STATE OF MINNESOTA

Office of the State Auditor

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State Auditor

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March 15, 2023

Board of County Commissioners
Martin County
Fairmont, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Martin County, Minnesota, as of and for the year ended December 31, 2021. Professional standards require that we provide you with information about our responsibilities under 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, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our meeting about planning matters on January 26, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibilities Under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated February 15, 2022, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Martin County. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we performed tests of Martin County's compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Martin County are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2021. We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information are:

- the fair value of investments;

- the useful lives of capital assets and related depreciation expense;

- the year-end liability for compensated absences;

- the other postemployment benefits (OPEB) liability, deferred outflows of resources, deferred inflows of resources, and related expense; and

- the net pension asset, liability, deferred outflows of resources, deferred inflows of resources, and pension expense related to pension benefits.

Management's estimate of:

- the fair value of investments is based on year-end statements received from brokers;

- the useful lives of capital assets and related depreciation expense is based on prior experience with similar assets and industry norms;

- the year-end liability for compensated absences is based on paid time off balances and sick leave balances vested or expected to vest;

- the OPEB liability, deferred outflows of resources, deferred inflows of resources, and related expense is based on information provided by an actuary. The actuarial cost method used to determine the year-end liability was the entry age with level percentage of pay method. The present value of future benefits is equal to the value of the projected benefit payable at retirement discounted back to the participant's current age; and

- the net pension asset, liability, deferred outflows of resources, deferred inflows of resources, and pension expense related to pension benefits is based on information provided by the Public Employees Retirement Association (PERA). Plan totals for these amounts were determined by an actuary hired by PERA, with a valuation date as of June 30, 2021. The proportionate share by employer was calculated by PERA.

We evaluated the key factors and assumptions used to develop these estimates in determining they are reasonable in relation to the financial statements of each opinion unit.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

The completion of our audit was delayed significantly because information necessary to complete the audit was not provided by the County in a timely manner due to staff turnover.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The following material misstatements detected as a result of audit procedures were corrected by management:

- The Building Capital Projects Fund required an adjustment of $361,397 to record due to other funds and transfers out for interest proceeds that was receipted in the Building Capital Projects Fund but should have been recorded in the Debt Service Fund.

- The Road and Bridge Special Revenue Fund required an adjustment of $4,958,186 to increase due from other governments and unavailable revenue to correct highway allotment receivables.

- The Ditch Special Revenue Fund required adjustments of $1,890,544, $882,317, and $1,008,227 to reduce assets, unavailable revenue, and special assessment revenue, respectively, to correct special assessment collections.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 9, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Martin County hired an independent CPA firm to provide assistance with responding to audit requests for the year ended December 31, 2021. During this process, Martin County's management did consult with the CPA firm on various accounting matters as necessary.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis; Budgetary Comparison Schedules for the General Fund, Road and Bridge Special Revenue Fund, and Human Services Special Revenue Fund; Schedule of Changes in Total OPEB Liability and Related Ratios – Other Postemployment Benefits; PERA retirement plan schedules; and Notes to the Required Supplementary Information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on it.

With respect to the Building Capital Projects Fund Budgetary Comparison Schedule, combining statements for the nonmajor governmental funds, budgetary comparison schedules for the Solid Waste Special Revenue Fund and Debt Service Fund nonmajor governmental funds, combining fiduciary funds financial statements, and Schedule of Intergovernmental Revenue accompanying the financial statements other than RSI, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the basic financial statements. We compared and reconciled the Supplementary Information to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves.

Significant New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. The GASB has issued the following statement that may significantly change financial reporting in an upcoming period.

<u>GASB Statement No. 87, *Leases*</u>

Effective for calendar year 2022 financial statements, the GASB changed the standards as they apply to leases. An increase of leased assets and liabilities will be required to be reported by state and local governments, which may increase or decrease net position. The County should begin inventorying its various lease agreements, including identifying key lease provisions.

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This information is intended solely for the use of the Board of County Commissioners and management of Martin County and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR