables		
Interest	29	-
Due from other funds	<hr/> 11,994	<hr/> -
Total Assets	<hr/>\$ 69,445	<hr/><hr/>\$ 109,810
<u>Liabilities</u>		
Accounts payable	\$ -	\$ 19,279
Due to other governments	<hr/> -	<hr/> 90,531
Total Liabilities	<hr/>\$ -	<hr/><hr/>\$ 109,810
<u>Net Position</u>		
Net position held in trust for pool participants	<hr/><hr/>\$ 69,445	

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FAMILY SERVICES COLLABORATIVE INVESTMENT TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

<u>Additions</u>	
Contributions from participants	\$ 50,251
Interest earnings	<u>404</u>
Total Additions	\$ 50,655
<u>Deductions</u>	
Distributions to participants	<u>75,777</u>
Change in net position	\$ (25,122)
Net Position – January 1	<u>94,567</u>
Net Position – December 31	<u><u>\$ 69,445</u></u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2018. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Mahnomen County was established December 27, 1906, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Mahnomen County (primary government) and its component unit for which the County is financially accountable. 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.

Discretely Presented Component Unit

While part of the reporting entity, the discretely presented component unit is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County. The following component unit of Mahnomen County is discretely presented:

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements Available at</u>
Mahnomen Health Center	The County appoints a majority of the Mahnomen Health Center Board and may be obliged to finance a deficit or debt of the Health Center.	Mahnomen Health Center 414 West Jefferson PO Box 396 Mahnomen, Minnesota 56557

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures and Jointly-Governed Organizations

The County participates in joint ventures and jointly-governed organizations, which are described in Notes 6.B. and 6.C., respectively.

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways. Sources of revenues include property taxes, intergovernmental revenues, and charges for services.

The Social Services Special Revenue Fund is used to account for economic assistance and community social services programs. Sources of revenues include property taxes, intergovernmental revenues, and charges for services.

Additionally, the County reports the following fund types:

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The Family Services Collaborative Investment Trust Fund accounts for the external pooled and non-pooled investments held on behalf of the Family Services Collaborative.

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Mahnomen County considers all revenues as available if collected within 60 days after the end of the current period. Property taxes are recognized as revenues in the year for which they are levied provided they are also available. Shared revenues are generally recognized in the period the appropriation goes into effect and the revenues are available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources. When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first and then unrestricted resources as needed.

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2018, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. The pooled investment income for 2018 was \$68,252.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. External Investment Pools

Included in total cash and pooled investments are the assets held for the Mahnomen County Interagency Collaborative in an external investment pool. For the purposes of financial reporting, the Collaborative's portion of the County's pool of cash and investments is reported as an investment trust fund. Assets in the pool are reported at fair value based on quoted market prices. The pool is not subject to regulatory oversight. Fair value amounts are determined at year-end. The County has not provided or obtained any legally binding guarantees to support the value of the pool.

Cash and pooled investments	
Held for internal pool participants (County funds)	\$ 5,524,279
Held for external pool participants (Interagency Collaborative)	<u>57,422</u>
Total	<u>\$ 5,581,701</u>

3. Receivables and Payables

Activity between funds representing lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (the current portion of interfund loans) or "advances to/from other funds" (the noncurrent portion of interfund loans).

All receivables, including those of the discretely presented component unit, are shown net of an allowance for uncollectibles.

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 the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Special Assessments Receivable

Special assessments receivable consist of delinquent special assessments payable in the years 2006 through 2018 and noncurrent special assessments payable in 2019 and after. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments. All special assessments receivable are shown net of allowance for uncollectibles.

5. Inventories and Prepaid Items

All inventories are valued at cost using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses when consumed.

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than the capitalization threshold and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value. The County's capitalization threshold for capital assets is as follows:

Assets	Capitalization Threshold
Land	\$ 1
Buildings	5,000
Building improvements	5,000
Public domain infrastructure	1
Furniture, equipment, and vehicles	5,000

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Capital Assets (Continued)

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. During the current period, the County did not have any capitalized interest.

Property, plant, and equipment of the County are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15 – 40
Building improvements	10 – 30
Public domain infrastructure	50 – 75
Furniture, equipment, and vehicles	3 – 15

7. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion consists of an amount based upon what the employee can accrue within one year, or the balance, whatever is smaller. The noncurrent portion consists of the remaining amount of vacation leave. Compensated absences are liquidated by each fund that has personal services.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Pension Plan

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. Plan investments are reported at fair value. The pension liability is liquidated through the General Fund and other governmental funds that have personal services.

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The County reports deferred outflows of resources only under the full accrual basis of accounting associated with defined benefit pension plans and other postemployment benefits (OPEB) and, accordingly, they are reported only in the statements of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The County has three types of deferred inflows. Prepaid property taxes represent the County's share of tax collections collected prior to year-end that were not due until the following year. Since the property taxes were levied for use in a future year, the revenue is deferred and recognized in the period for which the amount is levied. These amounts arise under both the modified accrual and the full accrual basis of accounting and are reported in both the governmental fund balance sheet and the statement of net position. The governmental funds report unavailable

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Deferred Outflows/Inflows of Resources (Continued)

revenue from delinquent taxes receivable, delinquent and noncurrent special assessments receivable, and grant and allotments receivables. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The County also reports deferred inflows of resources associated with pension. These inflows arise only under the full accrual basis of accounting and, accordingly, are reported only in the statement of net position.

10. Long-Term Obligations

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

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

11. Classification of Net Position

Net position in the government-wide statements is classified in the following components:

Net investment in capital assets – represents capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Classification of Net Position (Continued)

Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – the amount of net position that does not meet the definition of restricted or net investment in capital assets.

12. Classifications of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – amounts in which constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

Committed – amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

12. Classifications of Fund Balances (Continued)

Assigned – amounts the County intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Auditor, who has been delegated that authority by Board resolution.

Unassigned – the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

13. Minimum Fund Balance

Unrestricted fund balance (committed, assigned, and unassigned) may be accessed in the event of unexpected expenditures up to the minimum established level upon approval of a budget revision by the County Board. In the event of projected revenue shortfalls, it is the responsibility of the County Auditor to report the projections to the County Board on a quarterly basis and shall be recorded in the minutes.

Any budget revision that will result in the unrestricted fund balance dropping below the minimum level will require the approval of a 3/5 vote of the County Board.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

13. Minimum Fund Balance (Continued)

The fund balance policy establishes a minimum unrestricted fund balance equal to 16 percent of total General Fund expenditures. In the event that the balance drops below the established minimum level, the County Board will develop a plan to replenish the fund balance to the established minimum level within two years.

14. Use of Estimates

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

E. Restatement of Net Position

Change in Accounting Principles

During the year ended December 31, 2018, the County adopted new accounting guidance by implementing the provisions of GASB Statement 75. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, changes the amount employers report as OPEB expense and defers some allocations of expenses to future years as deferred outflows or inflows of resources. This statement also requires additional note disclosures and schedules in the required supplementary information. Beginning net position has been restated to reflect this change.

	<u>Governmental Activities</u>
Net Position, January 1, 2018, as previously reported	\$ 34,537,233
Change in accounting principles	<u>(518,769)</u>
Net Position, January 1, 2018, as restated	<u>\$ 34,018,464</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

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

	Expenditures	Budget	Excess
Ditch Special Revenue Fund	\$ 45,374	\$ 33,000	\$ 12,374

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

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

Government-wide statement of net position		
Governmental activities		
Cash and pooled investments	\$	5,284,445
Departmental cash		130,024
Statement of fiduciary net position		
Cash and pooled investments		
Investment trust fund		57,422
Agency funds		109,810
Total Cash and Investments	\$	5,581,701

a. Deposits

Mahnomen County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The County is required by Minn. Stat. § 118A.03 to protect County deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

a. Deposits (Continued)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better and revenue obligations rated “AA” or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County’s policy is to minimize its exposure to custodial credit risk by requiring all deposits to be insured or collateralized in accordance with Minn. Stat. § 118A.03. As of December 31, 2018, the County’s deposits were not exposed to custodial credit risk.

b. Investments

The County may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County's policy is to diversify use of investment instruments to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, individual financial institutions, or maturities. The County invests in both short-term and long-term investments and times cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. As of December 31, 2018, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County's policy is to diversify use of investment instruments to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, individual financial institutions, or maturities.

The following table presents the County's deposits and investment balances at December 31, 2018, and information relating to potential investment risks:

<u>Investment Type</u>	<u>Credit Risk</u>		<u>Concentration</u>	<u>Interest</u>	<u>Carrying</u> <u>(Fair)</u> <u>Value</u>
	<u>Credit</u> <u>Rating</u>	<u>Rating</u> <u>Agency</u>	<u>Over 5 Percent</u> <u>of Portfolio</u>	<u>Rate Risk</u> <u>Maturity</u> <u>Date</u>	
Investments					
Negotiable certificates of deposit	N/A	N/A	N/A	Varies	\$ 2,610,817
Deposits					2,969,184
Change funds					1,700
 Total Cash and Investments					 <u>\$ 5,581,701</u>

N/A – Not Applicable

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

The County measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and
- *Level 3:* Unobservable inputs.

At December 31, 2018, the County had the following recurring fair value measurements.

	Fair Value Measurements Using			
	December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
Negotiable certificates of deposit	\$ 2,610,817	\$ -	\$ 2,610,817	\$ -

Level 2 debt securities are valued using a matrix yield-based pricing technique based on the securities' relationship to benchmark quoted prices.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

2. Receivables

Receivables as of December 31, 2018, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 118,785	\$ -
Special assessments	33,531	-
Accounts	94,407	-
Accrued interest	3,898	-
Due from other governments	5,164,294	-
Contract for deed	18,272	6,115
Total Governmental Activities	\$ 5,433,187	\$ 6,115

Contract for Deed

Contract for Deed	Date	Interest Rate (%)	Due Date	Monthly Payment	Balance December 31
MMRL2D1	September 1, 2013	-	September 1, 2022	\$ 1,013	\$ 18,272

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 534,639	\$ -	\$ -	\$ 534,639
Construction in progress	54,029	2,148,182	-	2,202,211
Total capital assets not depreciated	<u>\$ 588,668</u>	<u>\$ 2,148,182</u>	<u>\$ -</u>	<u>\$ 2,736,850</u>
Capital assets depreciated				
Land improvements	\$ 849,138	\$ -	\$ -	\$ 849,138
Buildings	3,826,810	-	-	3,826,810
Machinery, furniture, and equipment	4,419,729	424,138	435,447	4,408,420
Infrastructure	46,455,834	880,970	-	47,336,804
Total capital assets depreciated	<u>\$ 55,551,511</u>	<u>\$ 1,305,108</u>	<u>\$ 435,447</u>	<u>\$ 56,421,172</u>
Less: accumulated depreciation for				
Land improvements	\$ 187,012	\$ 41,934	\$ -	\$ 228,946
Buildings	2,484,221	73,813	-	2,558,034
Machinery, furniture, and equipment	2,920,207	508,328	435,447	2,993,088
Infrastructure	18,490,994	1,280,967	-	19,771,961
Total accumulated depreciation	<u>\$ 24,082,434</u>	<u>\$ 1,905,042</u>	<u>\$ 435,447</u>	<u>\$ 25,552,029</u>
Total capital assets depreciated, net	<u>\$ 31,469,077</u>	<u>\$ (599,934)</u>	<u>\$ -</u>	<u>\$ 30,869,143</u>
Governmental Activities Capital Assets, Net	<u>\$ 32,057,745</u>	<u>\$ 1,548,248</u>	<u>\$ -</u>	<u>\$ 33,605,993</u>

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

Governmental Activities	
General government	\$ 48,398
Public safety	134,586
Highways and streets, including depreciation of infrastructure assets	1,552,194
Human services	4,137
Conservation	1,662
Economic development	164,065
Total Depreciation Expense – Governmental Activities	<u>\$ 1,905,042</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2018, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Social Services Special Revenue Fund	\$ 17,067
Road and Bridge Special Revenue Fund	Ditch Special Revenue Fund	\$ 53
	Solid Waste Special Revenue Fund	1,160
Total Road and Bridge Special Revenue Fund		\$ 1,213
Family Services Collaborative Investment Trust Fund	Social Services Special Revenue Fund	\$ 11,994
Total Due To/From Other Funds		\$ 30,274

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2018, consisted of the following:

Transfers to Social Services Fund from General Fund	\$ 20,000	To transfer funds for cash flow purposes
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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2018, were as follows:

	<u>Governmental Activities</u>
Accounts	\$ 267,466
Salaries	213,222
Contracts	151,444
Due to other governments	<u>647,329</u>
Total Payables	<u>\$ 1,279,461</u>

2. Other Postemployment Benefits (OPEB) – Retirees

The County provides post-retirement health care benefits for qualified retirees (employees who have been employed by the County for at least ten years, effective July 8, 1986) from retirement until age 65 when they become eligible for Medicare.

As of year-end, the County has five eligible participants. The County finances the plan on a pay-as-you-go basis. During 2018, the County expended \$34,389 for these benefits.

The OPEB liability is liquidated through the General Fund and the Road and Bridge and Social Services Special Revenue Funds.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

3. Capital Leases

The County has entered into a lease agreement as lessee for financing the acquisition of certain equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. Payments on this lease agreement are made from the General Fund. This capital lease consists of the following at December 31, 2018:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
2017 copier	2022	Monthly	\$ 1,346	\$ 7,343	<u>\$ 5,045</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2018, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2019	\$ 1,731
2020	1,731
2021	1,731
2022	<u>432</u>
Total minimum lease payments	\$ 5,625
Less: amount representing interest	<u>(580)</u>
Present Value of Minimum Lease Payments	<u>\$ 5,045</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

4. Revolving Loan Account

In 2018, the County continued to administer the Minnesota Housing Finance Agency's (MHFA) Minnesota Urban and Rural Homestead Program (MURL). The intent of the program is to maintain and/or increase the supply of affordable, owner-occupied, single family housing by providing the County with financing to assist in the acquisition, construction, and/or rehabilitation of single family residential properties to be owned by a low-to-moderate income owner-occupant. The County had established a Revolving Loan Account into which all contract for deed repayments, sales proceeds, or other recaptured grant funds must be deposited. The County has one outstanding contract for deed that will end September 1, 2022. Once the final contract for deed payment is received, the County is required to pay all remaining funds in their Revolving Loan Account back to the MHFA. This resulted in a due to MHFA – Revolving Fund payable at December 31, 2018, of \$222,578. This liability will be paid from the general fund.

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2017</u>
Minnesota Housing Finance Agency	2022	N/A	N/A	\$ 188,100	<u>\$ 222,578</u>

5. Changes in Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Long-term liabilities					
Revenue bonds	\$ 155,000	\$ -	\$ 155,000	\$ -	\$ -
Minnesota Housing Finance Agency	-	222,578	-	222,578	-
Capital leases	8,654	-	3,609	5,045	1,438
Compensated absences	179,505	215,687	228,878	166,314	127,104
Total Long-Term Liabilities	<u>\$ 343,159</u>	<u>\$ 438,265</u>	<u>\$ 387,487</u>	<u>\$ 393,937</u>	<u>\$ 128,542</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

6. Unearned Revenues/Deferred Inflows of Resources

Unearned revenues consist of state and/or federal grants received but not earned. Deferred inflows of resources – unavailable revenue consists of taxes, special assessments, state and/or federal grants and state highway users tax allotments, and other receivables not collected soon enough after year-end to pay liabilities of the current period. Deferred inflows of resources – prepaid property taxes consists of the County’s share of 2018 property taxes collected in advance. For 2018, Mahnomen County did not have unearned revenue.

	<u>Taxes</u>	<u>Special Assessments</u>	<u>Grants and Allotments</u>	<u>Total</u>
Major governmental funds				
General	\$ 77,672	\$ -	\$ 205,019	\$ 282,691
Special Revenue				
Road and Bridge	15,881	113	4,195,654	4,211,648
Social Services	19,376	-	46,051	65,427
Nonmajor governmental funds				
Special Revenue				
Solid Waste	-	14,957	-	14,957
Ditch	-	33,012	-	33,012
Hospital Reserve	12	-	-	12
Total	<u>\$ 112,941</u>	<u>\$ 48,082</u>	<u>\$ 4,446,724</u>	<u>\$ 4,607,747</u>
Deferred inflows of resources				
Unavailable revenue	\$ 75,972	\$ 48,082	\$ 4,446,724	\$ 4,570,778
Prepaid property taxes	36,969	-	-	36,969
Total	<u>\$ 112,941</u>	<u>\$ 48,082</u>	<u>\$ 4,446,724</u>	<u>\$ 4,607,747</u>

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description

All full-time and certain part-time employees of Mahnomen County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

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

The General Employees Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No Mahnomen County employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Police and Fire Plan (accounted for in the Police and Fire Fund). For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a prorated basis starting with 50 percent after five years and increasing ten percent for each year of service until fully vested after ten years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years and increasing 5.00 percent for each year of service until fully vested after 20 years.

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. General Employees Plan and Police and Fire Plan benefit recipients receive a future annual 1.00 percent for the post-retirement benefit increase, while Correctional Plan benefit recipients receive 2.50 percent. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will be 2.50 percent. If, after reverting to a 2.50 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 1.00 percent.

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

Benefits are based on a member's highest average salary for any 60 consecutive months of allowable service, age, and years of credit at termination of service. In the General Employees Plan, two methods are used to compute benefits for Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.20 percent of average salary for each of the first ten years of service and 1.70 percent of average salary for each remaining year. Under Method 2, the annuity accrual rate is 1.70 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. For Police and Fire Plan members, the annuity accrual rate is 3.00 percent of average salary for each year of service. For Correctional Plan members, the annuity accrual rate is 1.90 percent of average salary for each year of service.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

For General Employees Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. For Police and Fire Plan and Correctional Plan members, normal retirement age is 55, and for members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Plan members were required to contribute 6.50 percent of their annual covered salary in 2018. Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2018. Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2018.

In 2018, the County was required to contribute the following percentages of annual covered salary:

General Employees Plan – Coordinated Plan members	7.50%
Police and Fire Plan	16.20
Correctional Plan	8.75

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

3. Contributions (Continued)

The County's contributions for the year ended December 31, 2018, to the pension plans were:

General Employees Plan	\$	223,302
Police and Fire Plan		118,440
Correctional Plan		25,911

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

4. Pension Costs

General Employees Plan

At December 31, 2018, the County reported a liability of \$2,485,320 for its proportionate share of the General Employees 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 0.0448 percent. It was 0.0489 percent measured as of June 30, 2017. The County recognized pension expense of \$387,959 for its proportionate share of the General Employees Plan's pension expense.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Plan (Continued)

The County also recognized \$19,024 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$16 million to the General Employees Plan for the fiscal years ended June 30, 2018 and 2019, and \$6 million thereafter, through calendar year 2031.

The County's proportionate share of the net pension liability	\$	2,485,320
State of Minnesota's proportionate share of the net pension liability associated with the County		81,577
Total	\$	2,566,897

The County reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 71,532	\$ 74,105
Changes in actuarial assumptions	242,709	296,746
Difference between projected and actual investment earnings	-	278,238
Changes in proportion	628,308	329,756
Contributions paid to PERA subsequent to the measurement date	113,430	-
Total	\$ 1,055,979	\$ 978,845

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Plan (Continued)

The \$113,430 reported as deferred outflows of resources related to pensions resulting from 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	\$ 249,899
2020	43,888
2021	(278,208)
2022	(51,875)

Police and Fire Plan

At December 31, 2018, the County reported a liability of \$737,601 for its proportionate share of the Police and Fire 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 0.0692 percent. It was 0.0710 percent measured as of June 30, 2017. The County recognized pension expense of \$69,050 for its proportionate share of the Police and Fire Plan's pension expense.

The County also recognized \$6,228 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Police and Fire Plan. Legislation requires the State of Minnesota to contribute \$9 million to the Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Police and Fire Plan (Continued)

The County reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 30,177	\$ 178,148
Changes in actuarial assumptions	887,867	1,113,446
Difference between projected and actual investment earnings	-	164,488
Changes in proportion	107,017	50,177
Contributions paid to PERA subsequent to the measurement date	60,140	-
Total	\$ 1,085,201	\$ 1,506,259

The \$60,140 reported as deferred outflows of resources related to pensions resulting from 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	\$ (25,751)
2020	(60,887)
2021	(108,838)
2022	(279,238)
2023	(6,484)

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Correctional Plan

At December 31, 2018, the County reported a liability of \$23,766 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 0.14 percent. It was 0.15 percent measured as of June 30, 2017. The County recognized pension expense of (\$28,415) for its proportionate share of the Correctional Plan's pension expense.

The County reported its proportionate share of the Correctional Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,246	\$ 2,636
Changes in actuarial assumptions	116,374	276,609
Difference between projected and actual investment earnings	-	27,236
Changes in proportion	-	11,755
Contributions paid to PERA subsequent to the measurement date	12,971	-
Total	\$ 130,591	\$ 318,236

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Correctional Plan (Continued)

The \$12,971 reported as deferred outflows of resources related to pensions resulting from 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	\$ 10,900
2020	(110,446)
2021	(96,094)
2022	(4,976)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2018, was \$428,594.

5. Actuarial Assumptions

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

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

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. Cost of living benefit increases for retirees are assumed to be 1.25 percent for the General Employees Plan and 2.00 percent for the Correctional Plan. For the Police and Fire Plan, cost of living benefit increases for retirees are 1.00 percent as set by state statute.

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 30, 2015. The experience study for the Police and Fire Plan was dated August 30, 2016. The experience study for the Correctional Plan was dated February 2012. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The long-term expected rate of return on pension plan investments is 7.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	36%	5.10%
International stocks	17	5.30
Bonds (fixed income)	20	0.75
Alternative assets (private markets)	25	5.90
Cash	2	0.00

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2018, which remained consistent with 2017. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Plan, the Police and Fire Plan, and the Correctional Plan were projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

7. Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred in 2018:

General Employees Plan

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

Police and Fire Plan

- The mortality projection scale was changed from MP-2016 to MP-2017.
- Post-retirement benefit increases changed to 1.00 percent for all years, with no trigger.
- An end date of July 1, 2048, was added to the existing \$9.0 million state contribution. Additionally, annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter, until the plan reaches 100 percent funding, or July 1, 2048, if earlier.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions and Plan Provisions

Police and Fire Plan (Continued)

- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80 percent to 11.30 and 11.80 percent of pay, respectively. Employer contributions were changed effective January 1, 2019, and January 1, 2020, from 16.20 percent to 16.95 and 17.70 percent of pay, respectively. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions

Correctional Plan

- The single discount rate was changed from 5.96 percent per annum to 7.50 percent per annum.
- The mortality projection scale was changed from MP-2016 to MP-2017.
- The assumed post-retirement benefit increase was changed from 2.50 percent per year to 2.00 percent per year.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

8. Pension Liability Sensitivity

The following presents the County’s proportionate share of the net pension liability calculated using the discount rate previously disclosed, as well as what the County’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	General Employees Plan		Proportionate Share of the Police and Fire Plan		Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 4,038,964	6.50%	\$ 1,581,462	6.50%	\$ 203,395
Current	7.50	2,485,320	7.50	737,601	7.50	23,766
1% Increase	8.50	1,202,832	8.50	39,762	8.50	(119,932)

9. Pension Plan Fiduciary Net Position

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

B. Defined Contribution Plan

Three commissioners of Mahnomen County are covered by the Public Employees Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the state legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employee and employer

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by Mahnomen County during the year ended December 31, 2018, were:

	Employee	Employer
Contribution amount	\$ 2,778	\$ 2,778
Percentage of covered payroll	5.00%	5.00%

C. Other Postemployment Benefits

Plan Description

Mahnomen County provides a single-employer, defined benefit health care plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

No assets have been accumulated in a trust that meets the criteria in paragraph four of GASB 75. The OPEB plan does not issue a stand-alone financial report.

As of the January 1, 2018, actuarial valuation, the following employees were covered by the benefit terms:

Retirees or spouses currently receiving benefit payments	5
Active plan participants	81
Total	86

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (Continued)

Total OPEB Liability

The County's total OPEB liability of \$1,682,397 was measured as of January 1, 2018, and was determined by an actuarial valuation as of the date.

The total OPEB liability in the fiscal year-end 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	2.50 percent
Salary increases	3.00 percent, average wage inflation plus merit/productivity increases
Health care cost trend	6.50 percent, decreasing 0.25 percent per year to an ultimate rate of 5.00 percent

The current year discount rate is 3.30 percent, which is a change from the prior year rate of 4.00 percent. For the current valuation, the discount rate is based on the estimated yield of 20-Year AA-rated municipal bonds.

Mortality rates are based on RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire personnel).

The actuarial assumptions are currently based on a combination of historical information, projected future data, and the most recent actuarial experience studies for PERA.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at January 1, 2018	\$ 1,730,927
Changes for the year	
Service cost	\$ 96,272
Interest	56,995
Benefit payments	<u>(201,797)</u>
Net change	<u>\$ (48,530)</u>
Balance at December 31, 2018	<u>\$ 1,682,397</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (Continued)

OPEB Liability Sensitivity

The following presents the total OPEB liability of the County, calculated using the discount rate previously disclosed, as well as what the County's total OPEB liability would be if it were calculated using a discount rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	Discount Rate	Total OPEB Liability
1% Decrease	2.30%	\$ 1,798,857
Current	3.30	1,682,397
1% Increase	4.30	1,571,418

The following presents the total OPEB liability of the County, calculated using the health care cost trend previously disclosed, as well as what the County's total OPEB liability would be if it were calculated using health care cost trend rates that are 1.00 percentage point lower or 1.00 percentage point higher than the current health care cost trend rate:

	Health Care Trend Rate	Total OPEB Liability
1% Decrease	5.50% Decreasing to 4.00%	\$ 1,522,046
Current	6.50% Decreasing to 5.00%	1,682,397
1% Increase	7.50% Decreasing to 6.00%	1,867,818

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 (\$48,530). The County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources
Contributions made subsequent to the measurement date	\$ 87,463

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits

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

The \$87,463 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended December 31, 2019.

Changes in Plan

- A sunset date was added for the Teamsters – Courthouse employees so only employees hired before February 17, 2009, are eligible for a subsidized postretirement medical benefit.
- The benefit eligibility for AFSCME – Human Services employees was updated to age 55 with 20 years of service at the last valuation date. However, the current contract still lists eligibility as age 58 with 20 years of service, so we have changed the eligibility back to age 58 to match the contract language.

Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2018:

- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2014 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire personnel) to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire personnel).
- The retirement and withdrawal tables for all employees were updated
- The discount rate was changed from 4.00 percent to 3.30 percent.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 per claim in 2018 and 2019. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

The County, in connection with the normal conduct of its affairs, is involved in various judgments, claims, and litigation. The County Attorney identified no potential claims against the County that would materially affect the financial statements.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items (Continued)

B. Joint Ventures

Joint County Natural Resources Board

The Joint County Natural Resources Board was formed in 1985 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Aitkin, Beltrami, Clearwater, Koochiching, Lake of the Woods, Mahnomen, Marshall, and Roseau Counties.

The purpose of the Natural Resources Board is to gather information on and formulate policies for the development, utilization, and protection of natural resources in northern Minnesota, and to ensure that there is an interrelated plan for the use and protection of both public and private resources.

Control of the Natural Resources Board is vested in the Joint County Natural Resources Board, which is composed of at least one resident of each county appointed by its respective County Board, as provided in the Natural Resources Board's by-laws.

In the event of dissolution of the Joint County Natural Resources Board, the net assets of the Natural Resources Board at that time shall be distributed to the respective member counties in proportion to the contribution of each. Mahnomen County's contribution for 2018 was \$500.

The Natural Resources Board has no long-term debt. Financing is provided by appropriations from member counties. Complete financial information can be obtained from:

Mr. Wayne Bendickson
Treasurer
Joint County Natural Resources Board
Box 808
Baudette, Minnesota 56623

Mahnomen County Interagency Collaborative

The Mahnomen County Interagency Collaborative (MCIC) was established in 1998, pursuant to Minn. Stat. § 124D.23, between Mahnomen County Human Services, Mahnomen County Sheriff's Department, Independent School District Nos. 432 and 435, Minnesota Department of Corrections, Multi-County Nursing Service (now

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Mahnomen County Interagency Collaborative (Continued)

Polk-Norman-Mahnomen Public Health), Northwestern Mental Health Center, Stellher Human Services, University of Minnesota Mahnomen County Extension Office, Mahnomen Health Center, Mahube-OTWA Community Council, White Earth Human Services, and White Earth Mental Health. Mahnomen County Human Services is the acting fiscal agent of the MCIC. The purpose of the MCIC is to provide healthier communities and families and to reduce the number of out-of-home placements.

The management of the MCIC is vested in the interagency agreements. Each participating agency is granted one vote upon the receipt of a resolution from its governing board. Mahnomen County is granted two votes.

In the event of dissolution of the MCIC, the withdrawing party shall give a 30-day notice. Should the MCIC cease to exist, all property, real and personal, held by the MCIC at the time of termination shall be distributed by resolution of the MCIC in accordance with law and in a manner to best accomplish the continuing purposes of the MCIC.

Financing is provided by state and federal grants. During 2018, Mahnomen County did not contribute any funds to the MCIC.

Northwest Minnesota Regional Emergency Communications Board

The Northwest Minnesota Regional Emergency Communications Board (formerly known as the Northwest Minnesota Regional Radio Board) was formed in 2008, pursuant to the authority conferred upon the member parties by Minn. Stat. §§ 471.59 and 403.39, and includes the City of Moorhead; the Counties of Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau; and the White Earth Reservation.

The purpose of the Northwest Minnesota Regional Emergency Communications Board is to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) owned and operated by the State of Minnesota and to enhance and improve interoperable public safety communications along with coordination of 911 and public safety broadband data services within the region.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northwest Minnesota Regional Emergency Communications Board (Continued)

The Northwest Minnesota Regional Emergency Communications Board is composed of one Commissioner of each county appointed by their respective County Board, one City Council member from the City appointed by the City Council, and one representative appointed by the Tribal Council from each tribal entity party to the agreement, as provided in the Northwest Minnesota Regional Emergency Communications Board's bylaws.

In the event of dissolution of the Northwest Minnesota Regional Emergency Communications Board, all property, assets, and funds of the Board shall be distributed to the parties of the agreement upon termination in direct proportion to their participation and contribution. Any city, county or tribal entity that has withdrawn from the agreement prior to termination of the Board shall share in the distribution of property, assets, and funds of the Board only to the extent they shared in the original expense.

The Northwest Minnesota Regional Emergency Communications Board has no long-term debt. Financing is provided by appropriations from member parties and by state and federal grants. During 2018, Mahnomen County did not contribute any funds to this organization.

Complete financial information can be obtained from:

Headwaters Regional Development Commission
403 – 4th Street Northwest, Suite 310
Bemidji, Minnesota 56601

Land of the Dancing Sky Area Agency on Aging

The Land of the Dancing Sky Area Agency on Aging provides services to a 21-county service area. This is a partnership between the Northwest Regional Development Commission, the five-county service area of Region 2, and the West Central Area Agency on Aging. This combined area on aging was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the elderly in the 21-county area.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Land of the Dancing Sky Area Agency on Aging (Continued)

The Land of the Dancing Sky umbrella board meets quarterly to discuss and approve major items such as the area plan and dollar allocations, while the advisory councils and joint powers boards of the two areas on aging continue to meet monthly to make decisions affecting their local counties.

During 2018, Mahnomen County contributed \$904 to the Land of the Dancing Sky.

Paul Bunyan Task Force

The Paul Bunyan Task Force was established July 16, 1992, under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Beltrami, Clearwater, Hubbard, Lake of the Woods, and Mahnomen Counties; the Bureau of Indian Affairs; the Leech Lake and White Earth Reservations; and the Cities of Bemidji and Park Rapids. The purpose of the Paul Bunyan Task Force is to assist member organizations in the investigation and prosecution of persons in violation of Minnesota statutes.

Control of the Paul Bunyan Task Force is established by a majority vote represented with one vote from each member of the organization. In the event of dissolution of the Paul Bunyan Task Force, the net assets shall be liquidated to the member organizations based on the percentage of population of all member counties and cities.

The Paul Bunyan Task Force has no long-term debt. During 2018, Mahnomen County did not contribute to the Paul Bunyan Task Force. Financing is provided by the profits from forfeitures and seizures pursuant to Minn. Stat. § 609.531. The City of Bemidji, in an agent capacity, reports the cash transactions of the Paul Bunyan Task Force on its financial statements.

Complete financial information can be obtained from:

The Honorable Kay Mack, Auditor-Treasurer
Beltrami County
701 Minnesota Avenue, Suite 220
Bemidji, Minnesota 56601

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items (Continued)

C. Jointly-Governed Organizations

Wild Rice Watershed District

The Wild Rice Watershed District was established in 1969, pursuant to Minn. Stat. ch. 103D, and includes Becker, Clay, Clearwater, Mahnomen, Norman, and Polk Counties. The purpose of the Watershed District is to oversee watershed projects, conduct studies for future project planning, administration of legal drainage systems, issuance of applications and permits, public education on conservation issues, and dispute resolution.

Control of the Watershed District is vested in the Board of Managers, which is composed of seven members appointed by the County Commissioners of Clay, Mahnomen, and Norman Counties. Clay County appoints two members, Mahnomen County appoints two members, and Norman County appoints three members.

Complete financial information can be obtained from:

Wild Rice Watershed District Office
11 East 5th Avenue
Ada, Minnesota 56510

Minnesota Red River Basin of the North Joint Powers Board

The Minnesota Red River Basin of the North Joint Powers Board was established November 29, 1999, by an agreement between Mahnomen County and 17 other counties. The agreement was made to serve as a focal point for land and water concerns for those counties surrounding the Minnesota Red River Basin. Each county is responsible for its proportionate share of the administrative budget.

Control is vested in a Joint Powers Board comprised of one Commissioner from each member county. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

In the event of termination of the agreement, any unexpended funds and surplus property shall be disposed of equally among the member counties. During 2018, Mahnomen County contributed \$130 to the Joint Powers Board.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Minnesota Red River Basin of the North Joint Powers Board (Continued)

Complete financial statements can be obtained from:

The International Coalition for Land – Water
Stewardship in the Red River Basin
119 – 5th Street South
Moorhead, Minnesota 56560

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Aitkin, Becker, Beltrami, Big Stone Clay, Clearwater, Cottonwood, Douglas, Grant, Itasca, Kittson, Koochiching, Lake of the Woods, Mahnomen, Marshall, McLeod, Mille Lacs, Morrison, Norman, Pennington, Polk, Pope, Red Lake, Renville, Roseau, Stevens, Todd, Traverse, Wadena, Watonwan, and Wilkin Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, which is composed of 12 appointees, each with an alternate, who are appointed annually by each respective County Board. Mahnomen County’s responsibility does not extend beyond making this appointment.

During 2018, Mahnomen County contributed \$2,200 to this organization.

Lake Agassiz Regional Library

The Lake Agassiz Regional Library was formed pursuant to Minn. Stat. §§ 134.20 and 471.59, effective January 1, 1961, and includes Becker, Clay, Clearwater, Mahnomen, Norman, Polk, and Wilkin Counties. Control of the Library is vested in the Lake Agassiz Regional Library Board, with 23 members with staggered terms made up of the following: one member appointed by each Board of County Commissioners who may be a member of the Board of Commissioners; one member appointed by each participating city; and one additional member appointed by each county and city for each 6,000 of population or major percentage (85 percent) thereof. In 2018, Mahnomen County provided \$42,190 in the form of an appropriation.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Region Three – Northwest Minnesota Homeland Security Emergency Management Organization

The Region Three – Northwest Minnesota Security Emergency Management Organization was formed in 2007 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59 and Minn. Stat. ch. 12. Members include Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The Organization was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the region.

Control is vested in the Organization, which is composed of 14 representatives appointed by each Board of County Commissioners. Mahnomen County's responsibility does not extend beyond making this appointment.

Sentence to Serve

Mahnomen County, in conjunction with other local governments, participates in the State of Minnesota's Sentence to Serve (STS) program. STS is a project of the State Department of Administration's Strive Toward Excellence in Performance (STEP) program. STEP's goal is a statewide effort to make positive improvements in public services. It gives the courts an alternative to jail or fines for the nonviolent offenders who can work on a variety of community or state projects. Private funding, funds from various foundations and initiative funds, as well as the Departments of Corrections and Natural Resources, provide the funds needed to operate the STS program.

Polk-Norman-Mahnomen Community Health Board

The Polk-Norman-Mahnomen Community Health Board was established in 2012 under the authority of Minn. Stat. ch. 145A and Minn. Stat. § 471.59. The Community Health Board includes the Polk County Local Board of Health and the Norman County Local Board of Health, which is part of Norman County. The purpose of the Community Health Board is to engage in activities designed to protect and promote the health of the general population within a community health service area by emphasizing the prevention of

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Polk-Norman-Mahnomen Community Health Board (Continued)

disease, injury, disability, and preventable death through the promotion of effective coordination and use of community resources, and by extending health services into the community.

Control of the Community Health Board is vested in a seven-member Board with Polk, Norman, and Mahnomen Counties each appointing one County Board member; the Polk County Local Board of Health and the Norman County Local Board of Health each appointing two members; one County Board member; and one community member. The Norman County Local Board of Health appoints one of the members from Norman County and one of the members from Mahnomen County.

In the event of withdrawal from the Community Health Board, the withdrawing party shall give a one-year notice. Should the Community Health Board cease to exist, all property, real and personal, held by the Community Health Board at the time of termination shall be distributed to each joint participant in proportion to its relative financial contribution.

Financing is provided by state and federal grants. Polk County is the fiscal agent for the Community Health Board. During 2018, Mahnomen County did not contribute to the Community Health Board.

Counties Providing Technology

Counties Providing Technology (CPT) was established in 2018, under the authority conferred upon by member parties by Minn. Stat. § 471.59, for the purpose of purchasing the former software vendor, Computer Professionals Unlimited, Inc., (CPUI) and to provide for the development, operation, and maintenance of technology applications and systems. Mahnomen County and 22 other counties are members of CPT. Each member county provided an initial contribution to start up CPT and provide funds for the purchase of CPUI. CPT purchased CPUI in September 2018 for a purchase price of \$3,600,000.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Counties Providing Technology (Continued)

Control is vested in the CPT Board, which consists of one individual appointed by each member county's Board of Commissioners. The joint powers agreement provides that initial operating capital contributed by each member is to be repaid from any excess in fund balance at the end of the fiscal year, in proportion to the initial contribution. Once the initial contribution is repaid, there is no remaining equity interest for the member counties.

Financing is primarily from county member contributions. During 2018, Mahnomen County contributed \$175,000 to CPT.

Current financial information can be obtained from:

Stevens County Auditor/Treasurer
400 Colorado Avenue, Suite 303
Morris, Minnesota 56267

7. Mahnomen Health Center

In addition to those identified in Note 1, the County's discretely presented component unit has the following significant accounting policies.

A. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The Mahnomen Health Center consists of a hospital and nursing home located in Mahnomen, Minnesota. The Health Center is an operating entity under the ownership of Mahnomen County (County) and the City of Mahnomen (City), Minnesota, and is a component unit of Mahnomen County. The Health Center is governed under a Joint Powers Agreement between the County and City. For the year ended December 31, 2018, the County owned 78 percent of the Health Center, while the City owned 22 percent of the Health Center. The County and City each appoint Mahnomen Health Center Commission members who are responsible for the operation of the hospital and nursing home.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

A. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity (Continued)

The Mahnomen Health Center Commission consists of nine members. The Commission is the ultimate governing body of the Health Center. The Commission shall acquire the necessary property to establish, construct, enlarge, improve, maintain, equip, operate, and control the facilities subject to the other terms of the Joint Powers Agreement.

For financial reporting purposes, the Health Center has included all funds, organizations, agencies, boards, commissions, and authorities. The Health Center has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Health Center are such that the exclusion would cause the Health Center's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Health Center to impose its will on that organization, or (2) the potential for the Health Center to provide specific benefits to or impose specific financial burdens on the Health Center. The Health Center does not have a component unit which meets the GASB criteria.

Basis of Accounting and Enterprise Fund Accounting

The Health Center's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB. The accompanying financial statements have been prepared on the accrual basis of accounting. The Health Center uses enterprise fund accounting. Revenues are recognized when earned, and expenses are recorded when the liability is incurred based on GASB Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

A. Description of Reporting Entity and Summary of Significant Accounting Policies
(Continued)

Use of Estimates

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

Risk Management

The Health Center is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors or omissions; employee injuries and illness; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, including noncurrent cash and investments.

Patient and Resident Receivables, Net

Patient and resident receivables are uncollateralized customer and third-party obligations. Payments of patient and resident receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient and resident receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients and residents due to bad debts. Management considers historical write-off and recovery information in determining the estimated bad debt

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

A. Description of Reporting Entity and Summary of Significant Accounting Policies

Patient and Resident Receivables, Net (Continued)

provision. At December 31, 2018, the allowance for doubtful accounts was approximately \$423,000. When all collection efforts have been exhausted, the account is written off against the related allowance.

Supplies

Supplies are stated at cost (principally on the first-in, first-out basis) not in excess of market value. Market value is determined by comparison with recent purchases.

Capital Assets

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land and construction in progress are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation and have estimated lives as follows:

Land improvements	15 – 20 years
Buildings	20 – 40 years
Movable equipment	3 – 15 years

Noncurrent Cash and Investments

Noncurrent cash and investments are recorded at cost, if purchased, or at fair market value on the date received, if by gift or bequest. All investments are carried at market value which approximates cost. Noncurrent cash and investments required for obligations classified as current liabilities are reported as current assets.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense or other postemployment benefits and contributions from the employer after the measurement date but before the end of the employer's reporting period.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

A. Description of Reporting Entity and Summary of Significant Accounting Policies
(Continued)

Investment in Joint Venture

The Health Center reports its investment in Central Minnesota Diagnostic, Inc. (CMDI), on the equity method of accounting, which approximates the Health Center's equity in the underlying book value based on its most recent December 31 fiscal year-end. The Health Center's shares of net income from these investments are recognized as equity earnings from joint venture.

Vacation and Sick Leave

The Health Center's employees earn paid time off days at varying rates depending on years of service. Employees may accumulate paid time off up to a specified maximum. Employees are paid for accumulated paid time off if they leave the Health Center. The liability for compensated absences is included with accrued vacation and sick leave in the accompanying statement of net position.

Net Position

Net position of the Health Center is classified in three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable for specific operating activities is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Health Center. Unrestricted net position is remaining net position that does not meet the definition of invested in capital assets.

Net Patient and Resident Service Revenue

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

A. Description of Reporting Entity and Summary of Significant Accounting Policies

Net Patient and Resident Service Revenue (Continued)

Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

To fulfill its mission of community service, the Health Center provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Health Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient and resident service revenue. There were no charges foregone for charity care for the year ended December 31, 2018.

Operating Revenues and Expenses

The Health Center's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services—the Health Center's principal activity. Nonexchange revenues, including assessments, grants, and contributions received for the purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Grants and Contributions

From time to time, the Health Center receives grants from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized as revenue when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. Grants receivable are reported in the statement of net position at net realizable value.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

A. Description of Reporting Entity and Summary of Significant Accounting Policies
(Continued)

Electronic Health Record Incentive Payments

The Health Center has recorded revenue related to the Electronic Health Records (EHR) Incentive Program during 2018. The Health Center recognizes revenue at the completion of the EHR reporting period and all meaningful use objectives and any other specific grant requirements that are applicable (such as, electronic transmission of quality measures to CMS). This revenue is considered other nonoperating revenue in the Health Center's separately issued report.

Advertising Costs

The Health Center expenses advertising costs as they are incurred.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of PERA, and additions to/deductions from PERA's fiduciary net position, have been determined on the same basis as they are reported by PERA. For this purpose, benefit payments (including refunds or employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources consist of pension-related deferred inflows.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

A. Description of Reporting Entity and Summary of Significant Accounting Policies
(Continued)

Governmental Accounting Standards Board (GASB) Statements

During the year ended December 31, 2018, the Health Center has adopted the following GASB Statements as of January 1, 2018: GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement replaced the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and requires governments to report a liability on the face of the financial statements for the OPEB they provide and outlines the reporting requirements by governments for defined benefit OPEB plans administered through a trust, cost-sharing OPEB plans administered through a trust, and OPEB not provided through a trust. The statement also requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. Some governments are legally responsible to make contributions directly to an OPEB plan or make benefit payments directly as OPEB comes due for employees of other governments. In certain circumstances, called special funding situations, the statement requires these governments to recognize in their financial statements a share of the other government's net OPEB liability.

Fair Value Measurements

To the extent available, the Health Center's investments are recorded at fair value. GASB Statement 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take in to account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources.

In contrast, unobservable inputs reflect an entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

A. Description of Reporting Entity and Summary of Significant Accounting Policies

Fair Value Measurements (Continued)

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Health Center has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

B. Net Patient and Resident Service Revenue

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

The Health Center became a Critical Access Hospital (CAH) as of April 1999 for Medicare reimbursement purposes. There are certain criteria that the Health Center must meet to be a CAH. Once met, the reimbursement method changed to cost-based for both inpatient and outpatient services. The Health Center is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the Medicare fiscal intermediary.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

B. Net Patient and Resident Service Revenue (Continued)

Medicaid

Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services related to Medicaid program beneficiaries are reimbursed under a cost-reimbursement methodology.

Blue Cross

Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined rates per discharge. Outpatient services are reimbursed at outpatient fee screens or at charges less a prospectively determined discount. The prospectively determined discount is not subject to retroactive adjustment.

Nursing Home Medicare

Under the Medicare program, payment for resident services is made on a prospectively determined per diem rate that varies based on a case-mix adjusted resident classification system.

Nursing Home Medicaid

Routine services rendered to nursing home residents who are beneficiaries of the Medicaid program or who pay from private resources are paid according to a schedule of prospectively determined daily rates determined by Minnesota's Medicaid program. A rate is assigned to each nursing home resident based on the resident's ability to perform certain activities of daily living and on certain other clinical factors. Payments are made for each case-mix category and are adjusted each year by an inflation index.

Other Payors

The Health Center has entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Health Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

B. Net Patient and Resident Service Revenue

Other Payors (Continued)

Revenue from Medicare and Medicaid programs accounted for approximately 41 percent of the Health Center's net patient revenue for the year ended December 31, 2018.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The December 31, 2018, net patient service revenue increased approximately \$45,000, due to prior year retroactive adjustments in excess of amounts previously estimated as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

Patient and resident service revenue and contractual adjustments for the year ended December 31, 2018, are as follows:

Total patient service revenue	\$ 14,370,167
Contractual adjustments	
Medicare	\$ (2,257,188)
Medicaid	(1,822,451)
Other	(906,487)
Provision for bad debts	(740,215)
Total contractual adjustments	\$ (5,726,341)
Net Patient and Resident Service Revenue	\$ 8,643,826

C. Noncurrent Cash and Investments

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Health Center's deposits may not be returned to it in full. The Health Center follows Minnesota statutes for deposits.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

C. Noncurrent Cash and Investments

Deposits

Custodial Credit Risk (Continued)

In accordance with Minnesota statutes, the Health Center maintains deposits at financial institutions that are authorized by the Mahnomen Health Center's Commission members.

Minnesota statutes require that all the Health Center's deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral includes certain U.S. government securities, state or local government obligations, and other securities authorized by Minn. Stat. § 118A.03. Minnesota statutes require that securities pledged as collateral be held in safekeeping by the Treasurer or in a financial institution other than that furnishing collateral.

The Health Center's deposits in banks at December 31, 2018, were covered by federal depository insurance or by collateral held by the Health Center's custodial bank in the Health Center's name.

Interest Rate Risk

The Health Center does not have an investment policy. There is no current provision the Health Center has that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Noncurrent cash and investments consist of certificates of deposit. The Health Center has no other investments as of December 31, 2018. All of the Health Center's deposits are insured or registered in the Health Center's name and held in safekeeping by the Treasurer or in a financial institution other than that furnishing collateral.

The Health Center does not hold any investments which meet the definition of Level 2 or Level 3 inputs.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center (Continued)

D. Accounts Receivable

Patient and resident receivables reported as current assets by the Health Center at December 31, 2018, consist of these amounts:

Receivables from patients and their insurance carriers	\$ 1,093,069
Receivables from Medicare	393,406
Receivables from Medicaid	<u>306,491</u>
 Total patient and resident receivables	 \$ 1,792,966
 Less: allowance for uncollectible amounts	 <u>(423,000)</u>
 Total Patient and Resident Receivables, Net	 <u><u>\$ 1,369,966</u></u>

E. Capital Assets

Capital asset additions, retirements, and balances for the year ended December 31, 2018, are as follows:

	Balance December 31, 2017	Additions	Retirements/ Transfers	Balance December 31, 2018
Land	\$ 44,229	\$ -	\$ -	\$ 44,229
Land improvements	307,897	-	-	307,897
Buildings	5,750,842	-	117,129	5,867,971
Movable equipment	5,104,213	17,293	-	5,121,506
Construction in progress	<u>72,401</u>	<u>46,225</u>	<u>(117,129)</u>	<u>1,497</u>
 Totals at historical cost	 <u>\$ 11,279,582</u>	 <u>\$ 63,518</u>	 <u>\$ -</u>	 <u>\$ 11,343,100</u>
 Less: accumulated depreciation for				
Land improvements	\$ 189,079	\$ 21,625	\$ -	\$ 210,704
Buildings	3,700,776	232,326	-	3,933,102
Movable equipment	<u>4,253,800</u>	<u>187,804</u>	<u>-</u>	<u>4,441,604</u>
 Total accumulated depreciation	 <u>\$ 8,143,655</u>	 <u>\$ 441,755</u>	 <u>\$ -</u>	 <u>\$ 8,585,410</u>
 Capital Assets, Net	 <u><u>\$ 3,135,927</u></u>	 <u><u>\$ (378,237)</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 2,757,690</u></u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center (Continued)

F. Long-Term Debt

The Health Center leases equipment under a noncancelable long-term lease agreement. The capitalized leased assets consist of:

Movable equipment	\$ 486,385
Less: accumulated depreciation	<u>(259,405)</u>
Total Capital Assets, Net	<u>\$ 226,980</u>

Long-term debt as of December 31, 2018, consists of the following:

	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018
2007 gross revenue bond ¹	\$ 153,946	\$ -	\$ 153,946	\$ -
USDA ambulance loans	45,402	-	24,475	20,927
Note payable ³	115,887	-	22,702	93,185
Capital lease obligations ²	<u>247,046</u>	<u>-</u>	<u>38,023</u>	<u>209,023</u>
Total long-term debt	<u>\$ 562,281</u>	<u>\$ -</u>	<u>\$ 239,146</u>	\$ 323,135
Less: current maturities				<u>(82,723)</u>
Total Long-Term Debt, Net of Current Maturities				<u>\$ 240,412</u>

¹County of Mahnomen, Minnesota, Gross Revenue Hospital Facilities Bond, Series 2007, matures in February 2018. Bond bears interest rate coupon at 4.60 percent.

²The Health Center entered into a five-year capital lease through Mahnomen County during the fiscal year ended December 31, 2012, for the purchase of an electric boiler, with an interest rate of 2.75 percent.

³The Health Center has a note payable with their power company for energy efficiency improvements. The Note carries an interest rate of 1.90 percent and is payable through November 2022.

The following is a maturity schedule of long-term debt and capital lease obligations as of December 31, 2018:

Year Ending December 31	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2019	\$ 42,740	\$ 1,911	\$ 39,983	\$ 9,542
2020	24,904	1,130	42,028	7,497
2021	24,033	674	44,178	5,347
2022	22,435	214	46,439	3,086
2023	<u>-</u>	<u>-</u>	<u>36,395</u>	<u>762</u>
Total	<u>\$ 114,112</u>	<u>\$ 3,929</u>	<u>\$ 209,023</u>	<u>\$ 26,234</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center (Continued)

G. Investment in Joint Venture

The Health Center and other hospitals (all of which are unrelated parties to the Health Center) formed a non-profit corporation known as Central Minnesota Diagnostic, Inc. (CMDI). CMDI was organized to provide certain agreed-upon shared services to those hospitals who are members of this corporation.

CMDI provides the equipment for CT scans for the Health Center's patients. The Health Center billed and collected the revenue for these services to patients and paid CMDI \$112,496 in 2018 for the use of the equipment. Accounts payable to CMDI for these services at December 31, 2018, amounted to \$19,402. At December 31, 2018, the Health Center owned 0.59 percent of CMDI.

Summarized financial information from the financial statements of CMDI at December 31, 2018, and for the year then ended, is presented below:

Total Assets	\$ 47,088,276
Total Liabilities	\$ 9,105,150
Members' equity	
Retained earnings	37,983,126
Total Liabilities and Members' Equity	\$ 47,088,276
Total Operating Revenue	\$ 39,390,987
Net Income	\$ 10,889,483

H. Defined Benefit Pension Plan

Plan Description

The Health Center participates in the following defined benefit pension plan administered by PERA. PERA's defined benefit pension plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

H. Defined Benefit Pension Plan

Plan Description (Continued)

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

Benefits Provided

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

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 Plan members is 1.20 percent for each of the first ten years of service and 1.70 percent for each additional year. The rates are 2.20 percent and 2.70 percent, respectively, for Basic Plan members. Under Method 2, the accrual rate for Coordinated Plan members is 1.70 percent for all years of service and 2.70 percent for Basic Plan members. The accrual rate for former Minneapolis Employees Retirement Fund members is 2.00 percent for each of the first ten years of service and 2.50 percent for each additional year. 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

H. Defined Benefit Pension Plan

Benefits Provided (Continued)

Beginning January 1, 2019, benefit recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). 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

Minn. Stat. ch. 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Basic Plan members were required to contribute 9.10 percent of their annual covered salary in calendar year 2018, and the Health Center was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members. The Health Center's contributions to the GERP for the plan's fiscal years ended December 31, 2018, 2017, and 2016, were \$260,706, \$229,543, and \$219,384, respectively. The Health Center's contributions were equal to the required contributions for each year as set by state statute.

Pension Costs

At December 31, 2018, the Health Center reported a liability of \$2,795,985 for its proportionate share of the GERP's net pension liability. The Health Center's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity, and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Health Center totaled \$91,620. 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 Health Center's proportion of the net pension liability was based on the Health Center's contributions received by

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

H. Defined Benefit Pension Plan

Pension Costs (Continued)

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 Health Center's proportionate share was 0.0504 percent, which was an increase of 0.0002 percent from its proportion measured as of June 30, 2017.

Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.

For the year ended December 31, 2018, the Health Center recognized pension expense of \$94,331. This amount consisted of the Health Center's proportionate share of the GERP's pension expense, plus additional amortized net expenses associated with differences between estimated and actual experience of various actuarial assumptions associated with the plan. In addition, the Health Center recognized an additional \$21,365 during the year ended December 31, 2018, as pension expense (and other revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 74,004	\$ 81,547
Changes of assumptions	267,087	314,159
Net difference between projected and actual earnings on pension plan investments	-	285,705
Changes in proportion and differences between the Health Center's contributions and proportionate share of contributions	174,293	59,246
Health Center's contributions subsequent to the measurement date	<u>126,949</u>	<u>-</u>
Total	<u>\$ 642,333</u>	<u>\$ 740,657</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

H. Defined Benefit Pension Plan

Pension Costs (Continued)

The \$126,949 reported as deferred outflows of resources related to pensions resulting from the Health Center's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending December 31</u>	
2019	\$ 122,422
2020	(65,688)
2021	(223,650)
2022	<u>(58,357)</u>
Total	<u>\$ (225,273)</u>

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

The total pension liability for the defined benefit cost-sharing plan was determined by an actuarial valuation as of June 30, 2018, using the entry age normal actuarial cost method. Inflation is assumed to be 2.50 percent for the General Employees Plan. Salary growth assumptions in the General Employees Plan decrease in annual increments from 11.25 percent after one year of service to 3.25 percent after 26 years of service.

Mortality rates for all plans are based on RP-2014 mortality tables. The tables are adjusted slightly to fit PERA's experience. Actuarial assumptions for the General Employees Plan are reviewed every four to six years. The most recent six-year experience study for the General Employees Plan was completed in 2015. Economic assumptions were updated in 2014 based on a review of inflation and investment return assumptions.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

H. Defined Benefit Pension Plan

Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2018:

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

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

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	33%	5.10%
International stocks	16	5.30
Bonds (fixed income)	25	0.75
Alternative investments (private markets)	24	5.90
Cash	2	0.00

Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

H. Defined Benefit Pension Plan (Continued)

Pension Liability Sensitivity

The following presents the Health Center's proportionate share of the net pension liability for all plans in which it participates, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Health Center's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase in Discount Rate (8.50%)</u>
Health Center's proportionate share of the net pension liability	\$ 4,543,834	\$ 2,795,985	\$ 1,353,186

Detailed information about the 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.

I. Other Postemployment Benefits

Plan Description

The Health Center administers a single-employer defined benefit health care plan. The plan provides health care insurance for eligible retirees and their spouses through the Health Center's group health insurance plan, which covers both active and retired members. The health care plan does not issue a publicly available financial report.

The Health Center does not contribute to the cost of premiums for eligible retired plan members and their spouses. Because the actual cost for retirees is higher than the average per-person premium for the entire group, the difference gives rise to an implicit rate subsidy. The Health Center pays the difference between the actual and apparent cost.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

I. Other Postemployment Benefits

Plan Description (Continued)

As of December 31, 2018, the Health Center implemented the requirements of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement replaced the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and requires governments to report a liability on the face of the financial statements for the OPEB they provide and outlines the reporting requirements by governments for defined benefit OPEB plans administered through a trust, cost-sharing OPEB plans administered through a trust, and OPEB not provided through a trust. Qualified employees may choose to participate in the Health Center's insurance plan after retirement, with no contribution from the Health Center. The Health Center provides these benefits to retirees as required by Minn. Stat. § 471.61, subd. 2b. As of December 31, 2018, there were zero retirees receiving benefits from the Health Center's health plan.

Net OPEB Liability (Asset)

The components of the net OPEB liability (asset) of the Health Center at December 31, 2018, are as follows:

Total OPEB liability	\$ 77,616
Plan fiduciary net position	<u>-</u>
Health Center Net OPEB Liability (Asset)	<u>\$ 77,616</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)	0%

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

I. Other Postemployment Benefits

Net OPEB Liability (Asset) (Continued)

The changes in net OPEB liability (asset) are as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) – (b)
Balance at December 31, 2017	\$ 63,927	\$ -	\$ 63,927
Changes for the Year			
Service Cost	\$ 11,209	\$ -	\$ 11,209
Interest Cost	2,480	-	2,480
Net Changes	\$ 13,689	\$ -	\$ 13,689
Balance at December 31, 2018	<u>\$ 77,616</u>	<u>\$ -</u>	<u>\$ 77,616</u>

The following presents the net OPEB liability (asset) of the Health Center, as well as what the Health Center's net OPEB liability (asset) would be if it were calculated using a discount rate 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	1% Decrease (2.30%)	Discount Rate (3.30%)	1% Increase (4.30%)
Net OPEB Liability (Asset)	\$ 84,082	\$ 77,616	\$ 71,593

For the year ended December 31, 2018, the Health Center recognized OPEB expenses of \$13,689. At December 31, 2018, the Health Center reported deferred outflows of resources related to OPEB. The full amount of deferred outflows is related to 2019.

	Deferred Outflows of Resources
Health Center's contributions made subsequent to the measurement date	<u>\$ 1,566</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

I. Other Postemployment Benefits (Continued)

Actuarial Methods and Assumptions

Based on the implementation of GASB 75, the actuarial cost method changed from using one of six different actuarial cost methods to the Entry Age Normal cost method on a level percentage of projected salary.

The total OPEB liability was determined by an actuarial valuation as of December 31 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate	3.30%
20-Year Municipal Bond Yield	3.30
Inflation Rate	2.50
Salary Increases	3.00
Health Care Trends	6.50
	Decreasing to 5.00%
	Over 6 Years

Mortality rates were based on RP-2014 generational table graded back to 2006, scaled using MP-17 scaling factors, applied on a gender-specific basis.

Discount rate is used to reflect the time value of money. Discount rates are used in determining the present value as of the valuation date of future cash flows currently expected to be required to satisfy the post-retirement benefit obligation.

Experience gains and losses are amortized over a closed period of 14 years starting on July 1, 2016, equal to the average remaining service of active and inactive plan members.

Funded Status and Funding Progress

As of January 1, 2018, the most recent valuation date, the plan was 0.00 percent funded. The actuarial accrued liability for benefits was \$77,616, and the actuarial value of assets is zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$77,616. The covered payroll was \$2,597,975, and the ratio of the UAAL to the covered payroll was 2.99 percent.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

I. Other Postemployment Benefits

Funded Status and Funding Progress (Continued)

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

J. Leases

The Health Center leases certain space under a long-term lease agreement. The lease has been recorded as an operating lease. Total lease expense for the year ended December 31, 2018, was \$83,042. Minimum future lease payments for the long-term operating lease are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>
2019	<u>\$ 51,930</u>

K. Concentrations of Credit Risk

The Health Center grants credit without collateral to its patients and residents, most of whom are insured under third-party agreements. The mix of receivables from third-party payors, patients, and residents at December 31, 2018, was as follows:

Medicare	29%
Blue Cross	2
Medicaid	22
Commercial insurance	11
Other third-party payors, patients, and residents	<u>36</u>
Total	<u>100%</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center (Continued)

L. Management Service Agreement

The Health Center has a management service agreement with Sanford Health, a nonprofit corporation (Manager). The Manager has the full authority to implement and fulfill the decisions of the hospital board. Total management fee expense for the year ended December 31, 2018, was \$280,084. Accounts payable to Sanford Health for these services at December 31, 2018, amounted to \$812,349, which includes management fees and other patient-related purchased services.

M. Electronic Health Record

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 and the Health Information Technology for Economic and Clinical Health Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible health care organizations that demonstrate meaningful use of certified EHR technology. The Medicare incentive payments for Critical Access Hospitals (CAH) are made based on Medicare utilization and actual costs incurred to attain meaningful use and are contingent on the Health Center continuing to meet the escalating meaningful use criteria. For the first payment year, the Health Center must attest, subject to audit, that it met the meaningful use criteria for a continuous 90-day period. For the subsequent payment year, the Health Center must demonstrate meaningful use for the entire year. The incentive payments under Medicare for CAH are made in one lump sum. The State of Minnesota Medicaid incentive payments follow the same initial meaningful use requirements as the Medicare incentive, as well as certain Medicaid volume requirements. The Medicaid incentive payment is calculated using the Health Center's Medicaid volume applied to a base incentive amount. The Medicaid incentive is paid in three lump sums over the course of three years with 50 percent in year one, 40 percent in year two, and ten percent in year three.

The Health Center demonstrated meaningful use for a continuous 90-day period during the year ended December 31, 2014. During the year ended December 31, 2018, the Health Center recorded \$0 related to the Medicare and Medicaid programs in the Statement of Activities. These incentives have been recognized when received.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center (Continued)

N. Commitments and Contingencies

Malpractice Claims

The Health Center's malpractice insurance is a claims-made policy subject to a limit of \$1.0 million per claim and an annual aggregate limit of \$5.0 million. The Health Center also has an excess policy for \$1.0 million per occurrence and \$1.0 million in aggregate. Should these policies lapse and not be replaced with equivalent coverage, claims based upon occurrence during its term, but reported subsequent thereto, will be uninsured.

Litigation, Claims, and Other Disputes

The Health Center is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigation, claims, and disputes in process will not be material to the financial position of the Health Center.

Other

In the normal course of business, there could be various outstanding contingent liabilities such as, but not limited to, the following:

- lawsuits alleging negligence in care,
- environmental pollution,
- violation of the regulatory body's rules and regulations, and
- violation of federal and/or state laws.

No contingent liabilities such as, but not limited to those described above, are reflected in the accompanying financial statements. No such liabilities have been asserted and, therefore, no estimate of loss, if any, is determinable.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center (Continued)

O. Prior Period Adjustment

Beginning net position has been adjusted to reflect the changes due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The effect of the adjustment was to decrease net position and other postemployment benefits by \$63,927 as of January 1, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,909,730	\$ 2,909,730	\$ 2,817,686	\$ (92,044)
Licenses and permits	10,400	10,400	14,511	4,111
Intergovernmental	2,494,827	2,494,827	2,829,725	334,898
Charges for services	252,965	252,965	286,854	33,889
Fines and forfeits	9,000	9,000	9,946	946
Gifts and contributions	-	-	1,932	1,932
Investment earnings	56,400	56,400	68,235	11,835
Miscellaneous	123,121	123,121	986,541	863,420
Total Revenues	\$ 5,856,443	\$ 5,856,443	\$ 7,015,430	\$ 1,158,987
Expenditures				
Current				
General government				
Commissioners	\$ 208,922	\$ 208,922	\$ 189,848	\$ 19,074
Courts	75,630	75,630	71,650	3,980
County auditor	283,538	283,538	267,261	16,277
License bureau	92,341	92,341	51,607	40,734
County treasurer	129,340	129,340	120,031	9,309
County assessor	274,964	274,964	256,906	18,058
Elections	41,975	41,975	49,761	(7,786)
Accounting and auditing	60,000	60,000	71,999	(11,999)
Data processing	156,550	156,550	261,720	(105,170)
Attorney	495,378	495,378	476,962	18,416
Contracted legal services	40,000	40,000	43,022	(3,022)
Law library	13,520	13,520	5,149	8,371
Recorder	131,855	131,855	154,341	(22,486)
Planning and zoning	25,613	25,613	24,911	702
Buildings and plant	284,578	284,578	226,930	57,648
Veterans service officer	33,519	33,519	34,561	(1,042)
Unallocated	269,435	269,435	76,604	192,831
Total general government	\$ 2,617,158	\$ 2,617,158	\$ 2,383,263	\$ 233,895

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 2,338,482	\$ 2,338,482	\$ 2,436,697	\$ (98,215)
Boat and water safety	4,200	4,200	32,947	(28,747)
Emergency services	3,400	3,400	4,334	(934)
Coroner	20,000	20,000	16,990	3,010
E-911 system	75,000	75,000	75,954	(954)
Victim assistance	72,400	72,400	71,255	1,145
Probation and parole	144,648	144,648	102,855	41,793
County safety program	10,883	10,883	11,548	(665)
Snowmobile safety	27,962	27,962	21,143	6,819
Total public safety	\$ 2,696,975	\$ 2,696,975	\$ 2,773,723	\$ (76,748)
Health				
Nursing service	\$ 77,918	\$ 77,918	\$ 76,118	\$ 1,800
Health	870	870	494	376
Health Center	28,428	28,428	37,527	(9,099)
Total health	\$ 107,216	\$ 107,216	\$ 114,139	\$ (6,923)
Culture and recreation				
County/regional library	\$ 42,190	\$ 42,190	\$ 42,190	\$ -
Snowmobile trails	95,000	95,000	79,108	15,892
Total culture and recreation	\$ 137,190	\$ 137,190	\$ 121,298	\$ 15,892
Conservation of natural resources				
County extension	\$ 106,048	\$ 106,048	\$ 103,162	\$ 2,886
Soil and water conservation	58,520	58,520	58,753	(233)
Agricultural inspections	9,996	9,996	8,243	1,753
Agricultural society/County fair	6,500	6,500	7,500	(1,000)
Predator control	15,000	15,000	280	14,720
Water planning	17,133	17,133	17,133	-
Forfeited lands	-	-	454,729	(454,729)
Total conservation of natural resources	\$ 213,197	\$ 213,197	\$ 649,800	\$ (436,603)

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Housing authority	\$ 2,500	\$ 2,500	\$ 1,250	\$ 1,250
Airport	469,044	469,044	680,313	(211,269)
Total economic development	<u>\$ 471,544</u>	<u>\$ 471,544</u>	<u>\$ 681,563</u>	<u>\$ (210,019)</u>
Debt service				
Principal	\$ -	\$ -	\$ 3,609	\$ (3,609)
Interest	-	-	450	(450)
Total debt service	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,059</u>	<u>\$ (4,059)</u>
Total Expenditures	<u>\$ 6,243,280</u>	<u>\$ 6,243,280</u>	<u>\$ 6,727,845</u>	<u>\$ (484,565)</u>
Excess of Revenues Over (Under)				
Expenditures	\$ (386,837)	\$ (386,837)	\$ 287,585	\$ 674,422
Other Financing Sources (Uses)				
Transfers out	-	-	(20,000)	(20,000)
Net Change in Fund Balance	\$ (386,837)	\$ (386,837)	\$ 267,585	\$ 654,422
Fund Balance – January 1	<u>2,661,505</u>	<u>2,661,505</u>	<u>2,775,541</u>	<u>-</u>
Fund Balance – December 31	<u><u>\$ 2,274,668</u></u>	<u><u>\$ 2,274,668</u></u>	<u><u>\$ 3,043,126</u></u>	<u><u>\$ 654,422</u></u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 587,000	\$ 587,000	\$ 565,148	\$ (21,852)
Special assessments	-	-	6	6
Intergovernmental	3,711,243	3,711,243	3,428,644	(282,599)
Charges for services	70,000	70,000	61,537	(8,463)
Miscellaneous	-	-	9,182	9,182
Total Revenues	\$ 4,368,243	\$ 4,368,243	\$ 4,064,517	\$ (303,726)
Expenditures				
Current				
Highways and streets				
Administration	\$ 423,330	\$ 423,330	\$ 253,407	\$ 169,923
Maintenance	1,323,587	1,323,587	1,014,874	308,713
Construction	2,703,687	2,703,687	2,246,972	456,715
Equipment maintenance and shop	379,220	379,220	315,098	64,122
Materials and services for resale	73,578	73,578	34,514	39,064
Total highways and streets	\$ 4,903,402	\$ 4,903,402	\$ 3,864,865	\$ 1,038,537
Intergovernmental				
Highways and streets	150,089	150,089	174,221	(24,132)
Total Expenditures	\$ 5,053,491	\$ 5,053,491	\$ 4,039,086	\$ 1,014,405
Net Change in Fund Balance	\$ (685,248)	\$ (685,248)	\$ 25,431	\$ 710,679
Fund Balance – January 1	1,150,958	1,150,958	1,150,958	-
Increase (decrease) in inventories	-	-	(20,822)	(20,822)
Fund Balance – December 31	\$ 465,710	\$ 465,710	\$ 1,155,567	\$ 689,857

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 672,753	\$ 672,753	\$ 656,126	\$ (16,627)
Intergovernmental	1,850,278	1,850,278	1,956,998	106,720
Charges for services	87,500	87,500	62,877	(24,623)
Gifts and contributions	2,000	2,000	-	(2,000)
Miscellaneous	83,500	83,500	165,475	81,975
Total Revenues	\$ 2,696,031	\$ 2,696,031	\$ 2,841,476	\$ 145,445
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,053,724	\$ 1,053,724	\$ 1,038,856	\$ 14,868
Social services	1,914,307	1,914,307	1,734,179	180,128
Total Expenditures	\$ 2,968,031	\$ 2,968,031	\$ 2,773,035	\$ 194,996
Excess of Revenues Over (Under) Expenditures	\$ (272,000)	\$ (272,000)	\$ 68,441	\$ 340,441
Other Financing Sources (Uses)				
Transfers in	-	-	20,000	20,000
Net Change in Fund Balance	\$ (272,000)	\$ (272,000)	\$ 88,441	\$ 360,441
Fund Balance – January 1	123,158	123,158	123,158	-
Fund Balance – December 31	\$ (148,842)	\$ (148,842)	\$ 211,599	\$ 360,441

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2018**

	2018
Total OPEB Liability	
Service cost	\$ 96,272
Interest	56,995
Benefit payments	(201,797)
Net change in total OPEB liability	\$ (48,530)
Total OPEB Liability – Beginning	1,730,927
Total OPEB Liability – Ending	\$ 1,682,397
Covered-employee payroll	\$ 3,894,402
Total OPEB liability (asset) as a percentage of covered-employee payroll	43.20%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2018**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Mahnomen County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.0448%	\$ 2,485,320	\$ 81,577	\$ 2,566,897	\$ 2,962,751	83.89%	79.53%
2017	0.0489	3,121,744	39,242	3,160,986	3,147,972	99.17	75.90
2016	0.0458	3,718,732	48,570	3,767,302	2,762,528	134.61	68.91
2015	0.0474	2,456,514	N/A	2,456,514	2,788,456	88.10	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

The measurement date for each year is June 30.

N/A – Not Applicable

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-6

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2018**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b – a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2018	\$ 223,302	\$ 223,302	\$ -	\$ 2,977,348	7.50%
2017	230,594	230,594	-	3,074,576	7.50
2016	218,524	218,524	-	2,913,649	7.50
2015	210,815	210,815	-	2,810,867	7.50

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The County's year-end is December 31.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-7

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2018**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.069%	\$ 737,601	\$ 727,717	101.36%	88.84%
2017	0.071	958,584	733,272	130.73	85.43
2016	0.067	2,688,827	642,431	418.54	63.88
2015	0.071	806,726	649,558	124.20	86.61

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-8

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2018**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2018	\$ 118,440	\$ 118,440	\$ -	\$ 731,108	16.20%
2017	120,463	120,463	-	743,597	16.20
2016	106,760	106,760	-	659,004	16.20
2015	108,686	108,686	-	670,901	16.20

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-9

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2018**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.144%	\$ 23,766	\$ 295,104	8.05%	97.64%
2017	0.150	427,502	296,592	144.14	67.89
2016	0.150	547,971	275,991	198.55	58.16
2015	0.150	23,190	277,931	8.34	96.95

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-10

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2018**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2018	\$ 25,911	\$ 25,911	\$ -	\$ 296,117	8.75%
2017	25,810	25,810	-	294,964	8.75
2016	25,104	25,104	-	286,908	8.75
2015	24,302	24,302	-	277,737	8.75

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Hospital Reserve Special Revenue Fund and the Mahnomen Health Center Debt Service Fund. All annual appropriations lapse at fiscal year-end.

On or before mid-June of each year, all departments and agencies submit requests for appropriations to the County Auditor so that a budget can be prepared. Before October 31, the proposed budget is presented to the County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. The County's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, the Board made no budgetary amendments.

2. Excess of Expenditures Over Budget

The following major fund had expenditures in excess of budget for the year ended December 31, 2018.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 6,727,845	\$ 6,243,280	\$ 484,565

3. Other Postemployment Benefits Funding Status

In 2018, Mahnomen County implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See Note 4.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Employer Contributions to Other Postemployment Benefits

Assets have not been accumulated in a trust that meets the criteria in paragraph four of GASB Statement 75 to pay related benefits.

The following changes in actuarial assumptions occurred in 2018:

- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2014 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire personnel) to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire personnel).
- The retirement and withdrawal tables for all employees were updated.
- The discount rate was changed from 4.00 percent to 3.30 percent.

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

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

General Employees Retirement Plan

2018

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

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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

General Employees Retirement Plan

2017 (Continued)

- 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.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21,000,000 in calendar years 2017 and 2018 and returns to \$31,000,000 through calendar year 2031. The state's required contribution is \$16,000,000 in PERA's fiscal years 2018 and 2019 and returns to \$6,000,000 annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 to 2.50 percent.

Public Employees Police and Fire Plan

2018

- The mortality projection scale was changed from MP-2016 to MP-2017.
- Post-retirement benefit increases changed to 1.00 percent for all years, with no trigger.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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

Public Employees Police and Fire Plan

2018 (Continued)

- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution. Additionally, annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter, until the plan reaches 100 percent funding, or July 1, 2048, if earlier.
- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80 percent to 11.30 and 11.80 percent of pay, respectively. Employer contributions were changed effective January 1, 2019, and January 1, 2020, from 16.20 percent to 16.95 and 17.70 percent of pay, respectively. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

- The 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.
- The assumed rates of retirement were changed, resulting in fewer retirements.
- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 33 percent for vested members and 2.00 percent for non-vested members.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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

Public Employees Police and Fire Plan

2017 (Continued)

- 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 table assumed for healthy retirees.
- The assumed termination rates were decreased to 3.00 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- The assumed percentage of married female members was decreased from 65 percent to 60 percent.
- The 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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

Public Employees Police and Fire Plan (Continued)

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Correctional Plan

2018

- 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.

2017

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2016).

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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

Public Employees Correctional Plan

2017 (Continued)

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1.00 percent for non-vested members.
- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

2016

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

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SUPPLEMENTARY INFORMATION

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Solid Waste Fund accounts for the County's share of operations of the Fosston incinerator and for costs of the Sanitation Department and the demolition site. Financing is provided by special assessments levied against benefiting users.

The Ditch Fund accounts for the financial transactions of the County drainage systems. Financing is provided by special assessments levied against benefited property owners.

The Hospital Reserve Fund accounts for tax revenues collected and accumulated to fund future needs related to the Mahnomen Health Center.

DEBT SERVICE FUND

The Mahnomen Health Center Bonds Fund accounts for the retirement of gross revenue hospital facilities bonds issued for the Mahnomen Health Center construction project.

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
DECEMBER 31, 2018**

	<u>Solid Waste</u>	<u>Ditch</u>	<u>Hospital Reserve</u>	<u>Total (Exhibit 3)</u>
<u>Assets</u>				
Cash and pooled investments	\$ 358,588	\$ 271,843	\$ 33,291	\$ 663,722
Undistributed cash in agency funds	5,117	397	-	5,514
Taxes receivable delinquent	-	-	13	13
Special assessments receivable				
Delinquent	-	418	-	418
Noncurrent	-	33,000	-	33,000
Accounts receivable	18,503	-	-	18,503
Due from other governments	2,549	-	-	2,549
Total Assets	\$ 384,757	\$ 305,658	\$ 33,304	\$ 723,719
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 2,761	\$ 183	\$ -	\$ 2,944
Salaries payable	2,222	-	-	2,222
Due to other funds	1,160	53	-	1,213
Due to other governments	8,419	-	-	8,419
Total Liabilities	\$ 14,562	\$ 236	\$ -	\$ 14,798
Deferred Inflows of Resources				
Unavailable revenue	\$ 14,957	\$ 33,012	\$ 12	\$ 47,981
Fund Balances				
Restricted for				
SCORE	\$ 75,945	\$ -	\$ -	\$ 75,945
Ditch maintenance and construction	-	272,410	-	272,410
Assigned to				
Solid waste	279,293	-	-	279,293
Hospital reserve	-	-	33,292	33,292
Total Fund Balances	\$ 355,238	\$ 272,410	\$ 33,292	\$ 660,940
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 384,757	\$ 305,658	\$ 33,304	\$ 723,719

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Solid Waste</u>	<u>Ditch</u>	<u>Hospital Reserve</u>	<u>Mahnomen Health Center Bonds Debt Service</u>	<u>Total (Exhibit 5)</u>
Revenues					
Taxes	\$ -	\$ -	\$ 1	\$ -	\$ 1
Special assessments	10,542	39,164	-	-	49,706
Intergovernmental	70,278	-	-	2,566	72,844
Charges for services	190,519	-	-	-	190,519
Investment earnings	-	-	-	17	17
Miscellaneous	100	-	-	-	100
Total Revenues	\$ 271,439	\$ 39,164	\$ 1	\$ 2,583	\$ 313,187
Expenditures					
Current					
Sanitation	\$ 220,823	\$ -	\$ -	\$ -	\$ 220,823
Conservation of natural resources	-	45,374	-	-	45,374
Debt service					
Principal	-	-	-	155,000	155,000
Interest	-	-	-	3,565	3,565
Total Expenditures	\$ 220,823	\$ 45,374	\$ -	\$ 158,565	\$ 424,762
Net Change in Fund Balance	\$ 50,616	\$ (6,210)	\$ 1	\$ (155,982)	\$ (111,575)
Fund Balance – January 1	304,622	278,620	33,291	155,982	772,515
Fund Balance – December 31	\$ 355,238	\$ 272,410	\$ 33,292	\$ -	\$ 660,940

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ -	\$ -	\$ 10,542	\$ 10,542
Intergovernmental	72,392	72,392	70,278	(2,114)
Charges for services	194,500	194,500	190,519	(3,981)
Miscellaneous	100	100	100	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 266,992	\$ 266,992	\$ 271,439	\$ 4,447
Expenditures				
Current				
Sanitation				
Solid waste	230,705	230,705	220,823	9,882
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Change in Fund Balance	\$ 36,287	\$ 36,287	\$ 50,616	\$ 14,329
Fund Balance – January 1	304,622	304,622	304,622	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance – December 31	\$ 340,909	\$ 340,909	\$ 355,238	\$ 14,329
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 33,000	\$ 33,000	\$ 39,164	\$ 6,164
Expenditures				
Current				
Conservation of natural resources				
Drainage ditches	33,000	33,000	45,374	(12,374)
Net Change in Fund Balance	\$ -	\$ -	\$ (6,210)	\$ (6,210)
Fund Balance – January 1	<u>278,620</u>	<u>278,620</u>	<u>278,620</u>	<u>-</u>
Fund Balance – December 31	<u>\$ 278,620</u>	<u>\$ 278,620</u>	<u>\$ 272,410</u>	<u>\$ (6,210)</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

The Advanced Life Support Fund accounts for the collection and payment of funds due to the Mahnomen Health Center for ambulance services.

The Cafeteria Plan Fund accounts for the payroll deductions and disbursements of a County-administered cafeteria plan.

The Headwaters Commission Fund accounts for the collection and payment of taxes due to the Headwaters Regional Development Commission.

The Mahnomen County EDA Fund accounts for the receipts and disbursements of the Mahnomen County Economic Development Authority (EDA) as it encourages and promotes commercial and industrial growth and development, housing, and redevelopment in Mahnomen County.

The School Districts Fund accounts for the collection and payment of funds due to school districts.

The State Revenue Fund accounts for the state's share of fines, delinquent and severed mineral tax, assurance, and mortgage registry tax.

The Taxes and Penalties Fund accounts for the collection of taxes and penalties and their payment to the various taxing districts.

The Townships and Cities Fund accounts for the collection and payment of funds due to towns and cities.

The Watershed Fund accounts for the collection and payment of funds due to the watershed districts.

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Balance January 1	Additions	Deductions	Balance December 31
<u>ADVANCED LIFE SUPPORT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 51,920	\$ 51,920	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 51,920	\$ 51,920	\$ -
 <u>CAFETERIA PLAN</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 2,603	\$ 16,929	\$ 16,984	\$ 2,548
<u>Liabilities</u>				
Due to other governments	\$ 2,603	\$ 16,929	\$ 16,984	\$ 2,548
 <u>HEADWATERS COMMISSION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 18,987	\$ 18,987	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 18,987	\$ 18,987	\$ -

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MAHNOMEN COUNTY EDA</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 19,279	\$ -	\$ 19,279
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 19,279	\$ -	\$ 19,279
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,450,860	\$ 1,450,860	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,450,860	\$ 1,450,860	\$ -
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 2,707	\$ 463,590	\$ 464,693	\$ 1,604
<u>Liabilities</u>				
Due to other governments	\$ 2,707	\$ 463,590	\$ 464,693	\$ 1,604
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 156,049	\$ 7,746,083	\$ 7,815,753	\$ 86,379
<u>Liabilities</u>				
Due to other governments	\$ 156,049	\$ 7,746,083	\$ 7,815,753	\$ 86,379

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**EXHIBIT C-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOWNSHIPS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,011,450	\$ 1,011,450	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,011,450	\$ 1,011,450	\$ -
 <u>WATERSHED</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 372,545	\$ 372,545	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 372,545	\$ 372,545	\$ -
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 161,359	\$ 11,151,643	\$ 11,203,192	\$ 109,810
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 19,279	\$ -	\$ 19,279
Due to other governments	161,359	11,132,364	11,203,192	90,531
Total Liabilities	\$ 161,359	\$ 11,151,643	\$ 11,203,192	\$ 109,810

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OTHER SCHEDULES

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF DEPOSITS AND INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Number</u>	<u>Interest Rate (%)</u>	<u>Maturity Dates</u>	<u>Fair Value</u>
Cash and Pooled Investments				
Cash on hand	N/A	N/A	N/A	\$ 1,700
Interest-bearing checking	Six	0.05 to 1.70	Continuous	1,390,134
Passbook savings	One	0.10	Continuous	43,992
Certificates of deposit	Two	0.80 to 1.85	October 17, 2019 to February 29, 2020	92,553
Money market savings	Four	0.25 to 1.49	Continuous	1,442,505
Negotiable certificates of deposit	Sixteen	2.00 to 3.00	June 20, 2019 to August 24, 2021	<u>2,610,817</u>
 Total Cash and Pooled Investments				 <u>\$ 5,581,701</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT D-2

**BALANCE SHEET BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2018**

	<u>County Ditch No. 3</u>	<u>Joint Ditch No. 55</u>	<u>County Ditch No. 91-91A</u>	<u>Total</u>
<u>Assets</u>				
Cash and pooled investments	\$ 14,942	\$ 106,246	\$ 150,655	\$ 271,843
Undistributed cash in agency funds	16	-	381	397
Special assessments receivable				
Delinquent	33	-	385	418
Noncurrent	3,000	-	30,000	33,000
Total Assets	\$ 17,991	\$ 106,246	\$ 181,421	\$ 305,658
<u>Liabilities, Deferred Inflows of Resources, and Fund Balance</u>				
Liabilities				
Accounts payable	\$ 7	\$ 136	\$ 40	\$ 183
Due to other funds	-	-	53	53
Total Liabilities	\$ 7	\$ 136	\$ 93	\$ 236
Deferred Inflows of Resources				
Unavailable revenue	3,032	-	29,980	33,012
Fund Balance				
Restricted				
Ditch maintenance and construction	14,952	106,110	151,348	272,410
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 17,991	\$ 106,246	\$ 181,421	\$ 305,658

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT D-3

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Appropriations and Shared Revenue

State

Highway users tax	\$	2,495,940
County program aid		674,298
PERA rate reimbursement		10,085
Disparity reduction aid		99,781
Pension contribution		25,252
Aquatic invasive species aid		26,383
Police aid		105,851
Riparian aid		76,127
Market value credit		105,492
Indian casino aid		75,689
Property tax reimbursement – casino		900,000

Total appropriations and shared revenue **\$ 4,594,898**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	460,472
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Payments

Local

Other contributions	\$	6,988
Local contributions		2,549
Payments in lieu of taxes		146,940

Total payments **\$ 156,477**

Grants

State

Minnesota Department/Board of		
Human Services	\$	328,302
Veterans Affairs		4,179
Public Safety		98,363
Corrections		13,808
Natural Resources		141,113
Water and Soil Resources		83,529
Transportation		884,861
Housing Finance Agency		5,000
Peace Officer Standards and Training Board		12,441
Pollution Control Agency		67,729
Secretary of State		35,302

Total state **\$ 1,674,627**

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

***EXHIBIT D-3
(Continued)***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Grants (Continued)

Federal

Department of	
Agriculture	\$ 148,114
Justice	43,848
Transportation	455,096
Health and Human Services	726,679
Homeland Security	28,000
	<hr/>

Total federal **\$ 1,401,737**

Total state and federal grants **\$ 3,076,364**

Total Intergovernmental Revenue **\$ 8,288,211**

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT D-4

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Number	Expenditures
U.S. Department of Agriculture			
Passed through Minnesota Department of Human Services SNAP Cluster State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	182MN101S2514	\$ 119,360
U.S. Department of Justice			
Passed through Minnesota Department of Public Safety Crime Victim Assistance	16.575	A-CVSP-2018- MAHNOMCO-00027	\$ 43,848
U.S. Department of Transportation			
Passed through Minnesota Department of Transportation Airport Improvement Program	20.106	1029273	\$ 5,181
Airport Improvement Program (Total Airport Improvement Program 20.106 \$509,770)	20.106	1032029	504,589
Highway Planning and Construction Cluster Highway Planning and Construction	20.205	1030934	<u>394,128</u>
Total U.S. Department of Transportation			\$ 903,898
U.S. Department of Health and Human Services			
Passed through Minnesota Department of Human Services Promoting Safe and Stable Families TANF Cluster	93.556	G-1701MNFPS	\$ 1,038
Temporary Assistance for Needy Families	93.558	1801MNTANF	78,882
Child Support Enforcement	93.563	1804MNCEST	83,859
Child Support Enforcement (Total Child Support Enforcement 96.563 \$91,512)	93.563	1804MNCSES	7,653
Community-Based Child Abuse Prevention Grants CCDF Cluster	93.590	G-1702MNFPRG	1,484
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	G1801MNCCDF	1,030
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1701MNCWSS	917
Foster Care – Title IV-E	93.658	1801MNFOST	43,613
Social Services Block Grant	93.667	G-1801MNSOSR	65,658
John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674	G-1801MNCILP	831
Children's Health Insurance Program Medicaid Cluster	93.767	1805MN5R21	121
Medical Assistance Program	93.778	1805MN5ADM	396,512
Medical Assistance Program (Total Medical Assistance Program 93.778 \$397,395)	93.778	1805MN5MAP	<u>883</u>
Total U.S. Department of Health and Human Services			\$ 682,481

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**EXHIBIT D-4
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Number	Expenditures
U.S. Department of Homeland Security			
Passed through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	R29G40CGFFY17	\$ 28,000
Passed through Minnesota Department of Public Safety Emergency Management Performance Grants	 97.042	 F-EMPG-2018- MAHNOMCO-2871	 <u>10,571</u>
Total U.S. Department of Homeland Security			\$ <u>38,571</u>
Total Federal Awards			\$ <u><u>1,788,158</u></u>

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2018.

Totals by Cluster

Total expenditures for SNAP Cluster	\$ 119,360
Total expenditures for Highway Planning and Construction Cluster	394,128
Total expenditures for TANF Cluster	78,882
Total expenditures for CCDF Cluster	1,030
Total expenditures for Medicaid Cluster	397,395

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Mahnomen County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Mahnomen County under programs of the federal government for the year ended December 31, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Mahnomen County, it is not intended to and does not present the financial position or changes in net position of Mahnomen County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Mahnomen County has elected to not use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 1,401,737
Grants received more than 60 days after year-end, unavailable in 2018	
Airport Improvement Program (CFDA No. 20.106)	107,277
Highway Planning and Construction (CFDA No. 20.205)	394,128
Promoting Safe and Stable Families (CFDA No. 93.556)	18
Temporary Assistance for Needy Families (CFDA No. 93.558)	14,552
Child Support Enforcement (CFDA No. 93.563)	2,649
Community-Based Child Abuse Prevention Grants (CFDA No. 93.590)	358
Stephanie Tubbs Jones Child Welfare Services Program (CFDA No. 93.645)	112
John H. Chafee Foster Care Program for Successful Transition to Adulthood (CFDA No. 93.674)	365
Emergency Management Performance Grants (CFDA No. 97.042)	10,571
Grants unavailable in 2017, recognized as revenue in 2018	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA No. 10.561)	(28,754)
Airport Improvement Program (CFDA No. 20.106)	(52,603)
Promoting Safe and Stable Families (CFDA No. 93.556)	(877)
Temporary Assistance for Needy Families (CFDA No. 93.558)	(33,592)
Child Support Enforcement (CFDA No. 93.563)	(25,884)
Community-Based Child Abuse Prevention Grants (CFDA No. 93.590)	(744)
Stephanie Tubbs Jones Child Welfare Services Program (CFDA No. 93.645)	(666)
John H. Chafee Foster Care Program for Successful Transition to Adulthood (CFDA No. 93.674)	(489)
	(489)
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 1,788,158

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JULIE BLAHA
STATE AUDITOR

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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*

Independent Auditor's Report

Board of County Commissioners
Mahnomen County
Mahnomen, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mahnomen County, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 24, 2019. Our report includes a reference to other auditors who audited the financial statements of the Mahnomen Health Center, a discretely presented component unit, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 1996-004 and 2018-001, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mahnomen 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. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because Mahnomen County administers no tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Mahnomen 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 Questioned Costs as item 2018-002. 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 the County's noncompliance with the above referenced provisions.

Other Matters

Also included in the Schedule of Findings and Questioned Costs are unresolved other matters described as items 2017-001 and 2017-002.

Mahnomen County's Response to Findings

Mahnomen County's responses to the internal control, legal compliance, and the other matters identified in our audit are described in the Corrective Action Plan. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Counties* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 24, 2019

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JULIE BLAHA
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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Mahnomen County
Mahnomen, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Mahnomen County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2018. Mahnomen County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Mahnomen County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 24, 2019

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **No**

The major federal programs are:

Airport Improvement Program	CFDA No. 20.106
Highway Planning and Construction Cluster	CFDA No. 20.205

The threshold for distinguishing between Types A and B programs was \$750,000.

Mahnomen County qualified as a low-risk auditee? **No**

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018

**II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 1996-004

Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect County assets, proper segregation of the record keeping, custody, and authorization functions should be in place, and where management decides segregation of duties may not be cost effective, compensating controls should be in place.

Condition: Due to the limited number of personnel within several Mahnomen County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. The smaller fee offices generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Context: This is not unusual in operations the size of Mahnomen County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view. The bank reconciliations are now being done for two of the departments, the License Bureau and the Sheriff's Office, in the Auditor's Office.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The County informed us that the individual departments collecting fees have direct knowledge of the services provided, making it more efficient for the department providing the service to collect the fees, periodically remitting those fees to the County Treasurer

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

with the proper coding for posting to the County's general ledger. The County stated that the department heads are aware that employees collecting those fees and recording those fees have incompatible duties and that they monitor the operations of their respective offices to ensure collections are properly receipted and periodically remitted to the County Treasurer.

Recommendation: We recommend Mahnomen County's elected officials and management be mindful that limited staffing increases the risks in safeguarding the County's assets and the proper recording of its financial activity and, where possible, implement oversight procedures to ensure that internal control policies and procedures are being followed by staff.

View of Responsible Official: Concur

ITEM ARISING THIS YEAR

Finding Number 2018-001

Journal Entry Approval

Criteria: Management is responsible for establishing and maintaining internal controls and for the accuracy and completeness of all financial records and related information including, but not limited to, the controls over initiating, authorizing, recording, and processing journal entries in the general ledger system.

Condition: There is no documented review or approval of journal entries in Mahnomen County. As a result of this, the May 2018 tax settlement journal entry for the Taxes and Penalties Agency Fund was posted to May 2017, while the rest of the entry was posted to the correct year.

Context: Without proper review and approval, errors or irregularities may not be detected in a timely manner.

Effect: There is an increased risk errors or irregularities will not be detected in a timely manner.

Cause: We were informed that the County has limited staff that does not always allow for the journal entries to be approved, which is consistent with prior practice.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

Recommendation: We recommend internal controls be implemented to ensure that all journal entries are reviewed and approved by management before being posted to the general ledger. The review and approval should be documented by signature and date.

View of Responsible Official: Concur

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding Number 2018-002

Publication of Board Minutes

Criteria: Pursuant to Minn. Stat. § 375.12, within 30 days of each meeting, the County Board must have the official proceedings of its sessions or a summary published in a qualified newspaper of general circulation in the County.

Condition: Not all summary of the County Board minutes for 2018 were published in the County's official newspaper within the 30-day requirement.

Context: Of the five published summaries reviewed, two were not published within the 30-day requirement.

Effect: Noncompliance with Minn. Stat. § 375.12.

Cause: The County Board minutes are not prepared and presented to the County Board for review and approval in time to meet the publication within the 30-day requirement.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018

Recommendation: We recommend the County publish its summaries of the County Board minutes in compliance with Minn. Stat. § 375.12.

View of Responsible Official: Concur

B. OTHER MATTERS

Finding Number 2017-001

Eligibility – Intake Function

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award No. 1805MN5ADM, 2018

Pass-Through Agency: Minnesota Department of Human Services

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

Condition: The Minnesota Department of Human Services maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. While periodic supervisory case reviews are performed to monitor compliance with grant requirements for eligibility, not all documentation was available, updated, or input correctly to support participant eligibility. Testing of the Medical Assistance (MA) Program case files identified the following exceptions in the sample of 15 cases tested:

- For one case file, there were two vehicles listed in MAXIS; however, the recipient's application listed only one vehicle, which did match one of the vehicles listed in MAXIS. The other vehicle listed in MAXIS was not included on the client's application, and there was not any documentation of verification of its valuation on file.
- For one case file, MAXIS listed two burial accounts; however, there was no verification of these accounts in the recipient's Caseworks file, and these accounts were not listed on the client's application.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

Questioned Costs: Not applicable. The County administers the program, but benefits to participants in this program are paid by the State of Minnesota.

Context: The State of Minnesota contracts with the County to perform the “intake function” (meeting with the social services client to determine income and categorical eligibility), while the Minnesota Department of Human Services maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to the participants.

The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: The improper input of information into MAXIS increases the risk that participants will receive benefits when they are not eligible.

Cause: County program personnel entering case information into MAXIS did not ensure all required information was verified as required.

Recommendation: We recommend the County implement additional procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations is properly obtained and input into MAXIS and issues are followed up in a timely manner. In addition, consideration should be given to providing further training to program personnel.

View of Responsible Official: Concur

Finding Number 2017-002

Procurement, Suspension, and Debarment

Program: U.S. Department of Health and Human Services’ Medical Assistance Program (CFDA No. 93.778), Award No. 1805MN5ADM, 2018

Pass-Through Agency: Minnesota Department of Human Services

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

Criteria: Federal requirements prohibit non-federal entities from contracting with or making subawards under covered transactions to parties that are suspended or debarred. Title 2 U.S. *Code of Federal Regulations* § 180.300 describes a required verification process. Prior to entering into the transaction, one of the following must be performed: (1) checking SAM.gov exclusions, (2) collecting a certification, or (3) adding a clause or condition to the covered transaction.

Condition: The Human Services Department has not been performing verifications for procurement transactions over \$25,000 to determine whether vendors were debarred, suspended, or otherwise excluded.

Questioned Costs: None.

Context: The County has adopted procedures to comply with federal regulations, but the Human Services Department has not done the same.

Effect: The Human Services Department is not in compliance with federal regulations.

Cause: The County is aware of these requirements, and has implemented procedures to comply; however, the Human Services Department has not adopted similar procedures.

Recommendation: We recommend the Human Services Department verify vendors are not debarred or suspended or that other exclusions apply. Evidence of the review should be maintained on file.

View of Responsible Official: Concur

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**REPRESENTATION OF MAHNOMENS COUNTY
MAHNOMENS, MINNESOTA**

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2018**

Finding Number: 1996-004
Finding Title: Segregation of Duties

Name of Contact Persons Responsible for Corrective Action:

County Auditor James Lee, Human Services Director-Julie Hanson

Corrective Action Planned

Every effort possible to segregate duties, in Social Services and the Auditor's office, is difficult due to a small employee pool.

Anticipated Completion Date

Ongoing 2019

Finding Number: 2018-001
Finding Title: Journal Entry Approval

Name of Contact Person Responsible for Corrective Action:

Randy Waller and Janell Soyring

Corrective Action Planned:

Added signature review for both situations

Anticipated Completion Date:

Corrected May 2019

Finding Number: 2018-002

Finding Title: Publication of Board Minutes

Name of Contact Person Responsible for Corrective Action:

County Auditor James Lee

Corrective Action Planned:

Routinely publish a week after the minutes have been approved.

Anticipated Completion Date:

There are 5 months of 2019 when there are 5 Tuesdays, which means the Minutes for the 3rd Tuesday will be approved on the 2nd Tuesday of the next month, and then send to the paper and they will print them the next week. Therefore, there are going to be 5 times in 2019 the minutes will be over 30 days old when published.

Finding Number: 2017-001

Finding Title: Eligibility- Intake Function

Name of Contact Person Responsible for Corrective Action:

Shelly Brunner

Corrective Action Planned:

Our plan is to do case reviews. I have also gone over our policy with workers and they have been advised that anything in Maxis needs to have supporting documentation.

Anticipated Completion Date:

May 2019

Finding Number: 2017-002

Finding Title: Procurement, Suspension, and Debarment

Name of Person Responsible for Corrective Action:

Karen Hanson

Corrective Action Planned:

Using the same form the Auditor's Office has

Anticipated Completion Date:

Corrected June 2019

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**REPRESENTATION OF MAHNOMENS COUNTY
MAHNOMENS, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Finding Number: 1996-004
Finding Title: Segregation of Duties

Summary of Condition: Due to the limited number of personnel within several Mahnomens County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. The smaller fee offices generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Summary of Corrective Action Previously Reported: Auditor's Office - The County will be researching the process of spot checking the collections of fees through the various applicable departments to look for any irregularities. Social Services - Due to small employee pool, it is necessary to have cross authorization permissions in order to complete work in a timely manner. Social Services Director and Fiscal officer are aware of the issue and make every effort to segregate duties when possible and monitor duties when segregation is not possible.

Status: Not Corrected. Due to lack of resources. In addition to action listed above, we plan to have a second person sign off on prepared documents in these departments.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2017-001

Finding Title: Eligibility – Intake Function

Program: Medical Assistance Program (CFDA No. 93.778)

Summary of Condition: The Minnesota Department of Human Services maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. Of 25 Medical Assistance (MA) Program case files tested, asset documentation for five case files did not match the assets listed in MAXIS and the case files lacked verification of the valuation from outside sources, or the valuation did not match the amount in MAXIS. One additional case lacked documentation of valuation from outside sources.

Summary of Corrective Action Previously Reported: Financial Services Supervisor will review current policy to insure correct information is entered into the system that matches the case file with Eligibility workers. Financial Services Supervisor will remind Eligibility Workers to update information as it changes.

Status: Not Corrected. We have reviewed the deficiencies found in the recent MA testing. The deficiencies will be reviewed with staff and strategies discussed as to assure that all required verifications and documentation is complete for each application. We will continue to strive for internal case reviews and provide training to staff as needed.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X

Finding Number: 2017-002

Finding Title: Procurement, Suspension, and Debarment

Program: Medical Assistance Program (CFDA No. 93.778)

Summary of Condition: For the two procurement transactions tested that were over the \$25,000 threshold, there was no verification performed by the County to determine whether vendors were debarred, suspended, or otherwise excluded.

Summary of Corrective Action Previously Reported: Social Services will coordinate with Auditor's office to obtain access to information for procurement, suspension and debarment. Social Services will initiate access to available online information for suspension and debarment and review vendor information ongoing.

Status: Not Corrected. Social Services will begin verifying that payments made to vendors on behalf of clients under a federal program in excess of \$25,000 county-wide are not suspended, debarred or otherwise excluded. The procedures used by the Auditor's office will be adopted to ensure compliance.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X