

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

BROWN COUNTY
NEW ULM, MINNESOTA

YEAR ENDED DECEMBER 31, 2016

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 650 public pension funds; and

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

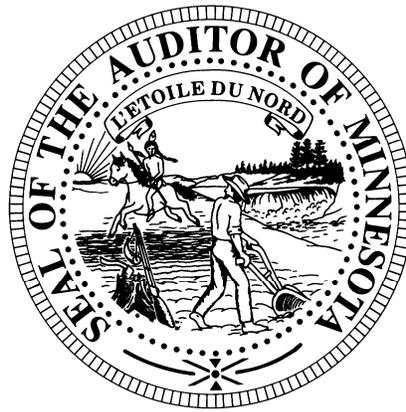
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**BROWN COUNTY
NEW ULM, MINNESOTA**

Year Ended December 31, 2016



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

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**BROWN COUNTY
NEW ULM, MINNESOTA**

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NEW ULM, MINNESOTA**

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**BROWN COUNTY
NEW ULM, MINNESOTA**

ORGANIZATION
2016

Office	Name	Term Expires
Commissioners		
1st District	Richard Seeboth	January 2017
2nd District	James Berg	January 2017
3rd District	Scott Windschitl*	January 2017
4th District	Dean Simonsen	January 2019
5th District	Dennis Potter	January 2019
Officers		
Elected		
Attorney	Chuck Hanson	January 2019
Auditor/Treasurer	Jean Prochniak	January 2019
County Recorder	Betti Kamolz	January 2019
Sheriff	Rich Hoffmann	January 2019
Appointed		
Administrator	Charles Enter	Indefinite
Assessor	Anne Grunert	December 31, 2020
Human Services Director	Tom Henderson	Indefinite
Coroner	Terry Knowles, M.D.	December 31, 2018
Probation Director	Les Schultz	Indefinite
Highway Engineer	Wayne Stevens	April 30, 2018
Human Resources Director	Ruth Schaefer	Indefinite
Planning and Zoning		
Administrator	Laine Sletta	Indefinite
Public Health Director	Karen Moritz	Indefinite
Veterans Service Officer	Greg Peterson	April 11, 2017
Lay Board Member	Elizabeth Mohr	December 31, 2017
Lay Board Member	Judy Kuster	December 31, 2017

*Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Brown County
New Ulm, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Brown County, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Brown County Economic Development Partners, Inc., the discretely presented component unit. Those statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit, is based solely on the report of the other auditors. In addition, we did not audit the financial statements of the South Country Health Alliance (SCHA) for the year ended December 31, 2016, in which Brown County has an equity interest. The SCHA is a joint venture discussed in Note 6.C. to the financial statements. The County's investment in the SCHA, \$2,284,987, represents 1.9 percent and 2.3 percent, respectively, of the assets and net position of the governmental activities. The financial statements of the SCHA, which were prepared in accordance with financial reporting provisions permitted by the Minnesota Department

of Health, were audited by other auditors, whose report thereon has been furnished to us. We have applied procedures on the conversion adjustments to the financial statements of the SCHA, which conform to financial reporting of the investment in joint venture to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amount included as an investment in joint venture, prior to these conversion adjustments, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Brown County Economic Development Partners, Inc., and the SCHA were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Brown County as of December 31, 2016, and the respective changes in financial position thereof and the respective budgetary comparisons of the General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Landfill Special Revenue Fund, and the County Ditch Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting

Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Brown County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2017, on our consideration of Brown 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 the 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 Brown County's internal control over financial reporting and compliance. It does not include Brown County Economic Development Partners, Inc., or the SCHA, which were audited by other auditors.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a

required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 5, 2017

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**BROWN COUNTY
NEW ULM, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(Unaudited)**

As management of Brown County, we offer readers of the Brown County financial statements this narrative overview and analysis of the financial activities of Brown County for the fiscal year ended December 31, 2016. We encourage readers to consider the information presented here in conjunction with the County's basic financial statements following this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of Brown County exceeded its liabilities and deferred inflows of resources at the close of 2016 by \$98,782,815. Of this amount, \$4,912,559 (unrestricted net position) may be used to meet Brown County's ongoing obligations to citizens and creditors.
- Brown County's total net position increased by \$1,304,719 in 2016, or 1.3 percent.
- At the close of 2016, Brown County's governmental funds reported combined ending fund balances of \$22,514,046. The amount of \$3,683,803 is unassigned and is available for spending at the County's discretion.
- At the close of 2016, unassigned fund balance for the General Fund was \$3,842,199, or 29.3 percent, of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis is intended to serve as an introduction to Brown County's basic financial statements. Brown County's basic financial statements are comprised of three components: (1) county-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

County-Wide Financial Statements

The county-wide financial statements are designed to provide readers with a broad overview of Brown County's finances in a manner similar to a private-sector business.

The statement of net position presents information on all of Brown County's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Brown County is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

The county-wide financial statements list the functions of Brown County principally supported by taxes and intergovernmental revenues. The governmental activities of Brown County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, economic development, and conservation of natural resources. There are no business-type activities within Brown County's financial structure that are intended to recover all or a significant portion of their costs through user fees and charges.

The county-wide financial statements include not only Brown County itself (the primary government), but also the legally separate Economic Development Partners, Inc. (EDP). The EDP, although legally separate, functions for all practical purposes as an integral part of Brown County and, therefore, has been included in the county-wide financial statements.

The county-wide financial statements can be found on Exhibits 1 and 2.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Brown County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Brown County can be divided into two categories: governmental funds and fiduciary funds.

Because the focus of governmental funds is narrower than that of the county-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the county-wide financial statements. By doing so, readers may better understand the long-term impact of the County's short-term

financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Governmental funds--Governmental funds are used to account for essentially the same functions reported as governmental activities in the county-wide financial statements. However, unlike the county-wide financial statements, County fund-level financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's short-term financing requirements.

Brown County reports five major funds and one nonmajor governmental fund. The major funds are: the General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Landfill Special Revenue Fund, and County Ditch Special Revenue Fund. The nonmajor governmental fund is the Building and Capital Improvements Capital Projects Fund. Information is presented separately for the major funds and in the aggregate for the nonmajor funds in Exhibits 3 and 5.

Fiduciary funds--Fiduciary funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, or other funds. Brown County's fiduciary funds consist of 11 agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In addition, the agency funds are not reflected in the county-wide financial statements because those resources are not available to support the County's programs.

Brown County's governmental fund financial statements are on Exhibits 3 through 11, and Brown County's fiduciary funds are on Exhibit 12.

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided.

Other Information

In addition to the basic financial statements and notes, this report also presents certain required supplementary information concerning Brown County's progress in funding its obligation to provide other postemployment benefits to its employees and schedules of the proportionate share of net pension liability and schedules of contributions. Required supplementary information can be found on Exhibits A-1 through A-7. In addition, the County also provides supplementary information on Brown County's deposits and investments, intergovernmental revenues, and expenditures of federal awards (Exhibits D-1 through D-3).

Brown County adopts an annual appropriated budget for its General Fund, the special revenue funds, and the capital projects fund. Budgetary comparison statements have been provided to demonstrate compliance with these budgets.

COUNTY-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County’s financial position. Brown County’s assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$98,782,815 at the close of 2016. The largest portion of Brown County’s net position (87.1 percent) reflects its investment in capital assets (such as land, buildings, and equipment); however, it should be noted that these assets are not available for future spending. Comparative data with 2015 is presented.

**Table 1
Governmental Net Position**

	<u>2016</u>	<u>2015</u>
Assets		
Current and other assets	\$ 29,111,519	\$ 29,148,938
Capital assets	<u>86,038,913</u>	<u>82,508,000</u>
Total Assets	<u>\$ 115,150,432</u>	<u>\$ 111,656,938</u>
Deferred Outflows of Resources	<u>\$ 8,843,968</u>	<u>\$ 1,493,671</u>
Liabilities		
Long-term liabilities outstanding	\$ 21,581,753	\$ 13,239,017
Other liabilities	<u>1,653,508</u>	<u>1,270,596</u>
Total Liabilities	<u>\$ 23,235,261</u>	<u>\$ 14,509,613</u>
Deferred Inflows of Resources	<u>\$ 1,976,324</u>	<u>\$ 1,162,900</u>
Net Position		
Investment in capital assets	\$ 86,038,913	\$ 82,508,000
Restricted	7,831,343	7,672,558
Unrestricted	<u>4,912,559</u>	<u>7,297,538</u>
Total Net Position	<u>\$ 98,782,815</u>	<u>\$ 97,478,096</u>

The unrestricted net position amount of \$4,912,559 as of December 31, 2016, may be used to meet the County’s ongoing obligations to citizens and creditors.

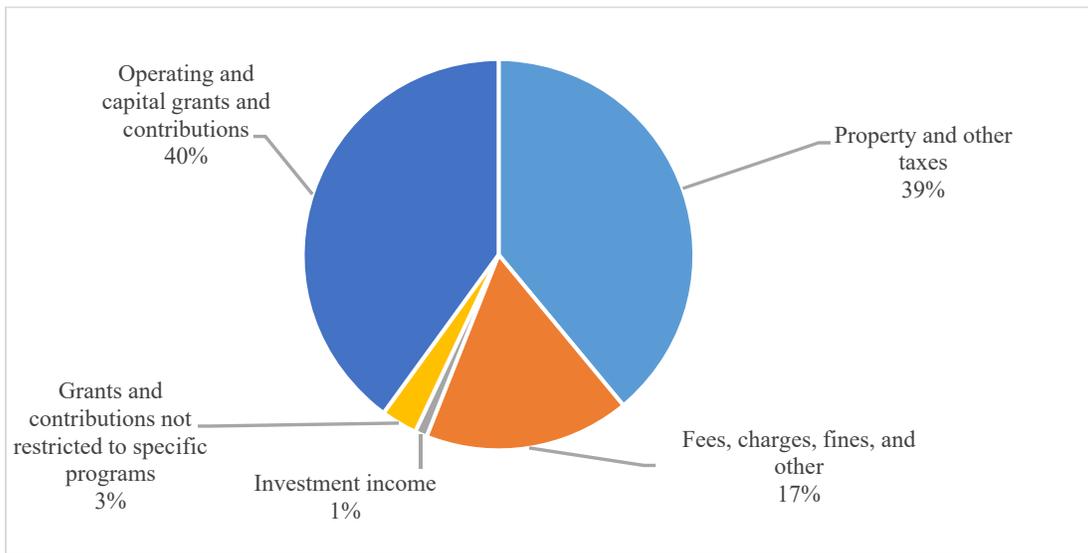
Governmental Activities

The County's activities from operations increased net position by \$1,304,719, or 1.3 percent (\$97,478,096 in 2015 to \$98,782,815 in 2016). Table 2 summarizes the changes in net position for 2016.

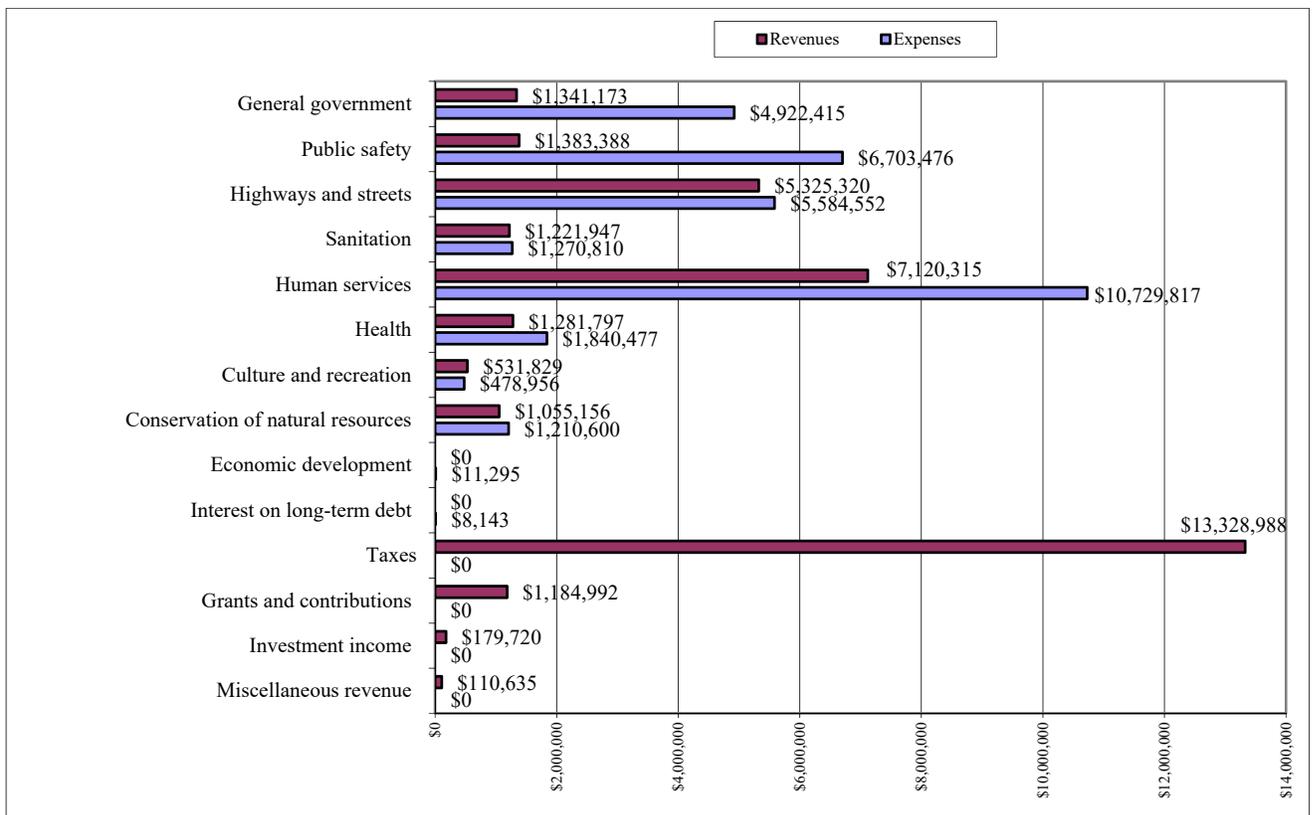
Table 2
Changes in Governmental Net Position

	<u>2016</u>	<u>2015</u>
Revenues		
Program revenues		
Charges for services	\$ 5,636,443	\$ 5,344,570
Operating grants and contributions	13,474,334	13,114,562
Capital grants and contributions	150,148	560,381
General revenues		
Property taxes	11,945,194	11,483,802
Other	<u>2,859,141</u>	<u>2,093,279</u>
Total Revenues	<u>\$ 34,065,260</u>	<u>\$ 32,596,594</u>
Expenses		
General government	\$ 4,922,415	\$ 4,592,937
Public safety	6,703,476	5,815,186
Highways and streets	5,584,552	6,548,706
Sanitation	1,270,810	1,081,787
Human services	10,729,817	9,015,581
Health	1,840,477	1,635,278
Culture and recreation	478,956	589,284
Conservation of natural resources	1,210,600	920,765
Economic development	11,295	20,795
Interest	<u>8,143</u>	<u>10,501</u>
Total Expenses	<u>\$ 32,760,541</u>	<u>\$ 30,230,820</u>
Increase in Net Position	\$ 1,304,719	\$ 2,365,774
Net Position - January	<u>97,478,096</u>	<u>95,112,322</u>
Net Position - December 31	<u>\$ 98,782,815</u>	<u>\$ 97,478,096</u>

Revenues by Source - 2016



Expenses and Revenues - 2016



Total revenues for the County were \$34,065,260, while total expenses were \$32,760,541. This reflects a \$1,304,719 increase in net position for the year ended December 31, 2016.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$22,514,046, an increase of \$113,965 in comparison with the prior year. Of this amount, \$3,683,803 constitutes unassigned fund balance. The remainder of fund balance is nonspendable, restricted, or assigned to indicate that it is not available for new spending.

The General Fund is the chief operating fund of Brown County. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$3,842,199, while total General Fund balance was \$5,375,410. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 29.3 percent of total General Fund expenditures, while total fund balance represents 41.0 percent of that same amount.

General Fund Budgetary Highlights

There were no changes between the original budget and the final amended budget. Total General Fund revenues exceeded budgeted revenues by \$714,468, due in large part to unbudgeted state and federal grant funding for home buyouts in 2016. Overall, the actual expenditures exceeded budgeted expenditures by \$441,947, primarily due to unbudgeted expenditures on the Spring Lake Restoration projects and expenditures related to the Brown County Emergency Management Home Buyout Project, which was funded with state and federal grant money.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2016, amounts to \$86,038,913 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The total increase in the County's investment in capital assets for the current fiscal year was \$3,530,913.

**Table 3
Governmental Capital Assets
(Net of Depreciation)**

	2016	2015
Land	\$ 1,818,388	\$ 1,038,712
Construction in progress	267,260	212,500
Land improvements	1,394,332	1,408,669
Buildings and improvements	11,568,074	11,754,524
Machinery, furniture, and equipment	3,288,552	3,182,054
Computer software - intangible	597,901	439,083
Infrastructure	67,104,406	64,472,458
Totals	\$ 86,038,913	\$ 82,508,000

Additional information on the County’s capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the County had no bond-related debt outstanding. On May 18, 2017, the County issued \$4,875,000 of Series 2017A General Obligation Bonds. The proceeds will be used for the purpose of financing highway improvement projects in the County. The Note will be paid over a ten-year period in equal installments of \$440,000, along with interest on the outstanding balance at an initial annual rate of 3.0 percent.

Additional information on the County’s long-term debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS

- Brown County’s average unemployment rate was 4.2 percent as of the end of 2016. This was slightly above the statewide rate of 4.1 percent.
- Mortgage interest rates have risen only slightly during 2016, resulting in a stable volume of mortgage refinancing.
- At the end of 2016, Brown County set its 2017 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of the County’s finances for all those with an interest in the County’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Brown County Auditor/Treasurer, Brown County Courthouse, 14 South State Street, P. O. Box 115, New Ulm, Minnesota 56073.

BASIC FINANCIAL STATEMENTS

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COUNTY-WIDE FINANCIAL STATEMENTS

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2016**

	<u>Primary Government Governmental Activities</u>	<u>Economic Development Partners, Inc., Component Unit</u>
<u>Assets</u>		
Cash and pooled investments	\$ 22,369,031	\$ 24,269
Taxes receivable		
Delinquent	95,769	-
Special assessments receivable		
Delinquent	38,699	-
Current	741,217	-
Noncurrent	263,996	-
Accounts receivable	1,001,472	-
Accrued interest receivable	46,086	-
Loans receivable	-	297,852
Due from other governments	2,052,913	-
Inventories	217,349	-
Investment in joint venture	2,284,987	-
Capital assets		
Non-depreciable	2,085,648	-
Depreciable - net of accumulated depreciation	83,953,265	-
Total Assets	\$ 115,150,432	\$ 322,121
<u>Deferred Outflows of Resources</u>		
Deferred pension outflows	\$ 8,843,968	\$ -
<u>Liabilities</u>		
Accounts payable	\$ 953,472	\$ 509
Salaries payable	331,277	-
Contracts payable	83,386	-
Due to other governments	140,569	-
Accrued interest payable	274	-
Unearned revenue	144,530	-
Long-term liabilities		
Due within one year	191,267	-
Due in more than one year	3,085,310	-
Net pension liability	17,633,771	-
Net other postemployment benefits obligations	671,405	-
Total Liabilities	\$ 23,235,261	\$ 509

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

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**BROWN COUNTY
NEW ULM, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET POSITION
DECEMBER 31, 2016**

	<u>Primary Government Governmental Activities</u>	<u>Economic Development Partners, Inc., Component Unit</u>
<u>Deferred Inflows of Resources</u>		
Prepaid taxes	\$ 88,258	\$ -
Deferred pension inflows	<u>1,888,066</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>\$ 1,976,324</u>	<u>\$ -</u>
<u>Net Position</u>		
Investment in capital assets	\$ 86,038,913	\$ -
Restricted for		
General government	37,153	-
Public safety	417,795	-
Highways and streets	1,657,091	-
Human services	2,302,086	-
Conservation of natural resources	1,754,632	-
Landfill closure/postclosure	1,662,586	-
Other purposes	-	4,100
Unrestricted	<u>4,912,559</u>	<u>317,512</u>
Total Net Position	<u>\$ 98,782,815</u>	<u>\$ 321,612</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Primary government		
Governmental activities		
General government	\$ 4,922,415	\$ 1,153,415
Public safety	6,703,476	324,040
Highways and streets	5,584,552	55,814
Sanitation	1,270,810	1,147,589
Human services	10,729,817	1,368,204
Health	1,840,477	590,158
Culture and recreation	478,956	19,280
Conservation of natural resources	1,210,600	977,943
Economic development	11,295	-
Interest	8,143	-
Total Primary Government	<u>\$ 32,760,541</u>	<u>\$ 5,636,443</u>
Component unit		
Economic Development Partners, Inc.	<u>\$ 28,606</u>	<u>\$ 12,535</u>

General Revenues

Property taxes
Transportation sales tax
Wheelage tax
Grants and contributions not restricted
to specific programs
Payments in lieu of tax
Investment income
Miscellaneous

Total general revenues

Change in net position

Net Position - January 1

Net Position - December 31

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Change in Net Position	
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Economic Development Partners, Inc., Component Unit
\$ 187,758	\$ -	\$ (3,581,242)	
1,059,348	-	(5,320,088)	
5,119,358	150,148	(259,232)	
74,358	-	(48,863)	
5,752,111	-	(3,609,502)	
691,639	-	(558,680)	
512,549	-	52,873	
77,213	-	(155,444)	
-	-	(11,295)	
-	-	(8,143)	
\$ 13,474,334	\$ 150,148	\$ (13,499,616)	
\$ -	\$ -		\$ (16,071)
		\$ 11,945,194	\$ -
		1,077,083	-
		295,174	-
		1,184,992	5,000
		11,537	-
		179,720	-
		110,635	-
		\$ 14,804,335	\$ 5,000
		\$ 1,304,719	\$ (11,071)
		97,478,096	332,683
		\$ 98,782,815	\$ 321,612

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FUND FINANCIAL STATEMENTS

**BROWN COUNTY
NEW ULM, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 5,555,519	\$ 5,189,700
Taxes receivable		
Delinquent	61,669	14,367
Special assessments receivable		
Delinquent	21,254	-
Current	114,375	-
Noncurrent	227,427	-
Accounts receivable	120,081	545
Accrued interest receivable	46,086	-
Due from other funds	10,800	7,700
Due from other governments	263,367	793,977
Inventories	-	217,349
	\$ 6,420,578	\$ 6,223,638
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 151,486	\$ 265,953
Salaries payable	191,584	31,482
Contracts payable	38,130	-
Due to other funds	3,607	-
Due to other governments	12,356	898
Unearned revenue	142,906	-
	\$ 540,069	\$ 298,333
Deferred Inflows of Resources		
Unavailable revenue	\$ 446,685	\$ 600,784
Prepaid taxes	58,414	12,122
	\$ 505,099	\$ 612,906
Fund Balances		
Nonspendable	\$ -	\$ 217,349
Restricted	1,013,110	1,077,084
Assigned	520,101	4,017,966
Unassigned	3,842,199	-
	\$ 5,375,410	\$ 5,312,399
	\$ 5,375,410	\$ 5,312,399
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 6,420,578	\$ 6,223,638

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

EXHIBIT 3

<u>Human Services</u>	<u>Landfill</u>	<u>County Ditch</u>	<u>Nonmajor Building and Capital Improvements</u>	<u>Total Governmental Funds</u>
\$ 5,364,445	\$ 4,839,398	\$ 911,984	\$ 507,985	\$ 22,369,031
19,607	-	-	126	95,769
-	13,856	3,589	-	38,699
-	-	626,842	-	741,217
-	-	36,569	-	263,996
808,688	72,158	-	-	1,001,472
-	-	-	-	46,086
-	-	-	-	18,500
960,018	-	29,559	5,992	2,052,913
-	-	-	-	217,349
<u>\$ 7,152,758</u>	<u>\$ 4,925,412</u>	<u>\$ 1,608,543</u>	<u>\$ 514,103</u>	<u>\$ 26,845,032</u>
\$ 450,518	\$ 41,078	\$ 44,437	\$ -	\$ 953,472
105,797	2,365	49	-	331,277
-	-	45,256	-	83,386
14,893	-	-	-	18,500
92,560	10,500	24,255	-	140,569
-	1,624	-	-	144,530
<u>\$ 663,768</u>	<u>\$ 55,567</u>	<u>\$ 113,997</u>	<u>\$ -</u>	<u>\$ 1,671,734</u>
\$ 815,385	\$ 19,347	\$ 688,670	\$ 123	\$ 2,570,994
17,593	-	-	129	88,258
<u>\$ 832,978</u>	<u>\$ 19,347</u>	<u>\$ 688,670</u>	<u>\$ 252</u>	<u>\$ 2,659,252</u>
\$ -	\$ -	\$ -	\$ -	\$ 217,349
17,099	2,879,294	964,272	-	5,950,859
5,638,913	1,971,204	-	513,851	12,662,035
-	-	(158,396)	-	3,683,803
<u>\$ 5,656,012</u>	<u>\$ 4,850,498</u>	<u>\$ 805,876</u>	<u>\$ 513,851</u>	<u>\$ 22,514,046</u>
<u>\$ 7,152,758</u>	<u>\$ 4,925,412</u>	<u>\$ 1,608,543</u>	<u>\$ 514,103</u>	<u>\$ 26,845,032</u>

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**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF THE FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2016**

Fund balances - total governmental funds (Exhibit 3)	\$	22,514,046
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Amounts reported for governmental activities in the statement of net position are different because:

Investments in joint ventures are recorded in governmental activities and are not financial resources. Therefore, they are not reported in the governmental funds.		2,284,987
--	--	-----------

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		86,038,913
--	--	------------

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred inflows of resources in the governmental funds.		2,570,994
--	--	-----------

Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.

Deferred pension outflows	\$ 8,843,968	
Deferred pension inflows	<u>(1,888,066)</u>	6,955,902

Governmental funds do not report a liability for accrued interest on long-term liabilities until due and payable.		(274)
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.

Loans payable	\$ (355,427)	
Compensated absences	(1,704,442)	
Estimated liability for landfill closure/postclosure	(1,216,708)	
Net pension liability	(17,633,771)	
Net other postemployment benefits obligations	<u>(671,405)</u>	<u>(21,581,753)</u>

Net Position of Governmental Activities (Exhibit 1)	\$	<u>98,782,815</u>
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**BROWN COUNTY
NEW ULM, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	General	Road and Bridge
Revenues		
Taxes	\$ 7,747,360	\$ 3,148,329
Special assessments	142,692	-
Licenses and permits	36,411	-
Intergovernmental	2,954,593	5,350,619
Charges for services	1,767,878	29,800
Fines and forfeits	8,838	-
Gifts and contributions	-	-
Investment earnings	165,390	-
Miscellaneous	394,320	26,014
	\$ 13,217,482	\$ 8,554,762
Expenditures		
Current		
General government	\$ 4,626,417	\$ -
Public safety	5,633,536	-
Highways and streets	-	7,805,282
Sanitation	-	-
Human services	-	-
Health	1,723,217	-
Culture and recreation	373,298	-
Conservation of natural resources	621,878	-
Economic development	11,295	-
Intergovernmental	-	359,446
Debt service		
Principal	115,780	-
Interest	8,235	-
	\$ 13,113,656	\$ 8,164,728
Excess of Revenues Over (Under) Expenditures	\$ 103,826	\$ 390,034
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ 57,395
Transfers out	(177,026)	-
	\$ (177,026)	\$ 57,395
Net Change in Fund Balance	\$ (73,200)	\$ 447,429
Fund Balance - January 1	5,448,610	4,883,962
Increase (decrease) in inventories	-	(18,992)
Fund Balance - December 31	\$ 5,375,410	\$ 5,312,399

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

EXHIBIT 5

<u>Human Services</u>	<u>Landfill</u>	<u>County Ditch</u>	<u>Nonmajor Building and Capital Improvements</u>	<u>Total Governmental Funds</u>
\$ 2,429,888	\$ -	\$ -	\$ 37	\$ 13,325,614
-	358,762	624,287	-	1,125,741
-	520	-	-	36,931
6,041,793	75,320	-	335,807	14,758,132
1,170,783	796,250	-	-	3,764,711
-	-	-	-	8,838
8,001	-	-	-	8,001
-	-	-	-	165,390
129,906	8,480	-	19,138	577,858
<u>\$ 9,780,371</u>	<u>\$ 1,239,332</u>	<u>\$ 624,287</u>	<u>\$ 354,982</u>	<u>\$ 33,771,216</u>
\$ -	\$ -	\$ -	\$ 29,672	\$ 4,656,089
-	-	-	97,331	5,730,867
-	-	-	-	7,805,282
-	1,968,292	-	-	1,968,292
9,629,023	-	-	-	9,629,023
-	-	-	-	1,723,217
-	-	-	75,256	448,554
-	-	560,301	-	1,182,179
-	-	-	-	11,295
-	-	-	-	359,446
-	-	-	-	115,780
-	-	-	-	8,235
<u>\$ 9,629,023</u>	<u>\$ 1,968,292</u>	<u>\$ 560,301</u>	<u>\$ 202,259</u>	<u>\$ 33,638,259</u>
<u>\$ 151,348</u>	<u>\$ (728,960)</u>	<u>\$ 63,986</u>	<u>\$ 152,723</u>	<u>\$ 132,957</u>
\$ 49,090	\$ 55,200	\$ 8,041	\$ 7,300	\$ 177,026
-	-	-	-	(177,026)
<u>\$ 49,090</u>	<u>\$ 55,200</u>	<u>\$ 8,041</u>	<u>\$ 7,300</u>	<u>\$ -</u>
\$ 200,438	\$ (673,760)	\$ 72,027	\$ 160,023	\$ 132,957
5,455,574	5,524,258	733,849	353,828	22,400,081
-	-	-	-	(18,992)
<u>\$ 5,656,012</u>	<u>\$ 4,850,498</u>	<u>\$ 805,876</u>	<u>\$ 513,851</u>	<u>\$ 22,514,046</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

Change in fund balances - total governmental funds (Exhibit 5) **\$ 132,957**

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

In the funds, distributions of joint venture equity interest are reported as revenue. In the statement of net position, an asset is reported for the equity interest, and distributions, increases, and decreases in joint venture equity are reported in the statement of activities. The adjustment is the increase or decrease in equity in the joint venture.

(827,588)

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures	\$ 6,327,759	
Depreciation expense	<u>(2,779,836)</u>	3,547,923

The net effect of various miscellaneous transactions involving capital assets (such as sales, trade-ins, and retirements) is to decrease net position.

Net book value of assets disposed of		(17,010)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Increase in deferred inflows of resources for unavailable revenues		204,762
--	--	---------

The repayment of principal of long-term debt consumes the current financial resources of governmental funds but has no effect on net position.

Principal payments on debt		115,780
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Decrease in inventories	\$ (18,992)	
Increase in deferred pension outflows	7,350,297	
Decrease in accrued interest payable	272	
Increase in compensated absences payable	(62,081)	
Increase in net pension liability	(8,267,415)	
Increase in net other postemployment benefits obligations	(78,457)	
Increase in landfill postclosure care costs	(50,563)	
Increase in deferred pension inflows	<u>(725,166)</u>	<u>(1,852,105)</u>

Change in Net Position of Governmental Activities (Exhibit 2) **\$ 1,304,719**

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 7

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 7,663,422	\$ 7,663,422	\$ 7,747,360	\$ 83,938
Special assessments	215,721	215,721	142,692	(73,029)
Licenses and permits	38,430	38,430	36,411	(2,019)
Intergovernmental	2,417,602	2,417,602	2,954,593	536,991
Charges for services	1,698,204	1,698,204	1,767,878	69,674
Fines and forfeits	8,053	8,053	8,838	785
Investment earnings	93,100	93,100	165,390	72,290
Miscellaneous	368,482	368,482	394,320	25,838
Total Revenues	\$ 12,503,014	\$ 12,503,014	\$ 13,217,482	\$ 714,468
Expenditures				
Current				
General government				
Commissioners	\$ 268,207	\$ 268,207	\$ 265,671	\$ 2,536
Courts	88,146	88,146	121,248	(33,102)
Law library	12,000	12,000	19,323	(7,323)
County auditor/treasurer	620,913	620,913	565,371	55,542
License bureau	203,615	203,615	204,040	(425)
County assessor	506,583	506,583	521,466	(14,883)
Elections	71,542	71,542	84,334	(12,792)
Accounting and auditing	54,000	54,000	55,175	(1,175)
Data processing	473,170	473,170	467,063	6,107
Central services	186,061	186,061	190,113	(4,052)
Personnel administration	207,538	207,538	222,812	(15,274)
Attorney	412,539	412,539	482,549	(70,010)
Recorder	477,285	477,285	495,075	(17,790)
Planning and zoning	140,121	140,121	141,204	(1,083)
Buildings and plant	581,687	581,687	543,179	38,508
Veterans service officer	118,442	118,442	132,925	(14,483)
Veterans shuttle	14,462	14,462	5,604	8,858
Other	142,608	142,608	109,265	33,343
Total general government	\$ 4,578,919	\$ 4,578,919	\$ 4,626,417	\$ (47,498)

**BROWN COUNTY
NEW ULM, MINNESOTA**

**EXHIBIT 7
(Continued)**

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 2,132,660	\$ 2,132,660	\$ 2,196,937	\$ (64,277)
Regional radio board operations	1,035	1,035	1,034	1
Boat and water safety	9,426	9,426	6,406	3,020
Emergency services	45,289	45,289	252,699	(207,410)
Coroner	17,800	17,800	8,808	8,992
E-911 system	104,872	104,872	50,045	54,827
County jail	1,468,938	1,468,938	1,487,175	(18,237)
Probation and parole	1,691,782	1,691,782	1,620,148	71,634
Sheriff's contingency	3,353	3,353	-	3,353
Snowmobile safety	3,589	3,589	10,284	(6,695)
Total public safety	\$ 5,478,744	\$ 5,478,744	\$ 5,633,536	\$ (154,792)
Health				
Nursing service	\$ 1,756,151	\$ 1,756,151	\$ 1,723,217	\$ 32,934
Culture and recreation				
Historical society	\$ 87,448	\$ 87,448	\$ 87,448	\$ -
Parks	124,261	124,261	148,728	(24,467)
County/regional library	70,412	70,412	70,412	-
Snowmobile trails	-	-	43,875	(43,875)
Other	22,639	22,639	22,835	(196)
Total culture and recreation	\$ 304,760	\$ 304,760	\$ 373,298	\$ (68,538)
Conservation of natural resources				
Cooperative extension	\$ 79,769	\$ 79,769	\$ 71,968	\$ 7,801
Soil and water conservation	106,421	106,421	106,421	-
Agricultural society/County fair	28,500	28,500	28,500	-
Water planning	82,769	82,769	277,466	(194,697)
Wetlands	28,660	28,660	28,462	198
Septic loan program	91,706	91,706	104,026	(12,320)
Other conservation	-	-	5,035	(5,035)
Total conservation of natural resources	\$ 417,825	\$ 417,825	\$ 621,878	\$ (204,053)

**BROWN COUNTY
NEW ULM, MINNESOTA**

*EXHIBIT 7
(Continued)*

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Community development	\$ 11,295	\$ 11,295	\$ 11,295	\$ -
Debt service				
Principal	\$ 115,780	\$ 115,780	\$ 115,780	\$ -
Interest	8,235	8,235	8,235	-
Total debt service	\$ 124,015	\$ 124,015	\$ 124,015	\$ -
Total Expenditures	\$ 12,671,709	\$ 12,671,709	\$ 13,113,656	\$ (441,947)
Excess of Revenues Over (Under)				
Expenditures	\$ (168,695)	\$ (168,695)	\$ 103,826	\$ 272,521
Other Financing Sources (Uses)				
Transfers out	-	-	(177,026)	(177,026)
Net Change in Fund Balance	\$ (168,695)	\$ (168,695)	\$ (73,200)	\$ 95,495
Fund Balance - January 1	5,448,610	5,448,610	5,448,610	-
Fund Balance - December 31	\$ 5,279,915	\$ 5,279,915	\$ 5,375,410	\$ 95,495

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 8

**BUDGETARY COMPARISON STATEMENT
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,061,083	\$ 2,061,083	\$ 3,148,329	\$ 1,087,246
Intergovernmental	5,351,823	5,351,823	5,350,619	(1,204)
Charges for services	26,400	26,400	29,800	3,400
Miscellaneous	33,000	33,000	26,014	(6,986)
Total Revenues	\$ 7,472,306	\$ 7,472,306	\$ 8,554,762	\$ 1,082,456
Expenditures				
Current				
Highways and streets				
Administration	\$ 430,808	\$ 430,808	\$ 409,358	\$ 21,450
Maintenance	1,887,373	1,887,373	1,590,380	296,993
Construction	4,708,275	4,708,275	4,484,208	224,067
Equipment maintenance and shop	979,440	979,440	1,210,236	(230,796)
Materials and services for resale	235,000	235,000	111,100	123,900
Total highways and streets	\$ 8,240,896	\$ 8,240,896	\$ 7,805,282	\$ 435,614
Intergovernmental				
Highways and streets	345,000	345,000	359,446	(14,446)
Total Expenditures	\$ 8,585,896	\$ 8,585,896	\$ 8,164,728	\$ 421,168
Excess of Revenues Over (Under) Expenditures	\$ (1,113,590)	\$ (1,113,590)	\$ 390,034	\$ 1,503,624
Other Financing Sources (Uses)				
Transfers in	63,590	63,590	57,395	(6,195)
Net Change in Fund Balance	\$ (1,050,000)	\$ (1,050,000)	\$ 447,429	\$ 1,497,429
Fund Balance - January 1	4,883,962	4,883,962	4,883,962	-
Increase (decrease) in inventories	-	-	(18,992)	(18,992)
Fund Balance - December 31	\$ 3,833,962	\$ 3,833,962	\$ 5,312,399	\$ 1,478,437

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 9

**BUDGETARY COMPARISON STATEMENT
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,414,075	\$ 2,414,075	\$ 2,429,888	\$ 15,813
Intergovernmental	5,158,260	5,158,260	6,041,793	883,533
Charges for services	1,127,821	1,127,821	1,170,783	42,962
Gifts and contributions	3,540	3,540	8,001	4,461
Miscellaneous	119,031	119,031	129,906	10,875
Total Revenues	\$ 8,822,727	\$ 8,822,727	\$ 9,780,371	\$ 957,644
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,844,839	\$ 1,844,839	\$ 2,738,117	\$ (893,278)
Social services	6,388,010	6,388,010	6,226,876	161,134
Heartland express	703,735	703,735	664,030	39,705
Total Expenditures	\$ 8,936,584	\$ 8,936,584	\$ 9,629,023	\$ (692,439)
Excess of Revenues Over (Under)				
Expenditures	\$ (113,857)	\$ (113,857)	\$ 151,348	\$ 265,205
Other Financing Sources (Uses)				
Transfers in	57,750	57,750	49,090	(8,660)
Net Change in Fund Balance	\$ (56,107)	\$ (56,107)	\$ 200,438	\$ 256,545
Fund Balance - January 1	5,455,574	5,455,574	5,455,574	-
Fund Balance - December 31	\$ 5,399,467	\$ 5,399,467	\$ 5,656,012	\$ 256,545

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 10

**BUDGETARY COMPARISON STATEMENT
LANDFILL SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 351,688	\$ 351,688	\$ 358,762	\$ 7,074
Licenses and permits	350	350	520	170
Intergovernmental	78,952	78,952	75,320	(3,632)
Charges for services	613,500	613,500	796,250	182,750
Miscellaneous	2,000	2,000	8,480	6,480
Total Revenues	\$ 1,046,490	\$ 1,046,490	\$ 1,239,332	\$ 192,842
Expenditures				
Current				
Sanitation				
Solid waste	1,028,693	1,028,693	1,968,292	(939,599)
Excess of Revenues Over (Under) Expenditures	\$ 17,797	\$ 17,797	\$ (728,960)	\$ (746,757)
Other Financing Sources (Uses)				
Transfers in	94,000	94,000	55,200	(38,800)
Net Change in Fund Balance	\$ 111,797	\$ 111,797	\$ (673,760)	\$ (785,557)
Fund Balance - January 1	5,524,258	5,524,258	5,524,258	-
Fund Balance - December 31	\$ 5,636,055	\$ 5,636,055	\$ 4,850,498	\$ (785,557)

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 11

**BUDGETARY COMPARISON STATEMENT
COUNTY DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 450,000	\$ 450,000	\$ 624,287	\$ 174,287
Expenditures				
Current				
Conservation of natural resources				
Ditch maintenance	456,554	456,554	560,301	(103,747)
Excess of Revenues Over (Under) Expenditures	\$ (6,554)	\$ (6,554)	\$ 63,986	\$ 70,540
Other Financing Sources (Uses)				
Transfers in	6,554	6,554	8,041	1,487
Net Change in Fund Balance	\$ -	\$ -	\$ 72,027	\$ 72,027
Fund Balance - January 1	733,849	733,849	733,849	-
Fund Balance - December 31	\$ 733,849	\$ 733,849	\$ 805,876	\$ 72,027

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 12

**STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2016**

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 933,754</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 933,754</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2016. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Brown County was established February 11, 1856, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Brown County (primary government) and its component unit for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Discretely Presented Component Unit

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

<u>Component Unit</u>	<u>Included in the Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Brown County Economic Development Partners, Inc.	The County appoints its governing board, can impose its will on the entity, and the entity is fiscally dependent on the County.	Brown County Economic Development Partners, Inc. c/o Brown County Administrator’s Office 14 South State P. O. Box 248 New Ulm, Minnesota 56073-0248

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures and Jointly-Governed Organizations

The County participates in several joint ventures described in Note 6.C. The County also participates in the jointly-governed organizations described in Note 6.D.

B. Basic Financial Statements

1. County-Wide Statements

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

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

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as assigned property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Human Services Special Revenue Fund is used to account for restricted revenue sources from the federal, state, and other oversight agencies, as well as assigned property tax revenues from the County to be used for economic assistance and community social services programs.

The Landfill Special Revenue Fund is used to account for restricted revenue sources from the federal and state government, as well as assigned special assessment and service revenues from the County to be used for the cost of County landfill and recycling operations.

The County Ditch Special Revenue Fund is used to account for the cost of constructing and maintaining an agricultural drainage ditch system. Financing is provided by special assessments levied against benefited property.

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following funds/fund types:

The Building and Capital Improvements Capital Projects Fund is used to account for assigned property tax revenues to be used to pay the cost of constructing and maintaining County buildings.

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Brown County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, shared revenues, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled investments are reported at their fair value at December 31, 2016. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds are allocated interest as transfers from the General Fund based on the average cash balance of the fund. Pooled investment earnings for 2016 were \$165,390.

Brown County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The investment in the pool is measured at the net asset value per share provided by the pool.

2. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.” All other outstanding balances between funds are reported as “due to/from other funds.”

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.

Special assessments receivable consist of delinquent special assessments payable in the years 2011 through 2016 and current/noncurrent special assessments payable in 2017 and after. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments.

No allowance for accounts receivable and uncollectible taxes/special assessments has been provided because such amounts are not expected to be material.

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Inventories

The Road and Bridge Special Revenue Fund inventory is valued using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories at the county-wide level are reported as expenses when consumed.

Inventories, as reported in the fund financial statements, are offset by nonspendable fund balance to indicate that they do not constitute available spendable resources.

4. Capital Assets

Capital assets, which include property, plant, equipment, intangibles, and infrastructure assets (for example, roads, bridges, and similar items) are reported in the governmental activities column in the county-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 (\$100,000 for infrastructure) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value on 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.

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Capital Assets (Continued)

Property, plant, and equipment of the County, as well as its component unit, are depreciated/amortized using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20 - 150
Land improvements	3 - 150
Infrastructure	50 - 75
Intangibles	5 - 20
Machinery, furniture, and equipment	2 - 20

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the county-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The current portion is the greater of the prior year actual severance payout or the average of the previous five year severance payouts.

6. Long-Term Obligations

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Long-Term Obligations (Continued)

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

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The County has one item, deferred pension outflows, which qualifies for reporting in this category. This outflow arises only under the full accrual basis of accounting and consists of pension plan contributions paid subsequent to the measurement date, differences between expected and actual pension plan economic experience, changes in actuarial assumptions, differences between projected and actual earnings on pension plan investments, and pension plan changes in proportionate share and, accordingly, is reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has three types, unavailable revenue, prepaid taxes, and deferred pension inflows, that qualify for reporting in this category. Unavailable revenue arises only under a modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The County reports prepaid taxes for collections levied for subsequent

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Deferred Outflows/Inflows of Resources (Continued)

periods. Prepaid taxes are reported on the modified and full accrual basis of accounting and, accordingly, are reported in the governmental funds balance sheet and the statement of net position. This amount is deferred and recognized when the time requirements have been met. Deferred pension inflows arise only under the full accrual basis of accounting and, accordingly, are reported only in the statement of net position. This amount consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share.

8. Pension Plan

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

9. Unearned Revenue

Governmental funds and county-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned.

10. Classification of Net Position

Net position in the county-wide financial statements is classified in the following categories:

Investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation.

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Classification of Net Position (Continued)

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

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

11. Classification of Fund Balances

The County's fund balance policy established a minimum unrestricted fund balance within the range of 35 to 50 percent of fund operating revenues. In the event the unrestricted fund balance drops below the established minimum level, the County Board will develop a plan to replenish the fund balance to the established level.

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

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

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

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balances (Continued)

Assigned - amounts that the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board.

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

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

12. Use of Estimates

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

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 the General Fund, special revenue funds, and the capital projects fund. All annual appropriations lapse at year-end.

On or before mid-August of each year, all departments submit requests for appropriations to the County Auditor/Treasurer so that a budget can be prepared. Before October 31, the proposed budget is presented to the County Board for review.

The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations within a department and between departments require approval of the County Board. The legal level of budgetary control--the level at which expenditures may not legally exceed appropriations--is the fund level.

B. Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget for the year ended December 31, 2016:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 13,113,656	\$ 12,671,709	\$ 441,947
Special Revenue Funds			
Human Services	9,629,023	8,936,584	692,439
Landfill	1,968,292	1,028,693	939,599
County Ditch	560,301	456,554	103,747

The excess of expenditures over budget was funded by unanticipated revenues and available fund balance.

C. Deficit Fund Equity

The County Ditch Special Revenue Fund has a positive fund balance of \$805,876 as of December 31, 2016, although 15 ditches had deficit balances. The deficits will be eliminated with future special assessment levies against the benefited properties. The following is a summary of the individual ditch systems:

**BROWN COUNTY
NEW ULM, MINNESOTA**

2. Stewardship, Compliance, and Accountability

C. Deficit Fund Equity (Continued)

75 ditches with positive fund balances	\$ 964,272
15 ditches with deficit fund balances	<u>(158,396)</u>
Total Fund Balance	<u>\$ 805,876</u>

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments are reported as follows:

Primary government	
Cash and pooled investments	\$ 22,369,031
Fiduciary funds	
Agency funds	
Cash and pooled investments	<u>933,754</u>
Total Cash and Investments	<u>\$ 23,302,785</u>

a. Deposits

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

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County's policy states all deposits should be fully collateralized. As of December 31, 2016, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) time deposits fully insured by the Federal Deposit Insurance Corporation or bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. It is the County's policy to minimize its exposure to interest rate risk by investing operating funds primarily in shorter-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity required for operations.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in the safest types of securities; pre-qualify the financial institutions, brokers/dealers, and advisors with which an entity will do business; and diversify the investment portfolio so that potential losses on individual securities are minimized.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County's policy states the County will minimize investment custodial credit risk by permitting brokers that obtained investments to hold them only to the extent there is SIPC (Securities Investor Protection Corporation) coverage and excess SIPC coverage available. Securities

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2016, none of the County's investments were exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy to diversify its investment portfolio to avoid overconcentration of investments from a specific issuer, excluding U.S. Treasury securities which may be held without limit.

The following table presents the County's deposit and investment balances at December 31, 2016, and information relating to potential investment risks:

	Credit Risk Credit Rating (2)	Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk			Carrying (Fair) Value
			Less Than 1 Year	1 - 5 Years	More Than 5 Years	
U.S. government securities/bonds						
Federal Home Loan Bank (1)	AA+	7.2%	\$ -	\$ 995,300	\$ -	\$ 995,300
Federal National Mortgage Association (1)	AA+	17.9%	-	2,476,100	-	2,476,100
Federal Home Loan Mortgage Corporation (1)	AA+	25.2%	-	2,472,150	1,009,332	3,481,482
Federal Farm Credit Bank (1)	AA+	7.7%	-	-	1,067,880	1,067,880
Total U.S. government securities/bonds			\$ -	\$ 5,943,550	\$ 2,077,212	\$ 8,020,762
Investment pools - MAGIC Fund	N/R	N/A	1,101	-	-	1,101
Negotiable certificates of deposit	N/R	<5%	246,005	5,330,949	197,654	5,774,608
Total investments			\$ 247,106	\$ 11,274,499	\$ 2,274,866	\$ 13,796,471
Deposits						9,505,274
Change funds						1,040
Total Cash and Investments						\$ 23,302,785

(1) These bonds have step provisions, which could result in the bonds being called prior to maturity.

(2) As rated by Standard and Poor's

N/R - Not Rated

N/A - Not Applicable

<5% - Concentration by individual issuer is less than 5% of investments

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

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

At December 31, 2016, the County had the following recurring fair value measurements.

	December 31, 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
U.S. agencies	\$ 8,020,762	\$ -	\$ 8,020,762	\$ -
Negotiable certificates of deposit	5,774,608	-	5,774,608	-
Total Debt Securities	\$ 13,795,370	\$ -	\$ 13,795,370	\$ -
Investments measured at the net asset value (NAV)				
MAGIC Portfolio	\$ 1,101			

Debt securities classified in Level 2 are valued using matrix pricing based on the securities' relationship to benchmark quoted prices.

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

MAGIC is a local government investment pool which is quoted at a net asset value (NAV). The County invests in this pool for the purpose of the joint investment of the County's money with those of other counties to enhance the investment earnings accruing to each member.

MAGIC Portfolio is valued using amortized cost. Shares of the MAGIC Portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as the County has a sufficient number of shares to meet their redemption request. The MAGIC Fund's Board of Trustees can suspend the right of withdrawal or postpone the date of payment if the Trustees determine that there is an emergency that makes the sale of a Portfolio's securities or determination of its net asset value not reasonably practical.

2. Receivables

Receivables as of December 31, 2016, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes - delinquent	\$ 95,769	\$ -
Special assessments - delinquent	38,699	-
Special assessments	1,005,213	263,996
Accounts	1,001,472	-
Accrued interest	46,086	-
Due from other governments	2,052,913	-
	<hr/>	<hr/>
Total Governmental Activities	\$ 4,240,152	\$ 263,996

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,038,712	\$ 779,676	\$ -	\$ 1,818,388
Construction in progress	212,500	57,260	2,500	267,260
Total capital assets not depreciated	<u>\$ 1,251,212</u>	<u>\$ 836,936</u>	<u>\$ 2,500</u>	<u>\$ 2,085,648</u>
Capital assets depreciated				
Buildings and improvements	\$ 15,436,355	\$ 27,049	\$ -	\$ 15,463,404
Land improvements	3,367,649	37,169	-	3,404,818
Machinery, furniture, and equipment	8,233,367	772,558	317,692	8,688,233
Computer software - intangible	559,407	209,396	-	768,803
Infrastructure - highway	87,932,919	4,447,151	-	92,380,070
Infrastructure - dam	2,098,857	-	-	2,098,857
Total capital assets depreciated	<u>\$ 117,628,554</u>	<u>\$ 5,493,323</u>	<u>\$ 317,692</u>	<u>\$ 122,804,185</u>
Less: accumulated depreciation for				
Buildings and improvements	\$ 3,681,831	\$ 213,499	\$ -	\$ 3,895,330
Land improvements	1,958,980	51,506	-	2,010,486
Machinery, furniture, and equipment	5,051,313	649,050	300,682	5,399,681
Computer software - intangible	120,324	50,578	-	170,902
Infrastructure - highway	25,233,098	1,801,036	-	27,034,134
Infrastructure - dam	326,220	14,167	-	340,387
Total accumulated depreciation	<u>\$ 36,371,766</u>	<u>\$ 2,779,836</u>	<u>\$ 300,682</u>	<u>\$ 38,850,920</u>
Total capital assets depreciated, net	<u>\$ 81,256,788</u>	<u>\$ 2,713,487</u>	<u>\$ 17,010</u>	<u>\$ 83,953,265</u>
Governmental Activities Capital Assets, Net	<u>\$ 82,508,000</u>	<u>\$ 3,550,423</u>	<u>\$ 19,510</u>	<u>\$ 86,038,913</u>

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

Governmental Activities	
General government	\$ 186,176
Public safety	295,815
Highways and streets, including depreciation of infrastructure assets	2,178,398
Sanitation	24,528
Human services	59,228
Health	5,321
Culture and recreation, including depreciation of infrastructure assets	25,803
Conservation of natural resources	4,567
Total Depreciation Expense - Governmental Activities	<u>\$ 2,779,836</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2016, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Human Services	\$ 10,800	Labor and internet
Road and Bridge	General	\$ 3,607	Fuel
	Human Services	4,093	Fuel and service work
Total due to Road and Bridge Fund		<u>\$ 7,700</u>	
Total Due To/From Other Funds		<u><u>\$ 18,500</u></u>	

The interfund receivables and payables are expected to be paid within one year of December 31, 2016.

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2016, consisted of transfers from the General Fund to allocate investment earnings:

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>	<u>Purpose</u>
General	Road and Bridge	\$ 57,395	Allocated interest
	Human Services	49,090	Allocated interest
	County Ditch	8,041	Allocated interest
	Landfill	55,200	Allocated interest
	Other governmental funds	<u>7,300</u>	Allocated interest
Total Transfers In/Out		<u><u>\$ 177,026</u></u>	

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Construction and Other Contract Commitments

The County has active construction projects and other contract commitments as of December 31, 2016. The projects and commitments include the following:

	Spent-to-Date	Remaining Commitment
General Fund Land surveying project	\$ 20,260	\$ 166,549
Road and Bridge Fund Highway road projects	1,033,348	98,193
Ditch Fund Ditch clean out	5,207	111,902
Nonmajor Building and Capital Improvements Capital Projects Fund Roof replacement	-	249,744
HVAC	-	459,667

2. Long-Term Debt

Loans Payable

The County entered into loan agreements with the Minnesota Pollution Control Agency for funding Clean Water Partnership (CWP) Projects and a loan agreement with the Minnesota Department of Agriculture for financing the repair of failing septic systems. The loans are secured by special assessments placed on the individual parcels. Loan payments are reported in the General Fund.

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2016
2001 Septic System Replacement Project	2021	\$ 2,665	-	\$ 53,300	\$ 26,650
2003 Cottonwood River Restoration CWP Project	2017	16,973	2.00	306,293	16,805
2004 Little Cottonwood River Restoration Continuation CWP Project	2018	7,238	2.00	130,622	21,288
2007 Middle Minnesota Watershed CWP Project	2020	18,121	2.00	327,008	138,658

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

2. Long-Term Debt

Loans Payable (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2016
2007 Cottonwood River Watershed Pollution Reduction Project	2020	6,413	2.00	115,735	49,074
2009 Cottonwood River Watershed Phosphorus TMDL Continuation CWP Project	2022	9,147	2.00	165,066	102,952
Total Loans Payable					<u>\$ 355,427</u>

Debt Service Requirements

Year Ending December 31	Loans Payable	
	Principal	Interest
2017	\$ 98,114	\$ 6,030
2018	75,598	4,334
2019	69,700	2,994
2020	70,993	1,700
2021	22,999	626
2022	18,023	271
Total	<u>\$ 355,427</u>	<u>\$ 15,955</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Landfill closure/postclosure liability	\$ 1,166,145	\$ 50,563	\$ -	\$ 1,216,708	\$ -
Loans payable	471,207	-	115,780	355,427	98,114
Compensated absences	1,642,361	62,081	-	1,704,442	93,153
Long-Term Liabilities	<u>\$ 3,279,713</u>	<u>\$ 112,644</u>	<u>\$ 115,780</u>	<u>\$ 3,276,577</u>	<u>\$ 191,267</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

3. Changes in Long-Term Liabilities (Continued)

Compensated absences, other postemployment benefit liability, and pension liabilities are generally liquidated by the General Fund, Road and Bridge, Human Services, and Landfill Special Revenue Funds.

4. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,216,708 landfill closure and postclosure care liability at December 31, 2016, represents the cumulative amount reported to date based on the use of 55 percent of the ultimate capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$1,009,696 as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2016. The County expects to close the landfill in 2062. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The County is in compliance with these requirements and, at December 31, 2016, investments of \$2,879,294 are restricted for these purposes. Accumulated annual contributions and any payments of landfill postclosure care costs are reported in the Landfill Special Revenue Fund. Brown County expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

5. Deferred Inflows of Resources and Unearned Revenue

Deferred inflows of resources and unearned revenue as of December 31, 2016, for the County's governmental funds were as follows:

	<u>Taxes and Special Assessments</u>	<u>Grants and Allotments</u>	<u>Other</u>	<u>Total</u>
Major governmental funds				
General	\$ 463,033	\$ 141,232	\$ 43,740	\$ 648,005
Road and Bridge	21,467	590,912	527	612,906
Human Services	30,354	84,368	718,256	832,978
Landfill	12,736	-	8,235	20,971
County Ditch	664,640	8,534	15,496	688,670
Nonmajor governmental fund				
Building and Capital Improvements	252	-	-	252
 Total	 <u>\$ 1,192,482</u>	 <u>\$ 825,046</u>	 <u>\$ 786,254</u>	 <u>\$ 2,803,782</u>
 Liability				
Unearned revenue	\$ 3,298	\$ 141,232	\$ -	\$ 144,530
Deferred inflows of resources				
Unavailable revenue	1,100,926	683,814	786,254	2,570,994
Prepaid taxes	88,258	-	-	88,258
 Total	 <u>\$ 1,192,482</u>	 <u>\$ 825,046</u>	 <u>\$ 786,254</u>	 <u>\$ 2,803,782</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

D. Fund Balances

	General	Road and Bridge	Human Services	Landfill	County Ditch	Nonmajor Building and Capital Improvements	Total Governmental Funds
Fund Balances							
Nonspendable							
Inventories	\$ -	\$ 217,349	\$ -	\$ -	\$ -	\$ -	\$ 217,349
Restricted							
Law library	\$ 3,256	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,256
Recorder's equipment purchases	15,962	-	-	-	-	-	15,962
Enhanced 911	404,134	-	-	-	-	-	404,134
Land records	17,935	-	-	-	-	-	17,935
Landfill closure/postclosure	-	-	-	2,879,294	-	-	2,879,294
Sheriff's contingency	7,401	-	-	-	-	-	7,401
Gun permits	6,260	-	-	-	-	-	6,260
Septic/sewer loans	558,162	-	-	-	-	-	558,162
Conservation of natural resources	-	-	-	-	964,272	-	964,272
Donations	-	-	17,099	-	-	-	17,099
Highway construction	-	1,077,084	-	-	-	-	1,077,084
Total restricted	\$ 1,013,110	\$ 1,077,084	\$ 17,099	\$ 2,879,294	\$ 964,272	\$ -	\$ 5,950,859
Assigned							
Recycling	\$ -	\$ -	\$ -	\$ 135,069	\$ -	\$ -	\$ 135,069
Road and bridge	-	4,017,966	-	-	-	-	4,017,966
Human services	-	-	5,638,913	-	-	-	5,638,913
Capital improvements	-	-	-	-	-	513,851	513,851
Landfill	-	-	-	1,836,135	-	-	1,836,135
Jail commissions	71,677	-	-	-	-	-	71,677
County funded loan	156,077	-	-	-	-	-	156,077
Parks	154,797	-	-	-	-	-	154,797
Vets shuttle	101,986	-	-	-	-	-	101,986
Boat and water safety	35,564	-	-	-	-	-	35,564
Total assigned	\$ 520,101	\$ 4,017,966	\$ 5,638,913	\$ 1,971,204	\$ -	\$ 513,851	\$ 12,662,035
Unassigned	\$ 3,842,199	\$ -	\$ -	\$ -	\$ (158,396)	\$ -	\$ 3,683,803
Total Fund Balances	\$ 5,375,410	\$ 5,312,399	\$ 5,656,012	\$ 4,850,498	\$ 805,876	\$ 513,851	\$ 22,514,046

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (OPEB)

A. Defined Benefit Pension Plans

1. Plan Description

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

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

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Plan (accounted for in the Police and Fire Fund). For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after 10 years and increasing 5 percent for each year of service until fully vested after 20 years.

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Public Employees Correctional Plan (accounted for in the Correctional Fund). For members hired after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years.

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (OPEB)

A. Defined Benefit Pension Plans (Continued)

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent 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 of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Plan members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (OPEB)

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Basic members and Coordinated members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2016. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2016. Public Employees Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2016.

In 2016, the County was required to contribute the following percentages of annual covered salary:

General Employees Retirement Plan	
Basic Plan members	11.78%
Coordinated Plan members	7.50
Public Employees Police and Fire Plan	16.20
Public Employees Correctional Plan	8.75

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (OPEB)

A. Defined Benefit Pension Plans

3. Contributions (Continued)

The County's contributions for the year ended December 31, 2016, to the pension plans were:

General Employees Retirement Plan	\$	779,982
Public Employees Police and Fire Plan		116,017
Public Employees Correctional Plan		70,896

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

4. Pension Costs

General Employees Retirement Plan

At December 31, 2016, the County reported a liability of \$13,169,835 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.1622 percent. It was 0.1641 percent measured as of June 30, 2015. The County recognized pension expense of \$1,728,849 for its proportionate share of the General Employees Retirement Plan's pension expense.

The County also recognized \$51,312 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (OPEB)

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

County's proportionate share of the net pension liability	\$ 13,169,835
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>172,088</u>
Total	<u><u>\$ 13,341,923</u></u>

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 1,073,164
Changes in actuarial assumptions	2,578,665	-
Difference between projected and actual investment earnings	2,506,683	-
Changes in proportion	-	435,557
Contributions paid to PERA subsequent to the measurement date	<u>421,522</u>	<u>-</u>
Total	<u><u>\$ 5,506,870</u></u>	<u><u>\$ 1,508,721</u></u>

The \$421,522 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (OPEB)

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

Year Ended December 31	Pension Expense Amount
2017	\$ 925,711
2018	925,711
2019	1,249,488
2020	475,717

Public Employees Police and Fire Plan

At December 31, 2016, the County reported a liability of \$2,929,617 for its proportionate share of the Public Employees Police and Fire Plan’s net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2016, the County’s proportion was 0.073 percent. It was 0.070 percent measured as of June 30, 2015. The County recognized pension expense of \$505,260 for its proportionate share of the Public Employees Police and Fire Plan’s pension expense.

The County also recognized \$6,570 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota’s on-behalf contribution to the Public Employees Police and Fire Plan. Legislation requires the State of Minnesota to contribute \$9 million to the Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (OPEB)

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 331,661
Changes in actuarial assumptions	1,612,296	-
Difference between projected and actual investment earnings	442,626	-
Changes in proportion	28,406	28,801
Contributions paid to PERA subsequent to the measurement date	63,375	-
Total	\$ 2,146,703	\$ 360,462

The \$63,375 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	\$ 368,767
2018	368,767
2019	368,767
2020	334,122
2021	282,443

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (OPEB)

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Correctional Plan

At December 31, 2016, the County reported a liability of \$1,534,319 for its proportionate share of the Public Employees Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.42 percent. It was 0.43 percent measured as of June 30, 2015. The County recognized pension expense of \$432,952 for its proportionate share of the Public Employees Correctional Plan's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,201	\$ 16,968
Changes in actuarial assumptions	977,546	-
Difference between projected and actual investment earnings	173,352	-
Changes in proportion	-	1,915
Contributions paid to PERA subsequent to the measurement date	38,296	-
Total	\$ 1,190,395	\$ 18,883

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (OPEB)

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Plan (Continued)

The \$38,296 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2017	\$ 363,803
2018	363,803
2019	372,664
2020	32,946

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2016, was \$2,667,061.

5. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (OPEB)

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014 tables, while mortality rates for the Public Employees Police and Fire Plan and the Public Employees Correctional Plan were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, cost of living benefit increases for retirees are assumed to be 1.0 percent. Cost of living benefit increases for retirees are assumed to be 2.5 percent for the Public Employees Correctional Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was for the period 2008 through 2015. The experience study for the Public Employees Police and Fire Plan was for the period 2004 through 2009. The experience study for the Public Employees Correctional Plan was for the period 2006 through 2011.

On August 16, 2016, an updated experience study was done for PERA's Public Employees Police and Fire Plan for the period 2011 through 2015, which would result in a larger pension liability. However, PERA will implement the changes in assumptions for its June 30, 2017, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.5 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (OPEB)

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2016, a reduction of the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan 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. In the Public Employees Police and Fire Plan and the Public Employees Correctional Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056, and June 30, 2058, respectively. Beginning in fiscal years ended June 30, 2057, for the Public Employees Police and Fire Plan and June 30, 2059, for the Public Employees Correctional Plan, when projected benefit payments exceed the Plans' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60 percent for the Public Employees Police and Fire Plan and 5.31 percent for the Public Employees Correctional Plan was determined that produced approximately the same present value of the projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits through the point of asset depletion and 2.85 percent thereafter.

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (OPEB)

A. Defined Benefit Pension Plans (Continued)

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2016:

General Employees Retirement Plan

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

Public Employees Police and Fire Plan

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (OPEB)

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions (Continued)

Public Employees Correctional Plan

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

8. Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability 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 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	Proportionate Share of the					
	General Employees Retirement Plan		Public Employees Police and Fire Plan		Public Employees Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 18,705,069	4.60%	\$ 4,010,075	4.31%	\$ 2,310,210
Current	7.50	13,169,835	5.60	2,929,617	5.31	1,534,319
1% Increase	8.50	8,610,309	6.60	1,972,447	6.31	928,586

9. Pension Plan Fiduciary Net Position

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (OPEB) (Continued)

B. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by Brown County during the year ended December 31, 2016, were:

	Employee	Employer
Contribution amount	\$ 4,066	\$ 4,066
Percentage of covered payroll	5%	5%

C. Other Postemployment Benefits (OPEB)

Plan Description

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (OPEB)

C. Other Postemployment Benefits (OPEB) (Continued)

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Brown County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retired population, the retirees are receiving an implicit rate subsidy. As of January 1, 2016, there was two retirees receiving health benefits from the County's health care plan. The implicit rate subsidy amount was determined by an actuarial study to be \$21,387 for 2016. A separate, audited GAAP-basis postemployment plan report is not issued.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	\$	110,781
Interest on net OPEB obligation		20,753
Adjustment to ARC		(31,690)

Annual OPEB cost (expense)	\$	99,844
Contributions made during the year		(21,387)

Increase in net OPEB obligation	\$	78,457
Net OPEB Obligation - Beginning of Year		592,948

Net OPEB Obligation - End of Year	\$	671,405

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for the years ended December 31, 2014, 2015, and 2016, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2014	\$ 121,504	\$ 24,464	20.1%	\$ 512,162
December 31, 2015	119,226	38,440	32.2	592,948
December 31, 2016	99,844	21,387	21.4	671,405

Funded Status and Funding Progress

As of January 1, 2016, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial liability for benefits was \$723,459, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$723,459. The covered payroll (annual payroll of active employees covered by the plan) was \$11,652,309, and the ratio of the UAAL to the covered payroll was 6.2 percent.

Actuarial Methods and Assumptions

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2016, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.5 percent investment rate of return (net of investment expenses), which is Brown County's implicit rate of return on the General Fund. The annual health care cost trend is 6.75 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 7 years. These rates include an inflation assumption of 2.5 percent. The UAAL is being amortized over 30 years as a level dollar on a closed basis. The remaining amortization period at December 31, 2016, was 21 years.

5. Conduit Debt

Martin Luther College Construction Project

In 2004, the County issued variable rate demand purchase revenue bonds in the amount of \$7,500,000 to finance the acquisition and construction of higher education facilities at Martin Luther College in New Ulm, Minnesota, as authorized by the Municipal Industrial Development Act, Minn. Stat. §§ 469.152 - 469.165. The bonds are secured by an irrevocable direct-pay letter of credit provided by Wells Fargo Bank, NA.

The County is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the financial statements. The outstanding balance at December 31, 2016, is \$3,880,000.

Oak Hills Living Center Project

On December 31, 2008, the County issued a variable rate Health Care Facilities Revenue Note, Series 2008, in the amount of \$6,000,000 to finance the cost of improvements to the Oak Hills Living Center in New Ulm, Minnesota. This note is secured by the fixtures, the equipment, and the revenues and income of Oak Hills Living Center.

**BROWN COUNTY
NEW ULM, MINNESOTA**

5. Conduit Debt

Oak Hills Living Center Project (Continued)

The County is not obligated in any manner for repayment of the note. Accordingly, the note will not be reported as a liability in the financial statements. The outstanding balance at December 31, 2016, is \$5,258,931.

6. Summary of Significant Contingencies and Other Items

A. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 per claim in 2016 and 2017. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

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

B. Contingent Liabilities

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

C. Joint Ventures

Brown-Nicollet Community Health Services Board

The Brown-Nicollet Community Health Services Board was established pursuant to Minn. Stat. ch. 145A and a joint powers agreement, effective July 1, 1975. The Health Services Board consists of ten members, five each from Brown and Nicollet Counties. The primary function of the joint venture is to provide health services and to promote efficiency and economy in the delivery of health services. The joint venture is financed primarily from state and federal grants. For the year ended December 31, 2015 (the most current information available), the Health Services Board had net position of \$512,870. Complete financial information can be obtained from the Brown-Nicollet Community Health Services Board, 622 South Front Street, St. Peter, Minnesota 56082.

Red Rock Rural Water System

The Red Rock Rural Water System was established pursuant to Minn. Stat. ch. 116A through a joint powers agreement pursuant to Minn. Stat. § 471.59 and under the jurisdiction of the Fifth Judicial District. Brown, Cottonwood, Jackson, Lyon, Martin, Murray, Redwood, and Watonwan Counties have agreed to guarantee their shares of debt arising within each respective county. The Red Rock Rural Water System provides water for participating rural water users and cities within the water district. The cost of providing these services is recovered through user charges.

The governing body is composed of nine members appointed to three-year terms by the District Court. Each county is responsible for levying and collecting the special assessments from the benefited properties within the county. The bond issue and notes payable are shown as long-term debt in the financial statements of the Red Rock Rural Water System.

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Red Rock Rural Water System (Continued)

Complete financial information can be obtained from the Red Rock Rural Water System, 305 West Whited Street, Jeffers, Minnesota 56145.

Families First Collaborative

The Families First Collaborative was established in 1997 under the authority of Minn. Stat. § 471.59. The Collaborative includes Brown County Human Services, Public Health, and Probation agencies; New Ulm, Comfrey, Sleepy Eye, and Springfield School Districts; River Bend Education District; and Minnesota Valley Action Council. The mission of the Families First Collaborative is to promote the healthy development of children and families in Brown County. The Collaborative provides improved coordination for children and families through information sharing, elimination of duplicate services, and cooperative efforts. The Collaborative funds selected projects and services that support intervention and the prevention of out-of-home placement of children at risk.

The Collaborative is funded by Local Collaborative Time Study (LCTS) funds and fees. Control of the Collaborative is vested in a Board of Directors consisting of ten members. Brown County Human Services acts as a fiscal agent for the Collaborative. During 2016, Brown County provided \$300 in funding to the Collaborative Integrated Fund (\$100 - Human Services, \$100 - Public Health, and \$100 - Probation).

Any withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, the Families First Collaborative Board of Directors shall distribute all property, real and personal, at the time of termination.

As the administrative county, Brown County Human Services may be liable to the state or federal government for the disallowance, sanction, or audit exception attributable to the Families First Collaborative, including but not limited to, federal fiscal disallowances or sanctions based upon the Collaborative's implementation of the LCTS or any of the other state and federal funding sources and their related requirements. In the event of any such audit disallowance or sanction, the following participating partners, Brown

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Families First Collaborative (Continued)

County Human Services, Public Health, and Probation agencies; New Ulm, Comfrey, Sleepy Eye, and Springfield School Districts; and the River Bend Education District, share the liability. Financial information can be obtained by contacting the Brown County Human Services Department.

Three Counties for Kids Children's Mental Health Collaborative

The Three Counties for Kids Children's Mental Health Collaborative was established in 1996 under the authority of Minn. Stat. § 471.59. The Collaborative includes Brown, Sibley, and Watonwan Counties; River Bend Education District; and Sioux Trails Mental Health Center and Greater Minnesota Family Services. The purpose of the Collaborative is to join local units of government together to ensure a unified, unduplicated, and family-friendly system of intervention and care of families and children. The Collaborative provides improved coordination for children and families through information sharing, elimination of duplicate services, and cooperative efforts. The Collaborative funds selected projects and services that support intervention and the prevention of out-of-home placement of children at risk.

The Collaborative is financed by Local Collaborative Time Study (LCTS) funds and program reimbursements. Control of the Collaborative is vested in a Board of Directors consisting of seven members. Brown County Human Services acts as a fiscal agent for the Collaborative. During 2016, Brown County did not provide funding to the Collaborative.

Any withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, the Three Counties for Kids Children's Mental Health Collaborative Board of Directors shall distribute all property, real and personal, at the time of termination.

As the administrative county, Brown County Human Services may be liable to the state or federal government for any disallowance, sanction, or audit exception attributable to the Three Counties for Kids Children's Mental Health Collaborative, including but not limited to, federal fiscal disallowances or sanctions based upon the Collaborative's

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Three Counties for Kids Children's Mental Health Collaborative (Continued)

implementation of the LCTS or any of the other state and federal funding sources and their related requirements. In the event of any such audit disallowance or sanction, the following participating partners, Brown, Sibley, and Watonwan Counties and the River Bend Education District, share the liability. Financial information can be obtained by contacting the Brown County Human Services Department.

South Country Health Alliance

The South Country Health Alliance (SCHA) was created by a joint powers agreement between Brown, Dodge, Freeborn, Goodhue, Kanabec, Mower, Sibley, Steele, Wabasha, and Waseca Counties on July 24, 1998, under Minn. Stat. § 471.59. Mower County has since withdrawn. In 2007, Cass, Crow Wing, Morrison, Todd, and Wadena Counties became members. As of December 31, 2010, Cass, Freeborn, and Crow Wing Counties withdrew from the Joint Powers. The agreement was in accordance with Minn. Stat. § 256B.692, which allows the formation of a Board of Directors to operate, control, and manage all matters concerning the participating member counties' health care functions, referred to as county-based purchasing.

The purpose of the SCHA is to improve the social and health outcomes of its clients and all citizens of its member counties by better coordinating social service, public health and medical services, and promoting the achievement of public health goals. The SCHA is authorized to provide prepaid comprehensive health maintenance services to persons enrolled under Medicaid and General Assistance Medical Care in each of the member counties.

Each member county has an explicit and measurable right to its share of the total capital surplus of the SCHA. Gains and losses are allocated annually to all members based on the percentage of their utilization. The County's equity interest in the SCHA at December 31, 2016, was \$2,284,987. The equity interest is reported as an investment in joint venture on the county-wide statement of net position. Changes in equity are included in the county-wide statement of activities as Human Services program expenses or revenues.

Complete financial statements for the SCHA can be obtained from Scott Schufman, SCHA Chief Fiscal Officer, 2300 Park Drive, Suite 100, Owatonna, Minnesota 55060.

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

South Central Minnesota Regional Emergency Communications Board

The South Central Minnesota Regional Emergency Communications Board (formally known as the South Central Minnesota Regional Radio Board) was established pursuant to Minn. Stat. §§ 471.59 and 403.39 and a joint powers agreement effective May 27, 2008. It comprises Blue Earth, Brown, Faribault, Le Sueur, Martin, McLeod, Nicollet, Sibley, Waseca, and Watonwan Counties and the Cities of Hutchinson and Mankato. The primary function of the joint venture is to provide regional administration of enhancements to the Statewide Public Safety Radio and Communication System for the Allied Radio Matrix for Emergency Response (ARMER) owned and operated by the State of Minnesota and to enhance and improve interoperable public safety communications.

The Board consists of one County Commissioner from each county included in the agreement, one City Council member from each city included in the agreement, a member of the South Central Minnesota Regional Advisory Committee, a member of the South Central Minnesota Regional Radio System User Committee, and a member of the Owners and Operators Committee.

Blue Earth County acts as the fiscal agent for the Radio Board. During 2016, Brown County contributed \$1,034 to the Joint Powers Board. The Chair of the Board is Kip Bruender, and the address is P. O. Box 8608, Mankato, Minnesota 56002-8608.

Brown-Lyon-Redwood Drug Task Force

The Brown-Lyon-Redwood Drug Task Force was established between Brown, Lyon, and Redwood Counties and the Cities of New Ulm, Redwood Falls, and Marshall, pursuant to Minn. Stat. § 471.59. The Task Force was established to create a cooperative law enforcement effort that provides drug enforcement services for member organizations. The Task Force is governed by an Advisory Board consisting of one appointed member from each party. Fiscal agent responsibilities for the Task Force are with the City of New Ulm. During the year, Brown County paid \$81,045 to the Task Force.

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

South Central Workforce Services Area Joint Powers Board

In June 2012, the County entered into a joint powers agreement with Blue Earth, Faribault, LeSueur, Martin, Nicollet, Sibley, Waseca, and Watonwan Counties, creating the South Central Workforce Services Area Joint Powers Board. The agreement is authorized by Minn Stat. § 471.59. The Board is comprised of one voting member and one alternate member for each participating County. The goal of the Board is to develop and maintain a quality workforce for South Central Minnesota.

Brown County did not make any payments to this organization in 2016. Separate financial information can be obtained from South Central Workforce Council, 706 North Victory Drive, Mankato, Minnesota 56001.

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was established in 2005 under the authority of Minn. Stat. § 471.59. The Board includes Blue Earth, Brown, Cottonwood, Faribault, Freeborn, Jackson, Lincoln, Lyon, Martin, Mower, Murray, Nobles, Pipestone, Redwood, Renville, Rock, Watonwan, and Yellow Medicine Counties. The purpose of the Board is to provide guidance on issues surrounding energy development in rural Minnesota and to foster the diversification of the economic climate in rural Minnesota. The focus of the Board includes, but is not limited to, renewable energy, wind energy, energy transmission lines, hydrogen energy technology, and bio-diesel and ethanol use.

The governing body is comprised of one voting member and one alternate member from each participating county's Board of Commissioners. The Board shall remain in existence as long as two or more counties remain parties to the agreement. Should the Board cease to exist, assets shall be liquidated, after payment of liabilities, based upon the ratios set out under the equal and proportionate share articles of the agreement. During the year, Brown County contributed \$1,000 to the Board. Complete financial information can be obtained from the Rural Minnesota Energy Board, Slayton, Minnesota 56172.

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

D. Jointly-Governed Organizations

Brown County, in conjunction with other governmental entities and various private organizations, formed the jointly-governed organizations listed below:

The Area II Minnesota River Basin Project provides cost-share and technical assistance for the implementation of flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, Brown County paid \$12,971 to the Project.

The Redwood-Cottonwood Rivers Control Area (RCRCA) works to improve water quality, reduce erosion, and enhance recreational opportunities by providing education, outreach, monitoring, and technical assistance within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. RCRCA consists of Brown, Cottonwood, Lincoln, Lyon, Murray, Pipestone, Redwood, and Yellow Medicine Counties. During the year, Brown County made payments of \$10,050 to the RCRCA.

The South Central Emergency Medical Service (SCEMS) Joint Powers Board consists of Blue Earth, Brown, Faribault, Le Sueur, Martin, Nicollet, Sibley, Waseca, and Watonwan Counties. The purpose of SCEMS is to ensure quality patient care is available throughout the nine-county area by maximizing the response capabilities of emergency medical personnel and to promote public education on injury prevention and appropriate response during a medical emergency. Each county appoints one member for the Joint Powers Board. Brown County did not contribute to SCEMS in 2016.

The South Central Regional ImmTrack (Immunization Registry) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. During the year, Brown County paid \$6,080 to ImmTrack.

The South Central Community-Based Initiative was established pursuant to Minn. Stat. §§ 471.59 and 245.4661 and a joint powers agreement effective June 20, 2008. The purpose of this joint powers agreement is to provide services to persons with mental illness in the most clinically-appropriate, person-centered, least restrictive, and cost-effective ways. The focus is on improved access and outcomes for persons with mental illness as a result of the collaboration between state-operated services

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

programs and community-based treatment. The membership of the Board is comprised of one representative appointed by Blue Earth, Brown, Faribault, Freeborn, Le Sueur, Martin, Nicollet, Rice, Sibley, and Watonwan Counties. Brown County did not contribute to the Joint Powers Board in 2016.

The Intelligent Transit System (ITS) Transit Consortium was established to implement and maintain the ITS among its members, which include Brown, Martin, Meeker, Pipestone, Sherburne, and Wright Counties. Initial transit software and services were funded by an American Recovery and Reinvestment Act grant. Each individual consortium member is responsible for future mapping support and upgrade costs. It is expected that there will be upgrades every three years. During the year, Brown County did not contribute to the Transit Consortium.

The Fifth District Court and Brown County Probation Department agreement established a Juvenile Drug Court program that is designed to intervene in the chemically dependent lifestyles of juvenile drug offenders and to improve public safety. Brown County has approved the cancellation of this agreement effective February 15, 2017.

The Minnesota Criminal Justice Data Communications Network joint powers agreement exists to create access for the County Sheriff and County Attorney, County Probation and County Human Services departments to systems and tools available from the State of Minnesota, Department of Public Safety, and the Bureau of Criminal Apprehension to carry out criminal justice. During the year, Brown County made no payments to the joint powers.

The State of Minnesota Parks and Trails and Brown County Sentence-to-Serve (STS) joint powers agreement states that Brown County STS will provide all labor necessary to split wood at Fort Ridgely State Park.

The Trail Systems Coordination joint powers consists of Brown County and the Cities of Comfrey, Hanska, New Ulm, Sleepy Eye, and Springfield. These parties have joined together to coordinate, consider, review, study, and analyze trails and their use in and around Brown County. The County did not contribute to the Joint Powers during 2016.

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

The Greater Blue Earth River Basin Alliance (GBERBA) establishes goals, policies, and objectives to protect and enhance land and water resources in the Greater Blue Earth River Basin. The Board consists of County Commissioners and members of the Soil and Water Conservation Districts. During the year, Brown County did not make any payments to GBERBA.

The Region Five - Southwest Minnesota Security Emergency Management Organization was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the region. Control is vested in the Board, which comprises representatives appointed by each Board of County Commissioners. Brown County's responsibility does not extend beyond making this appointment.

The Minnesota Counties Computer Cooperative (MCCC) was established under the Minnesota Joint Powers Law, Minn. Stat. § 471.59. Minnesota counties have created the MCCC to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During the year, Brown County expended \$158,476 to the MCCC.

E. Subsequent Event

Issuance of General Obligation Bond

On May 18, 2017, the County issued \$4,875,000 of Series 2017A General Obligation Bonds. The proceeds will be used for the purpose of financing highway improvement projects in the County. The Note will be paid over a ten-year period in equal installments of \$440,000, along with interest on the outstanding balance at an initial annual rate of 3.0 percent.

**BROWN COUNTY
NEW ULM, MINNESOTA**

7. Brown County Economic Development Partners, Inc., Component Unit Disclosures

A. Summary of Significant Accounting Policies

The Brown County Economic Development Partners, Inc., (EDP) was organized on October 3, 1990, under Minn. Stat. ch. 317A, as a nonprofit corporation. The purpose is to promote the development and expansion of existing businesses within Brown County and to assist in the development of new businesses in Brown County, which will increase opportunities for employment. The Board of Directors consists of nine directors: one appointed from each of the County Commissioner Districts, two appointed at-large, and two appointed from the Brown County Board of Commissioners. Brown County Economic Development Partners, Inc., is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

Basis of Accounting

The EDP's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Codification Section 958, *Not-for-Profit Entities*. Under Section 958, the EDP is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Revenue

The EDP receives substantially all of its revenue from interest on loan payments, grants, and appropriations from Brown County.

Cash and Cash Equivalents

The EDP considers all highly liquid investments with a maturity of nine months or less when purchased to be cash equivalents.

**BROWN COUNTY
NEW ULM, MINNESOTA**

7. Brown County Economic Development Partners, Inc., Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

B. Loans Receivable

Loans receivable, totaling \$297,627 as of December 31, 2016, consist of 15 loans made for economic development.

REQUIRED SUPPLEMENTARY INFORMATION

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**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT A-1

**SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2016**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2012	\$ -	\$ 935,491	\$ 935,491	0.00%	\$ 9,546,132	9.80%
January 1, 2014	-	889,615	889,615	0.00	10,039,487	8.86
January 1, 2016	-	723,459	723,459	0.00	11,652,309	6.21

See Note 4.C., Other Postemployment Benefits, for more information.

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT A-2

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Brown County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.1622%	\$ 13,169,835	\$ 172,088	\$ 13,341,923	\$ 10,039,961	131.17%	68.91%
2015	0.1641	8,504,514	N/A	8,504,514	9,655,925	88.08	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.
N/A - Not Applicable

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT A-3

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 779,982	\$ 779,982	\$ -	\$ 10,399,719	7.50%
2015	761,372	761,372	-	10,151,627	7.50

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2016**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.073%	\$ 2,929,617	\$ 704,477	415.86%	63.88%
2015	0.070	795,364	645,081	123.30	86.61

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2016**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 116,017	\$ 116,017	\$ -	\$ 716,154	16.20%
2015	114,198	114,198	-	704,925	16.20

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT A-6

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2016**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.42%	\$ 1,534,319	\$ 797,329	192.43%	58.16%
2015	0.43	66,478	781,204	8.51	96.95

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT A-7

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2016**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 70,896	\$ 70,896	\$ -	\$ 810,238	8.75%
2015	71,867	71,867	-	821,342	8.75

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

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**BROWN COUNTY
NEW ULM, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016

Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30, 2016:

General Employees Retirement Plan

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

Public Employees Police and Fire Plan

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions (Continued)

Public Employees Correctional Plan

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

SUPPLEMENTARY INFORMATION

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**COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS
AND SCHEDULES**

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**BROWN COUNTY
NEW ULM, MINNESOTA**

NONMAJOR GOVERNMENTAL FUND

CAPITAL PROJECTS FUND

Building and Capital Improvements - to account for funds used for capital outlay and maintenance.
Financing is provided by a tax levy.

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**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
BUILDING AND CAPITAL IMPROVEMENTS CAPITAL PROJECTS FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ -	\$ -	\$ 37	\$ 37
Intergovernmental	399,100	399,100	335,807	(63,293)
Miscellaneous	8,502	8,502	19,138	10,636
Total Revenues	\$ 407,602	\$ 407,602	\$ 354,982	\$ (52,620)
Expenditures				
Current				
General government				
Buildings and plant	\$ 26,300	\$ 26,300	\$ 20,572	\$ 5,728
Veterans service officer	14,100	14,100	9,100	5,000
Total general government	\$ 40,400	\$ 40,400	\$ 29,672	\$ 10,728
Public safety				
Sheriff	\$ -	\$ -	\$ 97,331	\$ (97,331)
Culture and recreation				
Historical society	\$ 385,000	\$ 385,000	\$ 75,256	\$ 309,744
Total Expenditures	\$ 425,400	\$ 425,400	\$ 202,259	\$ 223,141
Excess of Revenues Over (Under) Expenditures	\$ (17,798)	\$ (17,798)	\$ 152,723	\$ 170,521
Other Financing Sources (Uses)				
Transfers in	5,000	5,000	7,300	2,300
Net Change in Fund Balance	\$ (12,798)	\$ (12,798)	\$ 160,023	\$ 172,821
Fund Balance - January 1	353,828	353,828	353,828	-
Fund Balance - December 31	\$ 341,030	\$ 341,030	\$ 513,851	\$ 172,821

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**BROWN COUNTY
NEW ULM, MINNESOTA**

AGENCY FUNDS

Assurance - to account for the collection and payment of assurance funds to the state.

Mortgage Registry Tax - to account for the collection and distribution of mortgage registry tax to the County and other governments.

Prepaid Tax - to account for taxes paid in advance.

Region Nine - to account for the collection and distribution of funds to the Region Nine Regional Development Commission.

School Districts - to account for the school districts' share of taxes collected by the County.

Social Welfare - to account for the collection and distribution of social welfare accounts.

State Deed Tax - to account for the collection and distribution of deed tax to the County and other governments.

Three Counties for Kids Collaborative - to account for the funds of a multi-county/school district children's mental health collaborative.

Families First Family Services Collaborative - to account for the funds of the County/multi-school district family services collaborative.

Taxes and Penalties - to account for the collection and payment of taxes and penalties collected to the various taxing districts.

Towns and Cities - to account for the collection and payment of taxes due to towns and cities.

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**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Balance January 1	Additions	Deductions	Balance December 31
<u>ASSURANCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 12,544	\$ 2,448	\$ 160	\$ 14,832
<u>Liabilities</u>				
Due to other governments	\$ 12,544	\$ 2,448	\$ 160	\$ 14,832
 <u>MORTGAGE REGISTRY TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 253,209	\$ 252,446	\$ 763
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 253,209	\$ 252,446	\$ 763
 <u>PREPAID TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 29,122	\$ 185,066	\$ 167,831	\$ 46,357
<u>Liabilities</u>				
Due to other governments	\$ 29,122	\$ 185,066	\$ 167,831	\$ 46,357

**BROWN COUNTY
NEW ULM, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Balance January 1	Additions	Deductions	Balance December 31
<u>REGION NINE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 600	\$ 56,044	\$ 56,461	\$ 183
<u>Liabilities</u>				
Due to other governments	\$ 600	\$ 56,044	\$ 56,461	\$ 183
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 63,518	\$ 8,138,034	\$ 8,174,649	\$ 26,903
<u>Liabilities</u>				
Due to other governments	\$ 63,518	\$ 8,138,034	\$ 8,174,649	\$ 26,903
 <u>SOCIAL WELFARE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 134,628	\$ 851,525	\$ 886,088	\$ 100,065
<u>Liabilities</u>				
Due to other governments	\$ 134,628	\$ 851,525	\$ 886,088	\$ 100,065

**BROWN COUNTY
NEW ULM, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE DEED TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 255,436	\$ 254,279	\$ 1,157
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 255,436	\$ 254,279	\$ 1,157
 <u>THREE COUNTIES FOR KIDS COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 247,378	\$ 67,484	\$ 70,029	\$ 244,833
<u>Liabilities</u>				
Due to other governments	\$ 247,378	\$ 67,484	\$ 70,029	\$ 244,833
 <u>FAMILIES FIRST FAMILY SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 51,912	\$ 91,952	\$ 65,815	\$ 78,049
<u>Liabilities</u>				
Due to other governments	\$ 51,912	\$ 91,952	\$ 65,815	\$ 78,049

**BROWN COUNTY
NEW ULM, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 91,962	\$ 36,309,224	\$ 36,237,660	\$ 163,526
<u>Liabilities</u>				
Due to other governments	\$ 91,962	\$ 36,309,224	\$ 36,237,660	\$ 163,526
 <u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 257,515	\$ 14,859,262	\$ 14,859,691	\$ 257,086
<u>Liabilities</u>				
Due to other governments	\$ 257,515	\$ 14,859,262	\$ 14,859,691	\$ 257,086
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 889,179	\$ 61,069,684	\$ 61,025,109	\$ 933,754
<u>Liabilities</u>				
Due to other governments	\$ 889,179	\$ 61,069,684	\$ 61,025,109	\$ 933,754

SCHEDULES

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**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2016**

	<u>Interest Rate</u>	<u>Amount</u>
Deposits and Investments		
Checking accounts	0.50%	\$ 8,014,084
Savings accounts	Varies	244,708
Certificates of deposit	Varies	1,246,482
Petty cash	None	1,040
MAGIC Fund	Varies	1,101
Government securities	Varies	8,020,762
Negotiable certificates of deposit	Varies	<u>5,774,608</u>
Total Deposits and Investments		<u>\$ 23,302,785</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Appropriations and shared revenue

State

Highway users tax	\$ 4,981,050
County program aid	734,966
PERA rate reimbursement	39,317
Disparity reduction aid	27,051
Police aid	82,688
Aquatic invasive species aid	54,802
Enhanced 911	101,673
Market value credit	383,658
SCORE	74,358

Total appropriations and shared revenue **\$ 6,479,563**

Reimbursement for services

State

Minnesota Department of Human Services	\$ 994,353
--	------------

Payments

Local

Local contributions	\$ 190,313
Payments in lieu of taxes	11,537

Total payments **\$ 201,850**

Grants

State

Minnesota Department/Board of	
Agriculture	\$ 962
Corrections	304,831
Health	190,458
Human Services	2,025,932
Natural Resources	336,298
Public Safety	73,496
Transportation	622,561
Trial Courts	112,367
Veterans Affairs	10,147
Water and Soil Resources	102,509
Historical Society	244,767
Peace Officer Standards and Training Board	5,315

Total state **\$ 4,029,643**

**BROWN COUNTY
NEW ULM, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Grants (Continued)

Federal

Department of	
Agriculture	\$ 352,530
Justice	32,362
Transportation	224,944
Veterans Affairs	12,715
Health and Human Services	2,253,776
Homeland Security	176,396

Total federal \$ 3,052,723

Total state and federal grants \$ 7,082,366

Total Intergovernmental Revenue \$ 14,758,132

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT D-3

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Agriculture			
Passed Through Brown-Nicollet Community Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	12-700-00060	\$ 138,070
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16162MN101S2514	<u>204,111</u>
Total U.S. Department of Agriculture			<u>\$ 342,181</u>
U.S. Department of Justice			
Passed Through Minnesota Department of Public Safety Crime Victim Assistance	16.575	F-CVS-2016BRWNPROB	<u>\$ 32,362</u>
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	00008	<u>\$ 150,148</u>
U.S. Department of Veterans Affairs			
Direct Burial Expenses Allowance for Veterans	64.101	N/A	<u>\$ 12,715</u>
U.S. Department of Health and Human Services			
Passed Through Brown-Nicollet Community Health Services Public Health Emergency Preparedness	93.069	U90TP000529	\$ 24,866
Universal Newborn Hearing Screening	93.251	Not provided	75
Immunization Cooperative Agreements	93.268	Not provided	1,275
Temporary Assistance for Needy Families	93.558	1502MNTANF	25,918
(Total Temporary Assistance for Needy Families 93.558 \$219,951)			
Maternal and Child Health Services Block Grant to the States	93.994	12-700-00060	52,936
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	G-1601MNFPS	63,292
Temporary Assistance for Needy Families	93.558	1601MNTANF	194,033
(Total Temporary Assistance for Needy Families 93.558 \$219,951)			
Child Support Enforcement	93.563	1604MNCSES	20,996
Child Support Enforcement	93.563	1604MNCES	473,294
(Total Child Support Enforcement 93.563 \$494,290)			
Refugee and Entrant Assistance - State-Administered Programs	93.566	1601MNRMA	170
Child Care and Development Block Grant	93.575	G1601MNCCDF	11,651
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNFPRG	13,966
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNCWSS	4,182
Foster Care - Title IV-E	93.658	1601MNFOST	209,623
Social Services Block Grant	93.667	1601MNSOSR	159,038

**BROWN COUNTY
NEW ULM, MINNESOTA**

**EXHIBIT D-3
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services (Continued)			
Chafee Foster Care Independence Program	93.674	G-1601MNCILP	2,666
Medical Assistance Program	93.778	1605MN5MAP	12,739
Medical Assistance Program	93.778	1605MN5ADM	1,002,690
(Total Medical Assistance Program 93.778 \$1,015,429)			<hr/>
Total U.S. Department of Health and Human Services			\$ 2,273,410
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance	97.012	BROWN FEG-010416	\$ 1,692
Passed Through Minnesota Department of Public Safety			
Hazard Mitigation Grant	97.039	F-HMGP-DR4182-BROWNS	154,441
Emergency Management Performance Grants	97.042	F-EMPG-2015/2016-BROWNS	20,263
Total U.S. Department of Homeland Security			\$ 176,396
Total Federal Awards			\$ 2,987,212

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2016.

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**BROWN COUNTY
NEW ULM, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Brown County under programs of the federal government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Brown County, it is not intended to and does not present the financial position or changes in net position of Brown County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Brown County has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 3,052,723
Grants received more than 60 days after year-end, unavailable in 2016	
Promoting Safe and Stable Families (CFDA No. 93.556)	14,716
Temporary Assistance for Needy Families (CFDA No. 93.558)	27,034
Grants unavailable in 2015, recognized as revenue in 2016	
Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA No. 10.557)	(10,349)
Formula Grants for Rural Areas (CFDA No. 20.509)	(74,796)
Temporary Assistance for Needy Families (CFDA No. 93.558)	(1,116)
Child Support Enforcement (CFDA No. 93.563)	(21,000)
	(103,531)
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 2,987,212

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REBECCA OTTO
STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
Brown County
New Ulm, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Brown County, Minnesota, as of and for the year ended December 31, 2016, 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 5, 2017. Our report includes references to other auditors who audited the financial statements of Brown County Economic Development Partners, Inc., the discretely presented component unit, and the South Country Health Alliance joint venture, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Brown County Economic Development Partners, Inc., and the South Country Health Alliance were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Brown County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the County administers no tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Brown County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*, except as described in the Schedule of Findings and Questioned Costs as items 2016-002, 2016-003, and 2016-004. 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.

Brown County's Response to Findings

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 5, 2017

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REBECCA OTTO
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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Brown County
New Ulm, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Brown County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2016. Brown County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Brown County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001, that we consider to be a significant deficiency.

Brown County's response to the internal control over compliance finding identified in our audit is described in the accompanying Corrective Action Plan. Brown County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 5, 2017

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**BROWN COUNTY
NEW ULM, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **Yes**

The major federal programs are:

Child Support Enforcement	CFDA No. 93.563
Medical Assistance Program	CFDA No. 93.778

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

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

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

Finding Number 2016-001

Local Collaborative Time Study Reporting

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778); Award No. 1605MN5ADM, 2016

Pass-Through Agency: Minnesota Department of Human Services (DHS)

Criteria: Requirements for the Local Collaborative Time Study (LCTS) Cost Schedules are documented in DHS Bulletin #16-32-04 - *Local Collaborative Time Study (LCTS) Fiscal Operations*. The bulletin states that LCTS Fiscal Site Contacts are required to verify that the information on the LCTS Fiscal and Cost Schedule is accurate and that it complies with all guidelines set forth in the LCTS Cost Schedule instructions.

Condition: Three of the four Local Collaborative Time Study (LCTS) Cost Schedules (DHS-3220) submitted to DHS by the Fiscal Site Contact for the Probation Department, a participating agency, included insufficiently supported expenditures and identified errors. The LCTS Fiscal Reporting and Payment Agent (FRAPA) identified these issues and, as a result, did not approve the reports. The issues identified were communicated to the participating agency, but were not sufficiently resolved for approval.

Questioned Costs: The Minnesota Department of Human Services determines federal reimbursement based on a time study, the rate of which is not readily determinable, and, therefore, actual questioned costs could not be determined.

Context: Brown County Human Services acts as the LCTS Fiscal Reporting and Payment Agent for the local collaborative in Brown County. This includes reviewing reports submitted by each participating agency to ensure they have been completed accurately and in accordance with DHS instructions. DHS uses the submitted reports in conjunction with the LCTS statistics to determine the allowable costs for reimbursements by various federal programs including Medical Assistance.

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

Effect: Errors on reports can result in the County receiving more or less federal funding than can be justified based on the actual underlying activity.

Cause: The Fiscal Site Contact indicated the errors occurred due to time constraints and lack of training and support. The reports were not approved by the FRAPA due to insufficient support for the reports' balances and communication issues from the Fiscal Site Contact to the FRAPA.

Recommendation: We recommend that all the quarterly reports submitted to DHS be approved by the FRAPA. Identified errors or insufficiently supported expenditures should be resolved timely.

View of Responsible Official: Acknowledged

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

Finding Number 2016-002

Publication of Financial Statements

Criteria: The County is required by Minn. Stat. § 375.17 to annually publish its financial statements or a summary in a form prescribed by the State Auditor for one issue in a duly qualified legal newspaper in the County.

Condition: During 2016, Brown County did not publish the 2015 financial statements in a duly qualified legal newspaper in the County.

Context: As a cost-saving effort, rather than publish the financial statements, the County Board authorized the Auditor-Treasurer to publish a notice that the financial statements for 2015 had been completed and were available on the County's website or upon request.

Effect: The County is not in compliance with Minn. Stat. § 375.17.

Cause: The County Board and management believe posting the audited financial statements on the County's website is adequate to inform the public. The County Board does not wish to incur the additional cost of publication and has also made the information physically available upon request.

Recommendation: To be in compliance with Minn. Stat. § 375.17, we recommend that the County publish the financial statements or summary as required.

View of Responsible Official: Acknowledged

Finding Number 2016-003

Publishing Itemized Claims

Criteria: Minn. Stat. § 375.12 requires that County Board minutes be published within 30 days of the meeting and include an individualized, itemized list of County Board-approved payments over \$2,000. For claims \$2,000 or less, the total number of claims and total amount shall be stated.

Condition: Brown County does not publish an itemized list of County Board-approved payments over \$2,000 with the total number of claims and total amount for payments under \$2,000, as provided by Minn. Stat. § 375.12.

Context: The publication of County Board minutes provides a summary by fund for County Board-approved payments made during the respective meeting. Detail of the approved claims is available on the County's website in the posted Board Packet information.

Effect: The County is not in compliance with Minn. Stat. § 375.12.

Cause: The County Board and management believe publishing a summary of bills paid by fund is adequate to inform the public of the substance of the proceedings. The County Board does not wish to incur the additional cost of publication and makes claim detail information available on the County website as well as at the County Courthouse.

Recommendation: To be in compliance with Minn. Stat. § 375.12, we would recommend that the County publish an itemized list of County Board-approved payments over \$2,000 with the total number of claims and total amount for payments under \$2,000 as required.

View of Responsible Official: Acknowledged

Finding Number 2016-004

Forfeited Property - Apportionment of Proceeds

Criteria: The net proceeds from the sale of forfeited land must be apportioned by the County to the taxing districts interested in the land in accordance with Minn. Stat. § 282.08.

Condition: Brown County has not apportioned all net proceeds from forfeited land sales in accordance with Minn. Stat. § 282.08.

Context: At December 31, 2016, the County Forfeited Tax Fund had a cash balance of nearly \$165,000, which includes approximate proceeds of \$90,000 from 2014 sales and \$75,000 from 2016 sales.

Effect: The County has not complied with Minn. Stat. § 282.08. Other tax districts within the County, including towns, cities, and school districts, that are entitled to a portion of proceeds have not received their share.

Cause: The County indicated that proceeds were withheld with the intent of using them to offset the cost of significant upcoming tax forfeiture projects.

Recommendation: We recommend the proceeds from the sale of forfeited land be apportioned in accordance with Minn. Stat. § 282.08.

View of Responsible Official: Acknowledged

V. PREVIOUSLY REPORTED ITEMS RESOLVED

2013-001 Audit Adjustments

2015-001 Reporting (CFDA No. 93.778)

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**REPRESENTATION OF BROWN COUNTY
NEW ULM, MINNESOTA**

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2016**

Finding Number: 2016-001

**Finding Title: Local Collaborative Time Study Reporting
Program: Medical Assistance Program (CFDA No. 93.778)**

Name of Contact Person Responsible for Corrective Action:

Rose Fischer, Fiscal Supervisor

Corrective Action Planned:

Replace the 2016 Probation Fiscal Site Contact.

Anticipated Completion Date:

March 2017

Finding Number: 2016-002

Finding Title: Publication of Financial Statements

Name of Contact Persons Responsible for Corrective Action:

Jean Prochniak, County Auditor/Treasurer and Steven Rutscher, Financial Manager

Corrective Action Planned:

While the county acknowledges the statutory requirement to publish the financial statement and provide full disclosure of the county's financial position, we continue to seek support through legislation to provide this information in a much more economical method. We will review with our Editorial Association and see what we can do to reduce the cost of this publication.

Anticipated Completion Date:

We will be reviewing these alternatives with the completion of this current audit cycle.

Finding Number: 2016-003

Finding Title: Publishing Itemized Claims

Name of Contact Persons Responsible for Corrective Action:

Jean Prochniak, County Auditor/Treasurer and Charles Enter, County Administrator

Corrective Action Planned:

We have developed a methodology for the publication of all claims over \$2,000 with the synopsis of the County board minutes.

Anticipated Completion Date:

September 5, 2017

Finding Number: 2016-004

Finding Title: Forfeited Property - Apportionment of Proceeds

Name of Contact Persons Responsible for Corrective Action:

Jean Prochniak, County Auditor/Treasurer and Kelly Hotovec, Assistant Auditor/Treasurer

Corrective Action Planned:

Brown County is currently working on the distribution of the tax forfeiture land funds as per the directives of the Department of Revenue.

Anticipated Completion Date:

December 31, 2017

**REPRESENTATION OF BROWN COUNTY
NEW ULM, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Finding Number: 2013-001

Finding Title: Audit Adjustments

Summary of Condition: During the 2015 audit, material adjustments were identified which resulted in significant changes to Brown County's financial statements.

Summary of Corrective Action Previously Reported: Brown County will continue to review its internal controls and design and implement procedures to improve internal controls over financial reporting, which will serve to better prevent, or detect and correct, misstatements in the financial statements.

Status: Fully Corrected. Corrective action was taken.

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

Yes _____ No X

Finding Number: 2015-001

Finding Title: Reporting

Program: Medical Assistance Program (CFDA No. 93.778)

Summary of Condition: Errors were identified in the review of the 2015 Public Health Local Collaborative Time Study (LCTS) Cost Schedules (DHS-3220) submitted to the DHS. The review of the reports was not sufficient to identify errors.

Summary of Corrective Action Previously Reported: Participating Agencies fiscal report preparer (LCTS Fiscal Site Contact) have signed their LCTS cost reports. A request has been made to the DHS to add an additional signature line for the Fiscal Reporting and Payment Agent (FRAPA). The quarterly reports will be signed by both the LCTS Fiscal Site Contract and FRAPA.

Each participating agency will have random audits performed at their site.

Status: Fully Corrected. Corrective action was taken.

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

Yes _____ No X