
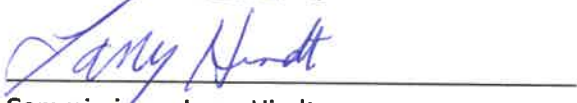



Fillmore County is publishing the 2015 Audit to comply with Minnesota State Statute 375.17, which requires that the annual audit be published in the legal newspaper. The audit was not published at its time of completion; but was submitted to the State Auditor, was posted on the County website at www.co.fillmore.mn.us and has been available at the County Courthouse for viewing. Copies of the audit can still be viewed on the County website and a physical copy of the audit can be viewed at the Fillmore County Courthouse in the Finance Department.


Commissioner Marc Prestby


Commissioner Mitch Lentz


Commissioner Larry Hindt


Commissioner Randy Dahl


Commissioner Duane Bakke

Attested by:


Bobbie Hillery, County Administrator/Clerk



Financial Statements
December 31, 2015
Fillmore County

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County Board

Duane Bakke	Chair
Marc Prestby	Vice Chair
Harry Root	Commissioner
Mitch Lentz	Commissioner
Randy Dahl	Commissioner



CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the County Board
Fillmore County
Preston, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fillmore County (the County) as of December 31, 2015, 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 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the County as of December 31, 2015, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Adoption of a New Accounting Standard

As discussed in Notes 1 and 6 to the financial statements, the County has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of net position as of January 1, 2015. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considered it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's financial statement. The introductory section and combining fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget's Uniform Guidance, and is also not a required part of the financial statements. The combining fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report September 13, 2016, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.



Mankato, Minnesota
September 13, 2016

Fillmore County
Statement of Net Position
December 31, 2015

	Governmental Activities
Assets	
Cash and investments	\$ 6,844,679
Delinquent taxes receivable	172,512
Other receivables	747,414
Due from other governments	1,835,984
Inventories	220,537
Prepaid items	97,239
Capital Assets	
Construction in progress	5,833,913
Land	399,669
Other capital assets, net of depreciation	110,001,625
Total assets	126,153,572
Deferred Outflows of Resources	
Pension related deferred outflows	1,789,352
Liabilities	
Accounts payable	1,185,433
Accrued liabilities	380,657
Due to other governments	71,405
Unearned revenue	149,600
Noncurrent liabilities	
Due within one year	263,264
Due in more than one year	3,421,130
Net pension liability	6,825,742
Total liabilities	12,297,231
Deferred Inflows of Resources	
Pension related deferred inflows	2,120,084
Net Position	
Net investment in capital assets	113,997,405
Restricted for:	
Debt service	304,306
Other purposes	1,895,931
Unrestricted	(2,672,033)
Total net position	\$ 113,525,609

Fillmore County
Statement of Activities
Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General government	\$ 3,041,770	\$ 560,624	\$ 1,425,248	\$ -
Public safety	3,468,937	568,998	405,444	-
Public works	9,859,820	467,919	2,931,636	8,780,741
Health	1,610,846	-	-	-
Human services	3,125,111	521,556	3,375,342	-
Culture, recreation, and education	407,406	-	-	-
Conservation and development	1,294,801	7,015	790,332	-
Interest and fiscal charges	60,854	-	-	-
Total primary government	<u>\$ 22,869,545</u>	<u>\$ 2,126,112</u>	<u>\$ 8,928,002</u>	<u>\$ 8,780,741</u>
General Revenues				
Taxes				
Property taxes, levied for general purposed				5,366,418
Property taxes, levied for debt service				240,548
Property taxes, levied for human services				881,551
Property taxes, levied for roads and bridges				2,572,053
Property taxes, levied for sanitation				106,533
Property taxes, levied for airport				37,857
Property taxes, levied for EDA				35,725
Other taxes				47,093
Intergovernmental revenues not restricted to specific programs				33,158
Investment income				27,062
Miscellaneous				195,611
Total general revenues				<u>9,543,609</u>
Change in net position				<u>6,508,919</u>
Net Position - Beginning, as previously reported				116,148,656
Adoption of a New Accounting Standard				<u>(9,131,966)</u>
Net Position - Beginning, restated				<u>107,016,690</u>
Net Position - Ending				<u>\$ 113,525,609</u>

Fillmore County
Balance Sheet – Governmental Funds
December 31, 2015

	General Fund	Special Revenue Human Services	Roads and Bridges	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 3,015,376	\$ -	\$ 2,665,378	\$ 1,163,925	\$ 6,844,679
Receivables					-
Delinquent taxes	107,144	19,576	37,016	8,776	172,512
Accounts	195,637	29,829	130,733	34,467	390,666
Interest	1,508	-	1,653	-	3,161
Notes	156,606	-	-	196,981	353,587
Due from other governments	297,951	351,681	1,057,826	128,526	1,835,984
Due from other funds	226,530	-	-	-	226,530
Prepaid items	70,403	26,836	-	-	97,239
Inventories	-	-	215,883	4,654	220,537
Total assets	\$ 4,071,155	\$ 427,922	\$ 4,108,489	\$ 1,537,329	\$ 10,144,895
Liabilities					
Accounts payable	\$ 138,854	\$ 112,527	\$ 864,456	\$ 69,596	\$ 1,185,433
Accrued liabilities	245,539	61,643	68,249	5,226	380,657
Due to other governments	31,909	30,864	8,632	-	71,405
Due to other funds	-	226,530	-	-	226,530
Unearned revenue	134,357	15,243	-	-	149,600
Total liabilities	550,659	446,807	941,337	74,822	2,013,625
Deferred Inflows of Resources					
Unavailable revenues - notes receivable	156,606	-	-	196,981	353,587
Unavailable revenues - delinquent taxes	62,730	11,921	21,677	5,206	101,534
Total deferred inflows of resources	219,336	11,921	21,677	202,187	455,121
Fund Balances					
Nonspendable	70,403	26,836	215,883	4,654	317,776
Restricted	668,038	-	750,502	755,508	2,174,048
Committed	1,750,000	-	-	100,000	1,850,000
Assigned	716,491	-	2,179,090	400,158	3,295,739
Unassigned	96,228	(57,642)	-	-	38,586
Total fund balances	3,301,160	(30,806)	3,145,475	1,260,320	7,676,149
Total liabilities, deferred inflows of resources and fund balances	\$ 4,071,155	\$ 427,922	\$ 4,108,489	\$ 1,537,329	\$ 10,144,895

Fillmore County
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
December 31, 2015

Total fund balance - governmental funds \$ 7,676,149

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

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

Capital assets	\$ 179,021,105	
Accumulated depreciation	<u>(62,785,898)</u>	116,235,207

Revenues that are not available to pay current liabilities are reported as deferred inflows of resources in the fund financial statements and are recognized as revenue when earned in the government-wide financial statements. Notes receivable are also off set by deferred inflows of resources in the fund financial statements. These types of deferred revenues at year end consist of:

Taxes	101,534	
Notes	<u>353,587</u>	455,121

Long-term liabilities, including bond and notes payable, are not due in the current period and, therefore, are not reported in the fund statements. Long-term liabilities at year end consist of:

General obligation debt	(2,237,802)	
Other long-term obligations	(202,503)	
Net pension liability	(6,825,742)	
Vested employee benefits	<u>(1,244,089)</u>	(10,510,136)

Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current period and therefore are not reported in the funds

Deferred outflows of resources	1,789,352	
Deferred inflows of resources	<u>(2,120,084)</u>	<u>(330,732)</u>

Total net position - governmental activities		<u><u>\$ 113,525,609</u></u>
--	--	------------------------------

Fillmore County

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

Year Ended December 31, 2015

	General Fund	Special Revenue		Nonmajor Governmental Funds	Total Governmental Funds
		Human Services	Roads and Bridges		
Revenues					
Taxes	\$ 5,379,511	\$ 885,085	\$ 2,576,877	\$ 421,742	\$ 9,263,215
Intergovernmental	2,905,641	2,485,595	10,907,987	279,231	16,578,454
Licenses and permits	84,899	-	-	-	84,899
Fines, forfeitures and penalties	13,980	-	-	-	13,980
Public charges for services	1,474,393	46,327	663,272	421,652	2,605,644
Intergovernmental charges for services	449,665	-	-	-	449,665
Investment income	18,834	-	8,228	-	27,062
Miscellaneous	304,263	33,004	15,519	101,896	454,682
Total revenues	<u>10,631,186</u>	<u>3,450,011</u>	<u>14,171,883</u>	<u>1,224,521</u>	<u>29,477,601</u>
Expenditures					
Current					
General government	3,514,288	-	-	-	3,514,288
Public safety	3,705,920	-	-	-	3,705,920
Public works	-	-	12,042,337	838,252	12,880,589
Health	1,610,846	-	-	-	1,610,846
Human services	-	3,701,983	-	-	3,701,983
Culture, recreation, and education	378,768	-	-	28,638	407,406
Conservation and development	1,275,394	-	-	39,615	1,315,009
Capital outlay	-	-	912,863	-	912,863
Debt service					
Interest and fiscal charges	433	-	-	60,421	60,854
Principal	-	-	-	265,436	265,436
Total expenditures	<u>10,485,649</u>	<u>3,701,983</u>	<u>12,955,200</u>	<u>1,232,362</u>	<u>28,375,194</u>
Excess (deficiency) of revenues over expenditures	145,537	(251,972)	1,216,683	(7,841)	1,102,407
Other Financing Sources					
Debt issued	<u>86,807</u>	<u>-</u>	<u>-</u>	<u>28,638</u>	<u>115,445</u>
Net change in fund balances	232,344	(251,972)	1,216,683	20,797	1,217,852
Fund Balances - Beginning	3,068,816	221,166	1,924,122	1,243,198	6,457,302
Change in reserve for inventory	<u>-</u>	<u>-</u>	<u>4,670</u>	<u>(3,675)</u>	<u>995</u>
Fund Balances - Ending	<u>\$ 3,301,160</u>	<u>\$ (30,806)</u>	<u>\$ 3,145,475</u>	<u>\$ 1,260,320</u>	<u>\$ 7,676,149</u>

Fillmore County

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
Year Ended December 31, 2015

Net change in fund balances - total governmental funds \$ 1,217,852

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

Governmental funds report capital outlays as expenditures. However, in the statement of net position the cost of these assets is capitalized and they are depreciated over their estimated useful lives and reported as depreciation expense in the statement of activities:

Some current expenditures are capitalized	7,179,024
Depreciation is reported in the government-wide statements	(3,861,963)

Taxes and other receivables that are not available to pay current liabilities are reported as deferred inflows of resources in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements. This is the effect of those deferred inflows of resources.	(100,131)
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Debt issued provides current financial resources in the governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Debt issued	(115,445)
Principal payments	265,436

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

Change in net pension liability	1,975,491
Change in compensated absence	(52,340)

The change in inventory is reported as a change in fund balance in the fund financial statements, but is a change in expense in the government-wide statements.

	995
Change in net position of government activities	\$ 6,508,919

Fillmore County
Statement of Fiduciary Assets and Liabilities –Agency Funds
December 31, 2015

	<u>Agency Funds</u>
Assets	
Cash and investments	\$ 904,910
Due from other governments	<u>19,489</u>
Total assets	<u><u>\$ 924,399</u></u>
Liabilities	
Accounts payable	\$ 190,104
Due to clients	11,838
Due to other governments	<u>722,457</u>
Total liabilities	<u><u>\$ 924,399</u></u>

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Fillmore County is an organized County having the powers, duties, and privileges granted counties by Minn. Statute ch. 373. The County is governed by a five member board of commissioners elected from districts within the County. The board is organized with a chair and vice chair elected at the January annual meeting. The County policy coordinator, appointed by the board, serves as the clerk of the board of commissioners but has no vote.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationships with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The County has no component units.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for the governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* accounts for the County's primary operating activities. It is used to account for and report all financial resources except those required to be accounted for and reported in another fund.

The *Human Services* special revenue fund accounts for and reports resources restricted or committed to supporting expenditures for social service and income maintenance programs.

The *Road and Bridges* special revenue fund accounts for and reports resources restricted or committed to supporting expenditures for construction, reconstruction, and maintenance of County state-aid highways, County highways, County bridges and work done for local municipalities

In addition, Fillmore County reports the following fund type:

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

Taxes and Penalties accounts for property taxes collected for the County and on behalf of school districts and local municipalities.

Other Taxes accounts for sales and other taxes collected by the County and remitted to the state.

Prepaid Taxes accounts for property taxes paid before the due date.

State Revenue accounts for the state's share of property taxes and state fees collected by the County.

Greenleafton Septic Program accounts for funds collected and remitted for updating the Greenleafton septic system.

Fillmore County Collaborative accounts for the funds collected and remitted for the Family Services Collaborative.

Sheriff Canteen accounts for canteen funds held by the sheriff.

Sheriff accounts for sheriff and jail collections that are remitted to the County on a monthly basis.

Licenses accounts for the collection of licenses remitted monthly to the County and the state.

Insurance accounts for payroll deposits for health insurance.

Social Services accounts for funds held by the County in a representative payee capacity.

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

1. Cash and Investments

Cash balances of the County's funds are combined (pooled) and invested to the extent available in various deposits and investments authorized by Minnesota State Statutes. Each fund shares in the investment earnings according to its average cash and investments balance. Cash includes amounts in demand deposits, as well as short-term investments with an original maturity date within three months of the date acquired by the County.

Fillmore County has adopted an investment policy. That policy follows state statutes for allowable investments. The policy also follows state statutes to address custodial credit risk by requiring the County Treasurer to monitor collateral to ensure it is held in safekeeping by a third party and it is at least 10% greater than the amount on deposit. The policy also requires that County deposits be held in qualifying financial institutions within the County, and that they be diversified to reduce the concentration of credit risk.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of municipal accounting funds is allocated to the general fund. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

Fillmore County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to MN Statutes § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is essentially the same as the value of the pool shares.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds". Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position.

Under the modified accrual basis of accounting, some revenues are susceptible to accrual while others are not. Major revenues treated as susceptible to accrual are: property taxes, special assessments, and state and federal aids. All receivables are reported at their gross value and, if appropriate, reduced by the estimated portion that is expected to be uncollectible. The County has determined that no portion of receivables is expected to be uncollectible.

Interest and certain receivables are recorded as revenue in the year that the interest is earned and is available to pay liabilities of the current period.

Property Taxes. The County levies and collects property taxes and special assessments for all governmental units within the County. Property tax collections and payments to other governmental units are accounted for in agency funds. Property taxes and special assessments are billed to individual property owners within the County annually, and for the most part, are due and payable in January but may be paid in two equal installments on or before May 15 and October 15 without penalty. The County is required to distribute the collections to the various governmental units three times each year on a schedule prescribed in MN Statute 276.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and 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. No allowance for uncollectible delinquent taxes has been provided because of the County's demonstrated ability to recover any losses through the sale of the applicable property.

3. Inventories and Prepaid Items

All inventories are valued at the lower of cost (average cost method) or market. Inventories of governmental funds are recorded as expenditures 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.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1 for land, \$5,000 for machinery and equipment, \$25,000 for Land improvements, Buildings Improvements, and \$50,000 for Road and Bridges (Infrastructure) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Primary Government</u>	<u>Years</u>
Buildings and Building Improvements	15-50
Land Improvements	15-50
Roads	50
Bridges	75
Machinery, Equipment, and Vehicles	3-15

5. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position or governmental balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position or fund balance that applies to a future period and so will *not* be recognized as an outflow (expense/expenditure) until then. The County has two items that qualify for reporting in this category. They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end, and changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position or the governmental balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The County has two items that qualify for reporting in this category. *Unavailable revenue* arises only under the modified accrual basis of accounting. Accordingly, *unavailable revenue* is only reported on the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amount becomes available. The other item is changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

6. Vacation, Sick Leave, and Compensated Absences

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

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

Payments for vacation and sick leave will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave liabilities at December 31, 2015 are determined on the basis of current salary rates and include salary related payments.

7. 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. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

Bond premiums and discounts are deferred and amortized over the life of the bonds and issuance costs are expensed in the period incurred. In the fund financial statements, governmental fund types recognize premiums received on debt issuances 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.

8. Pensions

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

9. Implementation of GASB Statements No. 68 and No. 71

As of January 1, 2015, the County adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments to calculate and report the costs and obligations associated with pensions in their basic financial statements. Employers are required to recognize pension amounts for all benefits provided through the plan which include the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense.

10. Fund Balance and Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. It is the County's policy to spend restricted net position before unrestricted net position. Fund balance is reported in classifications that describe the relative strength of the spending constraints:

- **Nonspendable fund balance**—amounts that are not in spendable form (such as prepaid items) or are required to be maintained intact.
- **Restricted fund balance**—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed fund balance**—amounts constrained to specific purposes by the County itself, using its highest level of decision-making authority (i.e., County Board). To be reported as committed, amounts cannot be used for any other purpose unless the County takes the same highest level action to remove or change the constraint.
- **Assigned fund balance**— Includes spendable fund balance amounts that are intended to be used for specific purposes that are not considered restricted or committed. Fund balance may be assigned through the following: 1) The County Board can assign amounts for a specific purpose. 2) All remaining positive spendable amounts in governmental funds, other than the general fund, that are neither restricted or committed. Assignments may take place after the end of the reporting period.
- **Unassigned fund balance**—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

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

The County Board has approved maintaining approximately 50% of budgeted expenditures in fund balance for cash flow purposes.

Note 2 - Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at year end. The actual revenues, expenditures, and transfers for the year ended December 31, 2015, have been compared to the County's budget for the year where applicable. Variances which are in parentheses are unfavorable and indicate revenues are less than budgeted or expenditures are greater than budgeted. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per state statutes. Any revisions that alter total expenditures of any fund must be approved by the County Board.

Budgetary control is maintained at the object of expenditure category level within each activity, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the County Board. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (a) adequate funds were appropriated; (b) the expenditure is still necessary; and (c) funds are available. Budgeted amounts are as originally adopted or as amended by the County Board.

B. Excess of Expenditures over Appropriations

For the year ended December 31, 2015, expenditures exceed appropriations in the following funds: The Road and Bridges fund, the Sanitation fund, and 2010 GO CIP Debt Service fund by \$3,438,044, \$79,425, and \$198, respectively. These over expenditures were funded by greater than anticipated revenues and additionally in the Sanitation Fund, available fund balance.

A budget has not been formally adopted for the MCPA Septic Loan Program fund and the AGBMP Loans fund.

C. Deficit Fund Equity

The Human Services fund had deficit fund equity at December 31, 2015, the deficit will be eliminated with future revenues or transfers from the general fund.

Note 3 - Detailed Notes on All Funds

A. Cash and Investments

1. Cash

In accordance with Minnesota Statutes, the County maintains deposits at those depository banks authorized by the County Board. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all County deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the County Treasurer or in a financial institution other than that furnishing the collateral.

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2015, none of the County's bank balances were exposed to custodial credit risk.

2. Investments

As of December 31, 2015, the County had the following investments:

	Fair Market Value
MAGIC	\$ 1,121,375

Credit and Interest Rate Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment. All of the County's investments are with Minnesota Association of Governments Investing for Counties (MAGIC), an unrated external investment pool, which cost approximates fair value. MAGIC's weighted average maturity is 49 days.

B. Receivables

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

	Unavailable	Unearned	Amounts Not Expected to Be Collected Within One Year
Taxes receivable	\$ 101,534	\$ -	\$ -
Grants received in advance	-	149,600	-
Notes	353,587	-	298,056
	<u>\$ 455,121</u>	<u>\$ 149,600</u>	<u>\$ 298,056</u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Being Depreciated				
Construction in progress	\$ 2,662,733	\$ 5,833,913	\$ 2,662,733	\$ 5,833,913
Land	399,669	-	-	399,669
Total Capital Assets, Not Being Depreciated	<u>3,062,402</u>	<u>5,833,913</u>	<u>2,662,733</u>	<u>6,233,582</u>
Capital Assets, Being Depreciated				
Infrastructure	159,280,785	3,395,749	106,561	162,569,973
Machinery and equipment	9,681,868	769,899	234,217	10,217,550
Total Capital Assets, Being Depreciated	<u>168,962,653</u>	<u>4,165,648</u>	<u>340,778</u>	<u>172,787,523</u>
Less Accumulated Depreciation for:				
Infrastructure	52,171,195	3,170,100	4,257	55,337,038
Machinery and equipment	6,935,714	691,863	178,717	7,448,860
Total Accumulated Depreciation	<u>59,106,909</u>	<u>3,861,963</u>	<u>182,974</u>	<u>62,785,898</u>
Total Capital Assets, Being Depreciated, Net	<u>109,855,744</u>			<u>110,001,625</u>
Governmental Activities Capital Assets, Net	<u>\$ 112,918,146</u>			<u>\$ 116,235,207</u>

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

Governmental Activities:	
General government	\$ 100,870
Public safety	321,670
Public works	3,431,401
Human services	8,022
	<u>\$ 3,861,963</u>

D. Long-Term Debt

Changes in Long-Term Liabilities. During the year ended December 31, 2015, the following changes occurred in long-term liabilities:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
General obligation debt					
Refunding bonds payable	\$ 2,285,000	\$ -	\$ 195,000	\$ 2,090,000	\$ 205,000
Revenue notes	60,995	86,807	-	147,802	8,416
Total general obligation debt	2,345,995	86,807	195,000	2,237,802	213,416
Other long-term debt					
MPCA loan	41,158	-	10,206	30,952	10,137
AgBMP loan	203,143	28,638	60,230	171,551	39,711
Vested compensated absences	1,191,749	58,125	5,785	1,244,089	-
Total other long-term debt	1,436,050	86,763	76,221	1,446,592	49,848
Total long-term debt	\$ 3,782,045	\$ 173,570	\$ 271,221	\$ 3,684,394	\$ 263,264

1. General Obligation Debt

General obligation debt payable for the County as of December 31, 2015, consists of the following:

	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance 12-31-15
General obligation debt					
Refunding bonds	11/3/2010	2/1/2024	2.0-3.25%	\$ 2,830,000	\$ 2,090,000
MPFA revenue notes	9/25/2014	8/20/2034	1%	60,995	60,996
MPFA revenue notes	11/25/2015	8/20/2034	1%	86,806	86,806
Total general obligation debt					\$ 2,237,802

General obligation debt are direct obligations and pledge the full faith and credit of the County. The bonds will be retired by future property tax levies accumulated by the debt service fund.

Annual debt service requirements to maturity for general obligation debt as are as follows:

	Refunding Bonds		Revenue Notes	
	Principal	Interest	Principal	Interest
2016	\$ 205,000	\$ 55,397	\$ 8,416	\$ 1,568
2017	215,000	51,090	8,365	1,619
2018	215,000	46,306	8,449	1,535
2019	225,000	40,742	8,534	1,450
2020	230,000	34,427	8,620	1,364
2021 - 2024	1,000,000	64,300	105,418	14,391
Totals	\$ 2,090,000	\$ 292,262	\$ 147,802	\$ 21,927

In accordance with Minnesota Statutes, net indebtedness of the County may not exceed 3% of the market value of taxable property within the County's jurisdiction. The debt limit as of December 31, 2015 was \$117,406,137. General obligation debt outstanding at year end was \$2,237,801.

2. Other Long-Term Debt

The County entered into a loan agreement with the Minnesota Pollution Control Agency (MPCA) to provide loans to eligible participants to upgrade their septic systems. The loan funds were disbursed to the County as the County made loans to eligible participants. The loan was closed during 2009, with the final loan amount of \$162,488. Repayments of principal and interest at 2% are due semi-annually 2009 through 2019.

The County has also entered into an agreement with the Minnesota Department of Agriculture to provide loans to eligible farmers, rural landowners and agriculture supply businesses for projects that mitigate non-point source pollution and other adverse environmental impacts (AGBMP). The Department of Agriculture disburses funds to the County as the loans are made, and all funds provided to the County must be repaid, at no interest, to the Department of Agriculture.

Estimated debt service requirements to maturity for the loans are as follows:

	AGBMP Loan		MPCA Loan	
	Principal	Interest	Principal	Interest
2016	\$ 39,711	\$ 25,399	\$ 10,137	\$ 677
2017	35,195	23,430	10,341	473
2018	21,402	21,180	10,474	266
2019	16,852	18,930	-	-
2020	14,330	16,555	-	-
2021-2025	41,678	40,083	-	-
2026	2,383	-	-	-
Totals	<u>\$ 171,551</u>	<u>\$ 145,577</u>	<u>\$ 30,952</u>	<u>\$ 1,416</u>

Estimated payments of compensated absences are not included in the debt service requirement schedules. The compensated absences liability attributable to governmental activities will be liquidated primarily by the general fund.

E. Inter-Fund Balances

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

Receivable Fund	Payable Fund	Amount
General fund	Human services	\$ 226,530

The interfund balances resulted from the time lag between the dates that payments between the funds were made and is expected to be repaid within one year.

F. Fund Balances and Net Position

Net position reported on the government wide statement of net position at December 31, 2015 includes the following:

Net investment in capital assets	
Construction in progress	\$ 5,833,913
Land	399,669
Other capital assets, net of accumulated depreciation	110,001,625
Less: related long-term debt outstanding	<u>(2,237,802)</u>
Total net investment in capital assets	<u>113,997,405</u>
Restricted	
Debt service	304,306
Other purposes	
Statutory requirements	668,038
Roads and transportation	772,179
Sanitation	<u>455,714</u>
Total restricted for other purposes	<u>1,895,931</u>
Total restricted	<u>2,200,237</u>
Unrestricted	<u>(2,672,033)</u>
Total governmental activities net position	<u><u>\$ 113,525,609</u></u>

Fillmore County
Notes to Financial Statements
December 31, 2015

Governmental fund balances reported on the fund financial statements at December 31, 2015, include the following:

	General Fund	Human Services	Roads and Bridges	Nonmajor Funds	Totals
Nonspendable					
Inventories	\$ -	\$ -	\$ 215,883	\$ 4,654	\$ 220,537
Prepaid items	70,403	26,836	-	-	97,239
Total Nonspendable	<u>70,403</u>	<u>26,836</u>	<u>215,883</u>	<u>4,654</u>	<u>317,776</u>
Restricted for:					
Statutory requirements	668,038	-	-	-	668,038
Landfill closure	-	-	-	454,092	454,092
Debt service	-	-	-	301,416	301,416
Local option sales tax	-	-	750,502	-	750,502
Total Restricted	<u>668,038</u>	<u>-</u>	<u>750,502</u>	<u>755,508</u>	<u>2,174,048</u>
Committed to:					
Airport state/federal match	-	-	-	100,000	100,000
Building maintenance	250,000	-	-	-	250,000
Law enforcement bldg. remodel	900,000	-	-	-	900,000
Special grant projects	200,000	-	-	-	200,000
County projects	200,000	-	-	-	200,000
Interoperable communications	200,000	-	-	-	200,000
Total Committed	<u>1,750,000</u>	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>1,850,000</u>
Assigned to:					
Compensated absences	716,491	-	336,904	24,275	1,077,670
Other activities	-	-	1,842,186	375,883	2,218,069
Total Assigned	<u>716,491</u>	<u>-</u>	<u>2,179,090</u>	<u>400,158</u>	<u>3,295,739</u>
Unassigned (deficit)	<u>96,228</u>	<u>(57,642)</u>	<u>-</u>	<u>-</u>	<u>38,586</u>
Total fund balances	<u>\$ 3,301,160</u>	<u>\$ (30,806)</u>	<u>\$ 3,145,475</u>	<u>\$ 1,260,320</u>	<u>\$ 7,676,149</u>

Note 4 - Pension Plans

A. Plan Description

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

1. General Employees Retirement Fund (GERF)

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

2. Public Employees Police and Fire Fund (PEPFF)

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

3. Public Employees Correctional Fund (PECF)

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

B. Benefits Provided

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

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

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

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. 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. Disability benefits are available for vested members and are based upon years of service and average high-five salary.

2. PEPFF Benefits

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

3. PECF Benefits

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

C. Contributions

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

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The County was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The County's contributions to the GERF for the year ended December 31, 2015, were \$455,676. The County's contributions were equal to the required contributions as set by state statute.

2. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2015. The County was required to contribute 16.20% of pay for PEPFF members in calendar year 2015. The County's contributions to the PEPFF for the year ended December 31, 2015, were \$185,509. The County's contributions were equal to the required contributions as set by state statute.

3. PECF Contributions

In calendar year 2015 plan members were required to contribute 5.83% of their annual covered salary. The County was required to contribute 8.75% of pay for PECF members in calendar year 2015. The County's contributions to the PECF for the year ended December 31, 2015, were \$32,791. Fillmore County's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. GERF Pension Costs

At December 31, 2015, the District reported a liability of \$5,301,717 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.1023%, which was a decrease of 0.0138% from the prior year.

For the year ended December 31, 2015, the County recognized pension expense of \$544,642 for its proportionate share of the GERF's pension expense.

At December 31, 2015, the County reported its proportionate share of the GERF'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	\$ 49,167	\$ 267,297
Changes of actuarial assumptions	330,173	-
Difference between projected and actual investment earnings	501,889	973,840
Contributions paid to PERA subsequent to measurement date	223,970	-
Total	<u>\$ 1,105,199</u>	<u>\$ 1,241,137</u>

\$223,970 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. 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:	<u>Pension Expense</u>
2016	\$ (98,570)
2017	(98,570)
2018	(288,240)
2019	125,472
2020	-

2. PEPFF Pension Costs

At December 31, 2015, the County reported a liability of \$1,488,467 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.131%, which was a decrease of 0.004% from the prior year.

For the year ended December 31, 2015, the County recognized pension expense of \$249,298 for its proportionate share of the PEPFF's pension expense. The County recognized \$11,790 for the year ended December 31, 2015, as grant revenue for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

At December 31, 2015, the County reported its proportionate share of the PEPFF'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	\$ 1,584	\$ 241,381
Changes of actuarial assumptions	282,912	-
Difference between projected and actual investment earnings	259,341	523,603
Contributions paid to PERA subsequent to measurement date	<u>95,462</u>	<u>-</u>
Total	<u>\$ 639,299</u>	<u>\$ 764,984</u>

\$95,462 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. 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
2016	\$ (86,852)
2017	(86,852)
2018	(86,853)
2019	87,685
2020	(48,275)

3. PECF Pension Costs

At December 31, 2015, the County reported a liability of \$35,558 for its proportionate share of the PECF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Fillmore 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.23%, which was a decrease of 0.02% from the prior year.

For the year ended December 31, 2015, the County recognized pension expense of \$37,996 for its proportionate share of the PECF's pension expense.

At December 31, 2015, the County reported its proportionate share of the PECF'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	\$ -	\$ 19,740
Changes of actuarial assumptions	-	39,293
Difference between projected and actual investment earnings	29,640	54,930
Contributions paid to PERA subsequent to measurement date	15,214	-
Total	<u>\$ 44,854</u>	<u>\$ 113,963</u>

\$15,214 reported as deferred outflows of resources related to pensions resulting from County's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. 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
2016	\$ (38,148)
2017	(38,148)
2018	(15,435)
2019	7,408
2020	-

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1st through 2034 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. 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.

G. Pension Liability Sensitivity

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

	1% Decrease (6.9%)	Discount Rate (7.9%)	1% Increase (8.9%)
County's Proportionate Share of the GERF Net Pension Liability (Asset)	8,336,184	5,301,717	2,795,714
County's Proportionate Share of the PEPFF Net Pension Liability (Asset)	2,901,037	1,488,467	321,437
County's Proportionate Share of the PECF Net Pension Liability (Asset)	247,632	35,558	(134,187)

H. Pension Plan Fiduciary Net Position

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

I. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each member's account annually.

Total contributions made by the County during fiscal year 2015 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$ 4,998	\$ 4,998	5%	5%	5%

Note 5 - Other Information

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County accounts for and reports risk management activities in the General Fund within the constraints of the modified accrual basis of accounting.

B. Contingencies

The County participates in a number of federal and state programs that are either partially or fully funded by grants or aids received from these agencies or other governmental units. Such programs are subject to audit by the grantor agencies which could result in requests for reimbursement to the granting agency for expenditures that are disallowed under the terms of the grant. Based on past experience, the County believes that any disallowed costs as a result of such audits will be immaterial.

C. Joint Ventures

Southeast Minnesota Emergency Communications Board

The Southeast Minnesota Emergency Communications Board was established April 16, 2008, as provided by Minn. Stat. §§ 403.39 and 471.59. This joint powers between Dodge, Fillmore, Freeborn, Goodhue, Houston, Mower, Olmsted, Rice, Steele, Wabasha, and Winona Counties and the City of Rochester serves to provide regional administration of enhancement to the Allied Radio Matrix for Emergency Response (ARMER) system owned and operated by the State of Minnesota and enhance and improve interoperable public safety communications.

Control of the Southeast Minnesota Regional Radio Board is vested in a Joint Powers Board that is composed of one County Commissioner from each of the participating counties and one City Council member from each participating city. The financial activities of the Board are accounted for by Olmsted County as fiscal agent. During the year, the County paid \$1,000 to the Emergency Communications Board.

Southeast Minnesota Narcotics Task Force

The Southeast Minnesota Narcotics Task Force was established under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Dodge, Fillmore, Goodhue, Houston, Mower, Olmsted, Wabasha, and Winona Counties along with the Cities of Winona, Red Wing, Kasson, and Austin. The Task Force's mission is to disrupt and destroy illegal narcotic operations in Southeastern Minnesota and provide drug investigation services for member organizations. The task force is governed by a governing board with members consisting of the Chief Law Enforcement Officer from each member, or his or her designee and an attorney appointed by the governing board. During the year, the County paid \$6,000 to the Task Force.

Separate financial information can be obtained from Southeast Minnesota Narcotics and Gang Task Force, 101 - 4th Street S.E., Rochester, Minnesota 55904.

Southeastern Minnesota Workforce Development, Inc. (MWD)

The Southeastern Minnesota Workforce Development was established under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Dodge, Fillmore, Freeborn, Goodhue, Houston, Mower, Olmsted, Rice, Steele and Wabasha Counties to provide Workforce Investment Act service in the region, as well as other related employment and training programs. During the year, Fillmore County paid \$103,457 to the MWD.

The Joint Powers Board consists of County commissioners from the member counties. Separate financial information can be obtained from MWD's administrative offices, 2070 College View Road East, Rochester, MN 55904.

Southeastern Minnesota Library System

The Southeastern Minnesota Library System was established under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Dodge, Fillmore, Freeborn, Goodhue, Houston, Mower, Olmsted, Rice, Steele, Wabasha and Winona Counties to provide library services within the counties. The County contributed \$214,809 to the Southeastern Minnesota Library during 2015.

The Board of Directors consists of representatives from the member counties. Separate financial information can be obtained from Southeastern Minnesota Library System, 2600 19th St. NW, Rochester, MN 55901.

D. Jointly-Governed Organizations

Jointly governed organizations are a regional government or multi-governmental arrangement formed to provide a variety of services and are governed by representatives of each creating government. Participants do not retain an ongoing financial interest or responsibility. The County appoints at least one member to the following organizations:

Southeast Minnesota Water Resource Board provides regional water quality services to several counties. The County made no payments to the Southeast Minnesota Water Resource Board in 2015.

Minnesota Counties Computer Consortium provides various computer services to a number of counties. During 2015, the County paid \$111,683 to the Minnesota Counties Computer Consortium.

The Dodge-Fillmore-Olmstead Community Corrections JPB provides local comprehensive correctional programs for the community. The County paid \$403,841 to the DFO Community Corrections JPB during 2015.

Region 1 - Southeast Minnesota Homeland Security Emergency Management Organization (SERHSEM) 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 SERHSEM region. Fillmore County's responsibility does not extend beyond making an appointment to the Joint Powers Board.

The Minnesota Criminal Justice Data Communications Network Joint Powers Agreement exists to create access for the County Sheriff and County Attorney to systems and tools available from the State of Minnesota, Minnesota Department of Public Safety, and the Bureau of Criminal Apprehension to carry out criminal justice. No payments were made for 2015.

Fillmore County purchases services from the state for the Sentence to Service Program. In 2015, the County made payments of \$81,919.

The Southeast Minnesota Emergency Management Services (EMS) was established to provide various health services to member counties. No payments were made for 2015.

The Southeast Minnesota Immunization Connection (SEMIC) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. No payments were made for 2015.

The Southeast Services Cooperative delivers numerous services to support administrative and instructional functions to its members and to improve learning opportunities. During the year, the County made payments of \$2,135 to the Cooperative.

The Southeastern Community Action Council (SEMCAC) provides various services on behalf of member counties to assist people to achieve or maintain independence and self-reliance through their own and community resources. During the year, the County made payments of \$6,000 to SEMCAC.

Note 6 - Change in Accounting Principle

As of January 1, 2015, the County adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments to calculate and report the cost and obligations associated with pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position was restated as shown below:

	Governmental Activities
Net Position December 31, 2014, as previously reported	\$ 116,148,656
Net Pension Liability at December 31, 2014	(7,797,485)
Deferred Outflows of Resources at December 31, 2014	1,012,245
Deferred Inflows of Resources at December 31, 2014	(2,346,726)
Net Position December 31, 2014, as Restated	<u>\$ 107,016,690</u>



Required Supplementary Information
December 31, 2015

Fillmore County

Fillmore County
Budgetary Comparison Schedule – General Fund
Year Ended December 31, 2015

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
Revenues				
Taxes	\$ 5,630,604	\$ 5,630,604	\$ 5,379,511	\$ (251,093)
Intergovernmental	2,698,176	2,698,176	2,905,641	207,465
Licenses and permits	69,035	69,035	84,899	15,864
Fines, forfeitures and penalties	7,000	7,000	13,980	6,980
Public charges for services	1,349,650	1,349,650	1,474,393	124,743
Intergovernmental charges for services	465,620	465,620	449,665	(15,955)
Investment income	14,000	14,000	18,834	4,834
Miscellaneous	141,022	141,022	304,263	163,241
Total revenues	10,375,107	10,375,107	10,631,186	256,079
Expenditures				
Current				
General government	3,704,075	3,704,075	3,514,288	189,787
Public safety	3,707,935	3,707,935	3,705,920	2,015
Health	1,479,734	1,479,734	1,610,846	(131,112)
Culture, recreation and education	262,359	262,359	378,768	(116,409)
Conservation and development	1,949,113	1,949,113	1,275,394	673,719
Debt Service				
Interest	-	-	433	(433)
Total expenditures	11,103,216	11,103,216	10,485,649	617,567
Other Financing Sources				
Issuance of debt	728,109	728,109	86,807	(641,302)
Net change in fund balance	-	-	232,344	232,344
Fund Balance, Beginning	3,068,816	3,068,816	3,068,816	-
Fund Balance, Ending	\$ 3,068,816	\$ 3,068,816	\$ 3,301,160	\$ 232,344

Fillmore County
Budgetary Comparison Schedule – Human Services Fund
Year Ended December 31, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 932,229	\$ 932,229	\$ 885,085	\$ (47,144)
Intergovernmental	2,693,207	2,693,207	2,485,595	(207,612)
Public charges for services	87,893	87,893	46,327	(41,566)
Miscellaneous	134,589	134,589	33,004	(101,585)
Total revenues	<u>3,847,918</u>	<u>3,847,918</u>	<u>3,450,011</u>	<u>397,907</u>
Expenditures				
Current				
Human services	<u>3,847,918</u>	<u>3,847,918</u>	<u>3,701,983</u>	<u>145,935</u>
Net change in fund balance	-	-	(251,972)	251,972
Fund Balance, Beginning	<u>221,166</u>	<u>221,166</u>	<u>221,166</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 221,166</u>	<u>\$ 221,166</u>	<u>\$ (30,806)</u>	<u>\$ 251,972</u>

Fillmore County
Budgetary Comparison Schedule – Road and Bridge Fund
Year Ended December 31, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,906,657	\$ 1,906,657	\$ 2,576,877	\$ 670,220
Intergovernmental	7,457,299	7,457,299	10,907,987	3,450,688
Public charges for services	108,000	108,000	663,272	555,272
Investment income	8,200	8,200	8,228	28
Miscellaneous	37,000	37,000	15,519	(21,481)
Total revenues	<u>9,517,156</u>	<u>9,517,156</u>	<u>14,171,883</u>	<u>4,654,727</u>
Expenditures				
Current				
Public works	8,814,156	8,814,156	12,042,337	(3,228,181)
Capital outlay	<u>703,000</u>	<u>703,000</u>	<u>912,863</u>	<u>(209,863)</u>
Total expenditures	<u>9,517,156</u>	<u>9,517,156</u>	<u>12,955,200</u>	<u>(3,438,044)</u>
Net change in fund balance	-	-	1,216,683	1,216,683
Fund Balance, Beginning	1,924,122	1,924,122	1,924,122	5,772,366
Increase in reserve for inventory	<u>-</u>	<u>-</u>	<u>4,670</u>	<u>4,670</u>
Fund Balance, Ending	<u>\$ 1,924,122</u>	<u>\$ 1,924,122</u>	<u>\$ 3,145,475</u>	<u>\$ 6,993,719</u>

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at year end. The actual revenues, expenditures, and transfers for the year ended December 31, 2015, have been compared to the County's budget for the year where applicable. Variances which are in parentheses are unfavorable and indicate revenues are less than budgeted or expenditures are greater than budgeted. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per state statutes. Any revisions that alter total expenditures of any fund must be approved by the County Board.

Budgetary control is maintained at the object of expenditure category level within each activity, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the County Board. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (a) adequate funds were appropriated; (b) the expenditure is still necessary; and (c) funds are available. Budgeted amounts are as originally adopted or as amended by the County Board.

B. Excess of Expenditures over Appropriations

For the year ended December 31, 2015, expenditures exceed appropriations in the Road and Bridges fund by \$3,438,044. These excess expenditures were funded by greater than anticipated revenue.

Fillmore County
Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions
December 31, 2015

**Schedule of Employer's Share of Net Pension Liability
Last 10 Fiscal Years ***

Pension Plan	Measurement Date	County's Proportion (Percentage) of the Net Pension Liability (Asset)	County's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated With County (b)	Total (d) (a+b)	County's Covered - Employee Payroll (e)	County's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered - Employee Payroll (d/e)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
GERF	06/30/15	0.1023%	\$ 5,301,717	N/A	\$ 5,301,717	\$ 6,079,515	87.2%	78.2%
GERF	06/30/14	0.1161%	6,320,570	N/A	6,320,570	6,080,209	104.0%	78.9%
PEPFF	06/30/15	0.1310%	\$ 1,488,467	N/A	\$ 1,488,467	\$ 1,150,926	129.3%	86.6%
PEPFF	06/30/14	0.1350%	1,458,055	N/A	1,458,055	1,295,400	112.6%	87.1%
PECF	06/30/15	0.2300%	\$ 35,558	N/A	\$ 35,558	\$ 402,921	8.8%	97.0%
PECF	06/30/14	0.2500%	18,860	N/A	18,860	466,177	4.0%	98.4%

**Schedule of Employer's Contributions
Last 10 Fiscal Years ***

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered - Employee Payroll (d)	Contributions as a Percentage of Covered - Employee Payroll (b/d)
GERF	12/31/15	\$ 455,676	\$ 455,676	\$ -	\$ 6,079,168	7.5%
GERF	12/31/14	440,790	440,790	-	6,079,862	7.3%
PEPFF	12/31/15	\$ 185,509	\$ 185,509	\$ -	\$ 1,078,689	17.2%
PEPFF	12/31/14	187,144	187,144	-	1,223,163	15.3%
PECF	12/31/15	\$ 32,791	\$ 32,791	\$ -	\$ 371,293	8.8%
PECF	12/31/14	38,023	38,023	-	434,549	8.7%

* GASB Statement No. 68 requires ten years of information to be presented in these tables. However, until a full 10-year trend is compiled, the County will present information for those years for which information is available.



Supplemental Schedules
December 31, 2015

Fillmore County

Fillmore County
Combining Balance Sheet – Nonmajor Governmental Funds
December 31, 2015

	Special Revenue				Debt Service		Total Nonmajor Governmental Funds
	Sanitation	Airport	EDA	MPCA Septic Loan Program	AGBMP Loan	2010 GO CIP Debt Service	
Assets							
Cash	\$ 719,025	\$ 57,294	\$ 37,819	\$ 24,766	\$ 25,636	\$ 299,385	\$ 1,163,925
Taxes receivable	2,574	618	663	-	-	4,921	8,776
Accounts receivable	32,306	2,161	-	-	-	-	34,467
Due from other governments	47	128,479	-	-	-	-	128,526
Notes receivable	-	-	12,622	12,801	171,558	-	196,981
Inventories	-	4,654	-	-	-	-	4,654
Total assets	<u>\$ 753,952</u>	<u>\$ 193,206</u>	<u>\$ 51,104</u>	<u>\$ 37,567</u>	<u>\$ 197,194</u>	<u>\$ 304,306</u>	<u>\$ 1,537,329</u>
Liabilities							
Accounts payable	\$ 49,689	\$ 19,907	\$ -	\$ -	\$ -	\$ -	\$ 69,596
Accrued liabilities	5,226	-	-	-	-	-	5,226
Total liabilities	<u>54,915</u>	<u>19,907</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>74,822</u>
Deferred Inflows of Resources							
Unavailable revenues - notes	-	-	12,622	12,801	171,558	-	196,981
Unavailable revenues - taxes	1,622	321	373	-	-	2,890	5,206
Total deferred inflows of resources	<u>1,622</u>	<u>321</u>	<u>12,995</u>	<u>12,801</u>	<u>171,558</u>	<u>2,890</u>	<u>202,187</u>
Fund Balances							
Nonspendable	-	4,654	-	-	-	-	4,654
Restricted	454,092	-	-	-	-	301,416	755,508
Committed	-	100,000	-	-	-	-	100,000
Assigned	243,323	68,324	38,109	24,766	25,636	-	400,158
Unassigned	-	-	-	-	-	-	-
Total fund balances	<u>697,415</u>	<u>172,978</u>	<u>38,109</u>	<u>24,766</u>	<u>25,636</u>	<u>301,416</u>	<u>1,260,320</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 753,952</u>	<u>\$ 193,206</u>	<u>\$ 51,104</u>	<u>\$ 37,567</u>	<u>\$ 197,194</u>	<u>\$ 304,306</u>	<u>\$ 1,537,329</u>

Fillmore County
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds
Year Ended December 31, 2015

	Special Revenue				Debt Service	Total Nonmajor Governmental Funds
	Sanitation	Airport	EDA	MPCA Septic Loan Program	2010 GO CIP Debt Service	
Revenues						
Taxes	\$ 107,045	\$ 37,801	\$ 35,713	\$ 18	\$ 241,145	\$ 421,742
Intergovernmental	90,939	149,366	4,969	-	33,957	279,231
Public changes for services	365,246	56,406	-	-	-	421,652
Miscellaneous	22,447	5,291	500	14,923	-	101,896
Total revenues	585,677	248,864	41,182	14,941	275,102	1,224,521
Expenditures						
Current						
Public works	639,306	198,946	-	-	-	838,252
Conservation and development	-	-	39,615	-	-	39,615
Culture, recreation, and education	-	-	-	-	-	28,638
Debt service	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Principal	-	-	-	-	-	-
Total expenditures	639,306	198,946	39,615	10,814	59,596	60,421
Excess (Deficiency) of Revenues Over Expenditures	(53,629)	49,918	1,567	4,127	195,000	265,436
Other Financing Sources (Uses)						
Debt issued	-	-	-	-	254,596	1,232,362
Net Change in Fund Balances	(53,629)	49,918	1,567	4,127	20,506	(7,841)
Fund Balances, Beginning of Year	751,044	126,735	36,542	20,639	280,910	1,243,198
Change in reserve for inventory	-	(3,675)	-	-	-	(3,675)
Fund Balance, End of Year	\$ 697,415	\$ 172,978	\$ 38,109	\$ 24,766	\$ 301,416	\$ 1,260,320

Fillmore County
Combining Statement of Changes in Assets and Liabilities - Agency Funds
Year Ended December 31, 2015

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>Taxes and Penalties</u>				
Assets				
Cash and investments	\$ 424,292	\$ 17,413,247	\$ 17,279,266	\$ 558,273
Liabilities				
Due to other governments	\$ 424,292	\$ 17,413,247	\$ 17,279,266	\$ 558,273
<u>Other Taxes</u>				
Assets				
Cash and investments	\$ 1,130	\$ 166	\$ -	\$ 1,296
Liabilities				
Due to other governments	\$ 1,130	\$ 166	\$ -	\$ 1,296
<u>Prepaid Taxes</u>				
Assets				
Cash and investments	\$ 68,724	\$ 158,152	\$ 134,354	\$ 92,522
Liabilities				
Due to other governments	\$ 68,724	\$ 158,152	\$ 134,354	\$ 92,522
<u>State Revenue</u>				
Assets				
Cash and investments	\$ 17,751	\$ 16,245	\$ 17,751	\$ 16,245
Liabilities				
Due to other governments	\$ 17,751	\$ 16,245	\$ 17,751	\$ 16,245
<u>Greenleafton Septic Program</u>				
Assets				
Cash and investments	\$ -	\$ 5,566	\$ 3,365	\$ 2,201
Liabilities				
Due to other governments	\$ -	\$ 5,566	\$ 3,365	\$ 2,201

Fillmore County
Combining Statement of Changes in Assets and Liabilities - Agency Funds - Continued
Year Ended December 31, 2015

	Balance January 1	Additions	Deductions	Balance December 31
<u>Fillmore County Collaborative</u>				
Assets				
Cash and investments	\$ -	\$ 126,503	\$ 103,347	\$ 23,156
Due from other governments	-	19,489	-	19,489
Total assets	<u>\$ -</u>	<u>\$ 145,992</u>	<u>\$ 103,347</u>	<u>\$ 42,645</u>
Liabilities				
Due to other governments	<u>\$ -</u>	<u>\$ 145,992</u>	<u>\$ 103,347</u>	<u>\$ 42,645</u>
<u>Sheriff Canteen</u>				
Assets				
Cash and investments	<u>\$ 8,087</u>	<u>\$ 72,122</u>	<u>\$ 74,952</u>	<u>\$ 5,257</u>
Liabilities				
Due to other governments	<u>\$ 8,087</u>	<u>\$ 72,122</u>	<u>\$ 74,952</u>	<u>\$ 5,257</u>
<u>Sheriff</u>				
Assets				
Cash and investments	<u>\$ 29,617</u>	<u>\$ 275,039</u>	<u>\$ 277,403</u>	<u>\$ 27,253</u>
Liabilities				
Accounts payable	<u>\$ 29,617</u>	<u>\$ 275,039</u>	<u>\$ 277,403</u>	<u>\$ 27,253</u>
<u>Licenses</u>				
Assets				
Cash and investments	<u>\$ 4,018</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,018</u>
Liabilities				
Due to other governments	<u>\$ 4,018</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,018</u>
<u>Insurance</u>				
Assets				
Cash and investments	<u>\$ 158,149</u>	<u>\$ 1,825,328</u>	<u>\$ 1,820,626</u>	<u>\$ 162,851</u>
Liabilities				
Accounts payable	<u>\$ 158,149</u>	<u>\$ 1,825,328</u>	<u>\$ 1,820,626</u>	<u>\$ 162,851</u>

Fillmore County
Combining Statement of Changes in Assets and Liabilities - Agency Funds - Continued
Year Ended December 31, 2015

	Balance January 1	Additions	Deductions	Balance December 31
<u>Social Services</u>				
Assets				
Cash and investments	<u>\$ 15,018</u>	<u>\$ 133,360</u>	<u>\$ 136,540</u>	<u>\$ 11,838</u>
Liabilities				
Due to clients	<u>\$ 15,018</u>	<u>\$ 133,360</u>	<u>\$ 136,540</u>	<u>\$ 11,838</u>
<u>Total Agency Funds</u>				
Assets				
Cash and investments	\$ 726,786	\$ 20,025,728	\$ 19,847,604	\$ 904,910
Due from other governments	<u>-</u>	<u>19,489</u>	<u>-</u>	<u>19,489</u>
Total assets	<u>\$ 726,786</u>	<u>\$ 20,045,217</u>	<u>\$ 19,847,604</u>	<u>\$ 924,399</u>
Liabilities				
Accounts payable	\$ 187,766	\$ 2,100,367	\$ 2,098,029	\$ 190,104
Due to clients	15,018	133,360	136,540	11,838
Due to other governments	<u>524,002</u>	<u>17,811,490</u>	<u>17,613,035</u>	<u>722,457</u>
Total liabilities	<u>\$ 726,786</u>	<u>\$ 20,045,217</u>	<u>\$ 19,847,604</u>	<u>\$ 924,399</u>



CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Minnesota Legal Compliance

To the County Board
Fillmore County
Preston, 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, each major fund, and the aggregate remaining fund information of Fillmore County (the County), as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated September 13, 2016.

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minnesota Statutes Sec. 6.65 contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except we did not test for compliance with the provisions for tax increment financing because the county does not employ tax increment financing.

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

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

Eide Bailly LLP

Mankato, Minnesota
September 13, 2016

**Independent Auditor's 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***

To the County Board
Fillmore County

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, each major fund, and the aggregate remaining fund information of Fillmore County (the County) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 13, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses: 2015-A, 2015-B, and 2015-C.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Response to Findings

The County's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. 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 and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Mankato, Minnesota
September 13, 2016



CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance as Required by Uniform Guidance

To the County Board
Fillmore County

Report on Compliance for the Major Federal Program

We have audited Fillmore County's (the County) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the County's major federal programs for the year ended December 31, 2015. The 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 the compliance for the 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 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 Fillmore 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 the major federal programs. However, our audit does not provide a legal determination of the County's compliance.

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major Federal programs for the year ended December 31, 2015.

Report on Internal Control over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the 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 the major federal programs 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 compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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.

Eide Bailly LLP

Mankato, Minnesota
September 13, 2016

Fillmore County
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2015

Federal Grantor/ Grant Program Title	CFDA #	Pass-Through Agency	Federal Expenditures
Department of Agriculture			
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	Houston Co., MN	\$ 75,720
Matching Grants for the Supplemental Nutrition	10.561	MN Dept. of Human Services	170,289
Total Department of Agriculture			\$ 246,009
Department of Justice			
Bulletproof Vest Partnership Program	16.607	MN Dept. of Public Safety	\$ 2,162
Total Department of Justice			\$ 2,162
Department of Transportation			
State and Community Highway Safety	20.600	MN Dept. of Public Safety	\$ 8,998
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	MN Dept. of Public Safety	5,434
National Priority Safety Programs	20.616	MN Dept. of Public Safety	900
Highway Safety Cluster Total			15,332
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	MN Dept. of Public Safety	3,018
Highway Planning and Construction	20.205	MN Dept. of Public Safety	249,735
Airport Improvement Program	20.106	MN Dept. of Public Safety	76,869
Total Department of Transportation			\$ 344,954
Department of Health and Human Services			
Medical Reserve Corps Small Grant Program	93.008	National Association of County and City Health Officials	\$ 3,500
Public Health Emergency Preparedness	93.069	Houston Co., MN	22,593
Universal Newborn Hearing Screening	93.251	Houston Co., MN	1,425
Rural Access to Emergency Devices Grant and Public Access to Defibrillation Demonstration Grant	93.259	MN Dept. of Health	11,671
Immunization Cooperative Agreements	93.268	MN Dept. of Human Services	900
Promoting Safe and Stable Families	93.556	MN Dept. of Human Services	4,994
Temporary Assistance for Needy Families	93.558	Houston Co., MN	140,229
Child Support Enforcement	93.563	MN Dept. of Human Services	193,019
Refugee and Entrant Assistance	93.566	MN Dept. of Human Services	288
Community-based Child Abuse Prevention Grants	93.590	MN Dept. of Human Services	7,615
Child Care and Development Fund	93.596	MN Dept. of Human Services	7,352
Stephanie Tubbs Jones Child Welfare Services Program	93.645	MN Dept. of Human Services	3,136
Foster Care - Title IV - E	93.658	MN Dept. of Human Services	114,694
Social Services Block Grant	93.667	MN Dept. of Human Services	118,480
Chafee Foster Care Independence Program	93.674	MN Dept. of Human Services	2,862
Children's Health Insurance Program	93.767	MN Dept. of Human Services	19
Medical Assistance Program	93.778	MN Dept. of Human Services	597,359
Maternal and Child Health Services Block Grant	93.994	Houston Co., MN	27,433
Total Department of Health and Human Services			\$ 1,257,569
Total Expenditures of Federal Awards			\$ 1,850,694

NOTE A – Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is presented on the modified accrual basis of accounting.

The County has not elected to use the 10% de minimis cost rate.

NOTE B – Agency or Pass-Through Number

The pass-through entity has not provided identifying numbers; therefore, they are not included in this schedule.

A. Summary of Audit Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted	No

Federal Awards

Internal control over major programs:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA number</u>
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Medical Assistance Program	93.778
Highway Planning and Construction	20.205

Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
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Auditee qualified as low-risk auditee	No
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Section B - Financial Statement Findings –	Yes
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Section C – Federal Award Findings and Questioned Costs –	None
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Section D – Minnesota Legal Compliance Findings -	None
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B. Findings – Financial Statement Audit

Material Weakness – previously reported items not resolved

2015-A Segregation of Duties

Criteria: A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: The County has a lack of segregation of duties in certain areas due to limited staff. The County has limited segregation of duties in many accounting and financial reporting internal control areas. The areas involved are receipts and receivables, disbursements and payables, payroll, deposits, and reconciliations of these areas.

Cause: The County does not have the economic resources to hire additional qualified accounting staff in order to segregate duties.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions. County Board oversight will mitigate some of the effect.

Recommendation: While we recognize that your staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, the functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the County.

Views of Responsible Officials: The County feels that the additional costs would not be significantly beneficial. The County does mitigate this situation through the Board's review of the draft financial statements and accompanying notes and review and approval of the monthly expenses.

2015-B Preparation of Financial Statements

Criteria: A good system of internal control contemplates an adequate system for drafting of the financial statements.

Condition: The County does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we are requested to draft the financial statements, accompanying notes to the financial statements, and required supplementary budgetary comparison information.

Cause: The County does not have the economic resources to hire additional qualified accounting staff or hire professional accounting services in order to draft financial statements.

Effect: This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: This control deficiency is not unusual in a County of your size. It is the responsibility of the management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials: The County feels that the additional costs would not be significantly beneficial. The County does mitigate this situation through the review of the draft financial statements and accompanying notes to the financial statements by management.

2015-C Significant Journal Entries and Restatement

Criteria: A good system of internal control contemplates an adequate system for recording and processing entries material to the financial statements.

Condition: During the course of our engagement, we proposed material audit adjustments to the trial balance as a result of the County's existing internal controls.

Cause: The County does not have the economic resources to hire additional qualified accounting staff or hire professional accounting services in order to make all of the necessary year end adjustments to the trial balance.

Effect: This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: A thorough and timely review and reconciliation of accounts in each fund should take place on a monthly basis. This review should be done at both the accounting staff and accounting supervisor levels.

Views of Responsible Officials: The County feels that the additional costs to the County would not be significantly beneficial. The County does mitigate this situation through the review of the draft financial statements and accompanying notes to the financial statements by management.

C. Findings – Major Federal Award Programs - None

D. Minnesota Legal Compliance Findings - None

2014-001 Internal Control Over Financial Reporting – Financial Statements and Journal Entries

Type of Finding: Material Weakness

Initial Fiscal Year Finding Occurred: 2008

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

Condition: Fillmore County relies on its external auditors to draft the financial statements and there were material journal entries made to the county's records. The county prepares the schedule of expenditures of federal awards, however significant modifications were identified during the audit.

Status: In the current year the County was able to prepare the schedule of federal awards, but the County did still request its external auditors to prepare the financial statements and there were journal entries identified as a result of the current year's audit procedures.

2014-002 Social Services Block Grant Program

CFDA #93.667

Granting Agency: U.S. Department of Health and Human Services

Pass Through Agency: Minnesota Department of Human Services

Compliance Requirement: Activities Allowed or Unallowed

Initial Fiscal Year Finding Occurred: 2014

Criteria: Minnesota Department of Human Services requires the county to solicit public input on the use of Social Services Block Grant funds.

Condition: The County does not have documentation of solicitation of public input.

Status: In the current year the County did solicit public input on the use of the Social Services Block Grant funds.