



Julie Blaha
State Auditor

Suite 500
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September 19, 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, 2022. Professional standards require that we provide you with information about our responsibilities under 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 Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 May 18, 2023. 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 the Uniform Guidance

As stated in our engagement letter dated March 21, 2023, 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.

In planning and performing our audit, we considered Martin County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether Martin County's financial statements are free from material misstatement, we performed tests of its 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. Also in accordance with the Uniform Guidance, we examined, on a test basis, evidence about Martin County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* applicable to its major federal programs for the purpose of expressing an opinion on Martin County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Martin County's compliance with those requirements.

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. During 2022, Martin County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, which establishes criteria for accounting and financial reporting for leases. No other new accounting policies were adopted, and the application of existing policies was not changed during 2022. 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 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 and amortization 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 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 and amortization 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 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, 2022. The proportionate share by employer was calculated by PERA.

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

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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 Road and Bridge Special Revenue Fund required an adjustment to reduce due from other governments and unavailable revenue by \$4,834,981 for highway allotment related activity that was accounted for twice.
- The Human Services Special Revenue Fund required an adjustment to decrease beginning fund balance and intergovernmental expenditures by \$147,009 for activity that was reported in the prior year statements.
- The Ditch Special Revenue Fund required an adjustment to increase cash and advance from other funds by \$546,041 to cover the deficit cash balance in the fund at year-end.
- The Ditch Special Revenue Fund required an adjustment to increase special assessments receivable and unavailable revenue by \$1,386,318 to reverse a prior year adjustment to these balances.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 September 11, 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 assist with preparation of audit documentation for GASB 87 implementation, fiduciary fund statements, and support for year-end modified accrual adjustments-for the year ended December 31, 2022. During this process, Martin County’s management did consult with the CPA firm on various accounting matters as necessary.

Other Matters

We have 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 the 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, Schedule of Intergovernmental Revenue, and Schedule of Expenditures of Federal Awards and related notes, 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 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.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*

Effective for calendar year 2023 financial statements, the GASB changed the standards as they apply to subscription-based information technology arrangements. An increase of assets and liabilities could be required to be reported by state and local governments, which may increase or decrease net position. The County should begin inventorying its various technology agreements, including identifying key contract 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

/s/Chad Struss

Chad Struss, CPA
Deputy State Auditor