

**KANABEC COUNTY
MORA, MINNESOTA**

**BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2018

**KANABEC COUNTY
MORA, MINNESOTA
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YEAR ENDED DECEMBER 31, 2018**

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INTRODUCTORY SECTION

**KANABEC COUNTY
MORA, MINNESOTA
ORGANIZATION
DECEMBER 31, 2018**

Office	Name	Term	
		From	To
County Board of Commissioners			
1st District	Dennis McNally	January 2015	January 2019
2nd District	Gene Anderson	January 2017	January 2021
3rd District	Les Nielsen	January 2015	January 2019
4th District	* Kathi Ellis	January 2017	January 2021
5th District	Kim Smith	January 2015	January 2019
Officers			
Elected			
Attorney	Barbara McFadden	January 2015	January 2019
Auditor-Treasurer	Denise Snyder	January 2015	January 2019
County Recorder	Rhonda Olson	January 2015	January 2019
Sheriff	Brian Smith	January 2015	January 2019
Appointed			
Assessor	Tina Diedrich Von-Eschen	August 2016	January 2021
Interim Coordinator	Jerry Tvedt	Indefinite	
Court Administrator	Sharon Schubert	Indefinite	
Examiner of Titles	Grant Lindberg	Indefinite	
Public Works Director	Chad Gramentz	May 2015	May 2019
Court Services Director	Todd Eustice	Indefinite	
Surveyor	Tyler Kroschel	December 2015	January 2019

* Denotes Board Chair

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of County Commissioners
Kanabec County
Mora, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of Kanabec County, Minnesota (the County), as of and for the year ended December 31, 2018, and the related notes of 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. The South Country Health Alliance (SCHA) is a joint venture discussed in Note 7.C. to the financial statements. The county's investment in SCHA, \$2,404,612, represents 2.4 and 3.1%, respectively, of the assets and net position of the governmental activities. The financial statements of SCHA, were prepared in accordance with financial reporting provisions permitted by the Minnesota Department of Health. We have applied procedures on the conversion adjustment to the financial statements of SCHA, which conform the financial reporting of the investment in joint venture to accounting principles accepted in the United State of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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, the financial statements referred to above present fairly, in all material respects, the respective financial positions of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kanabec County, Minnesota as of December 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

For the year ended December 31, 2018, the County adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. As a result of the implementation of this standard, the County reported a restatement for the change in accounting principle (see Note 10). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kanabec County's basic financial statements. The combining statement of changes in assets and liabilities – all agency funds and the schedule of intergovernmental revenue are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining statement of changes in assets and liabilities – all agency funds, the schedule of intergovernmental revenue and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 combining statement of changes in assets and liabilities – all agency funds, the schedule of intergovernmental revenue, and the schedule of expenditures of federal awards are 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 23, 2019, on our consideration of Kanabec 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 the report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kanabec County's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Brainerd, Minnesota
September 23, 2019

REQUIRED SUPPLEMENTARY INFORMATION

**KANABEC COUNTY
MORA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

This section of Kanabec County's (County) annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended on December 31, 2018. The management's discussion and analysis (MD&A) is required supplementary information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain comparative information between the current year, 2018, and the prior year, 2017, is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2018 include the following:

- County-wide net position (excluding the FirstLight Health System component unit) increased \$1,282,453 during 2018. This is primarily due to the County's continued investment into capital assets, financed by intergovernmental revenues.
- Overall fund-level revenues totaled \$30,706,630 and were \$1,320,493 less than expenditures. Primarily due to road and bridge and family services funds having expenditures in excess of budget.
- The General Fund's fund balance decreased \$1,128,014 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – independent auditors' report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the County:

- The first two statements are Government-wide financial statements which provide both short-term and long-term information about the County's overall financial status.
- The remaining statements are fund financial statements which focus on individual parts of the County, reporting the County's operations in more detail than the Government-wide statements.
 - The governmental funds statements tell how basic services such as general government, human services, and highways and streets were financed in the short-term as well as what remains for future spending.
 - Fiduciary funds statements provide information about the financial relationships in which the County acts solely as a trustee or agent for the benefit of others to whom the resources belong.

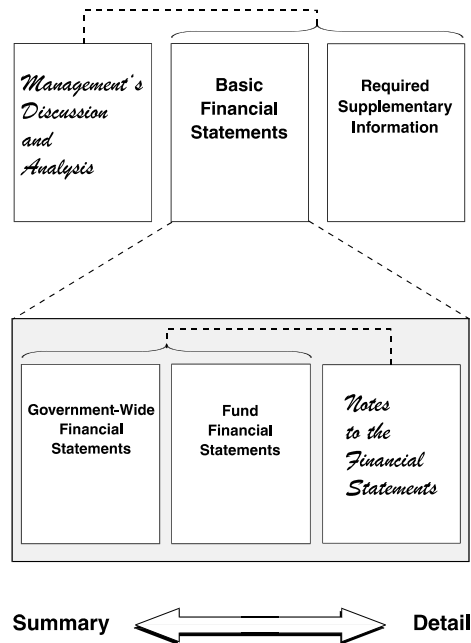
**KANABEC COUNTY
MORA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1
Annual Report Format**



**KANABEC COUNTY
MORA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-2 summarizes the major features of the County's financial statements, including the portion of the County's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2. Major Features of the County's Government-Wide and Fund Financial Statements			
Type of Statements	Government-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire County's government (except fiduciary funds).	The activities of the County that are not proprietary or fiduciary.	Instances in which the County is the trustee or agent for someone else's resources.
Required financial statements	Statement of net position.	Balance sheet.	Statement of fiduciary net position.
	Statement of activities.	Statement of revenues, expenditures and changes in fund balances.	
Accounting basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.
Type of asset/liability information	All assets and deferred outflows of resources, and liabilities and deferred inflows of resources, both financial and capital, short-term and long-term.	Only assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due during the year or soon thereafter, no capital assets included.	All assets and liabilities, both short-term and long-term, Agency's funds do not currently contain capital assets, although they can.
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during the year, regardless of when cash is received or paid.

GOVERNMENT-WIDE STATEMENTS

The Government-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the County's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

**KANABEC COUNTY
MORA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

GOVERNMENT-WIDE STATEMENTS (CONTINUED)

The two Government-wide statements report the County's net position and how they have changed. Net position – the difference between the County's assets and deferred outflows of resources, and liabilities and deferred inflows of resources – is one way to measure the County's financial health or position.

- Over time, increases or decreases in the County's net position are an indicator of whether its financial position is improving or deteriorating.
- To assess the overall health of the County, you need to consider additional non-financial factors such as changes in the County's property tax base and the condition of County buildings and other facilities.
- In the Government-wide financial statements, the County's activities are shown in one category, Governmental activities, which include the County's basic services. Property taxes and state aids finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the County's funds – focusing on its most significant or "major" funds – not the County as a whole. Funds are accounting devices the County uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The County establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

THE COUNTY HAS TWO KINDS OF FUNDS:

- Governmental funds – The County's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, we provide additional information that explains the relationship (or differences) between them.
- Fiduciary funds – The County is the fiscal agent, or fiduciary, for assets that belong to others. The County is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the County's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the Government-wide financial statements because the County cannot use these assets to finance its operations.

**KANABEC COUNTY
MORA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

NET POSITION

The County's net position was \$77,065,792 on December 31, 2018 (see Table A-1).

**Table A-1
The County's Net Position**

	Governmental Activities		%
	2018	2017	Change
Current and Other Assets	\$ 18,578,066	\$ 20,546,573	(9.6)%
Capital Assets	82,018,707	79,987,798	2.5
Total Assets	100,596,773	100,534,371	0.1
Deferred Outflows of Resources	4,566,948	5,932,654	(23.0)
Current Liabilities	2,461,436	2,144,520	14.8
Long-Term Liabilities (include current maturities)	19,355,819	22,795,806	(15.1)
Total Liabilities	21,817,255	24,940,326	(12.5)
Deferred Inflows of Resources	6,280,674	5,242,238	19.8
Net Position			
Net Investment In Capital Assets	72,994,819	79,885,846	(8.6)
Restricted	4,491,009	5,708,104	(21.3)
Unrestricted	(420,036)	(9,309,489)	95.5
Total Net Position	\$ 77,065,792	\$ 76,284,461	1.0

**KANABEC COUNTY
MORA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)

CHANGES IN NET POSITION

The Government-wide total revenues were \$30,130,428 for the year ended December 31, 2018. Property taxes and intergovernmental revenues accounted for 77.6 percent of total revenue for the year (see Table A-2).

**Table A-2
Change in Net Position**

	Governmental Activities		Total % Change
	2018	2017	
REVENUES			
<u>Program Revenues</u>			
Charges for Services	\$ 5,333,885	\$ 5,342,007	(0.2)%
Operating Grants and Contributions	8,459,854	7,652,339	10.6
Capital Grants and Contributions	2,171,108	1,917,516	13.2
<u>General Revenues</u>			
Property Taxes	11,280,804	11,242,684	0.3
Other Taxes	204,089	160,960	26.8
Unrestricted State Aid	1,458,976	1,526,458	(4.4)
Investment Earnings	147,752	104,985	40.7
Other	1,073,960	1,661,210	(35.4)
Total Revenues	<u>30,130,428</u>	<u>29,608,159</u>	1.8
EXPENSES			
General Government	7,905,092	7,308,094	8.2
Public Safety	5,407,662	7,493,959	(27.8)
Highways and Streets	5,232,258	3,249,372	61.0
Sanitation	132,471	91,048	45.5
Human Services	6,507,642	5,963,500	9.1
Health	3,059,630	2,961,060	3.3
Culture and Recreation	161,984	152,951	5.9
Economic Development	124,193	158,307	(21.5)
Conservation of Natural Resources	79,181	76,412	3.6
Interest	237,862	243,158	(2.2)
Total Expenses	<u>28,847,975</u>	<u>27,697,861</u>	4.2
CHANGES IN NET POSITION	1,282,453	1,910,298	(32.9)
Net Position - Beginning of Year	76,284,461	74,374,163	2.6
Change in Accounting Principle	(501,122)	-	100.0
Net Position - Beginning of Year, as Restated	<u>75,783,339</u>	<u>74,374,163</u>	1.9
NET POSITION - END OF YEAR	<u>\$ 77,065,792</u>	<u>\$ 76,284,461</u>	1.0

Total revenues surpassed expenses, increasing the net position \$1,282,453 over last year.

**KANABEC COUNTY
MORA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)

CHANGES IN NET POSITION (CONTINUED)

The Government-wide cost of all governmental activities this year was \$28,847,975.

- Some of the cost was paid by the users of the County's programs (\$5,333,885).
- The federal and state governments subsidized certain programs with grants and contributions (\$10,630,962).
- The remainder of the County's governmental activities costs, (\$12,883,128), however, was paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities was paid from the combination of \$11,484,893 in property and wheelage taxes, \$1,458,976 of state aid, and \$1,221,712 of investment earnings and other general revenues.

Figure A-3 Sources of County's Revenues for 2018

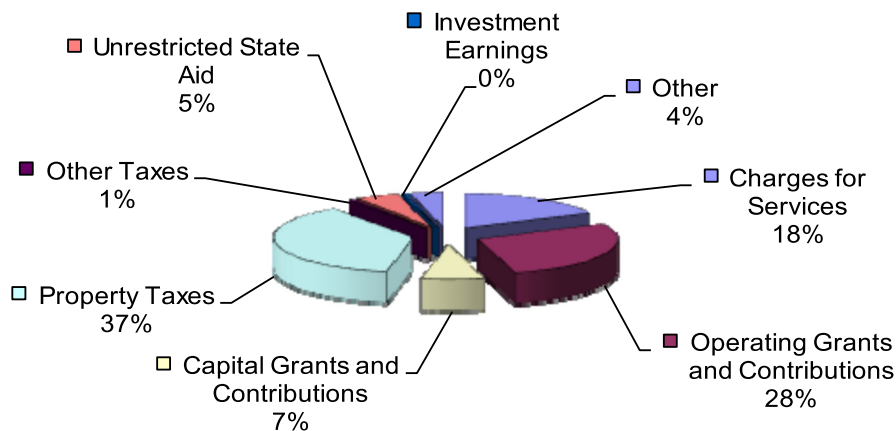
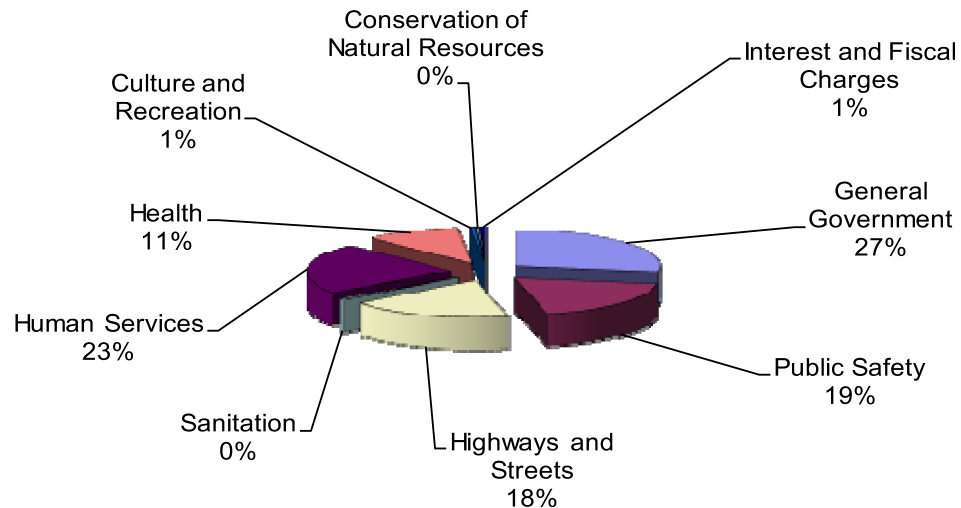


Figure A-4 County's Expenses for 2018



**KANABEC COUNTY
MORA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)

CHANGES IN NET POSITION (CONTINUED)

**Table A-3
Expenses and Net Revenue (Cost) of Services**

	Total Cost of Services		Percentage Change	Net Revenue (Cost) of Services		Percentage Change
	2018	2017		2018	2017	
GOVERNMENTAL ACTIVITIES						
General Government	\$ 7,905,092	\$ 7,308,094	8.2 %	\$ (4,335,838)	\$ (3,996,363)	(8.5)%
Public Safety	5,407,662	7,493,959	(27.8)	(3,626,396)	(5,979,886)	39.4
Highways and Streets	5,232,258	3,249,372	61.0	(1,437,983)	442,736	(424.8)
Sanitation	132,471	91,048	45.5	(64,742)	(22,337)	(189.8)
Human Services	6,507,642	5,963,500	9.1	(2,726,474)	(2,433,214)	(12.1)
Health	3,059,630	2,961,060	3.3	(104,160)	(187,741)	44.5
Culture and Recreation	161,984	152,951	5.9	(161,984)	(152,951)	(5.9)
Economic Development	124,193	158,307	(21.5)	(108,508)	(137,886)	21.3
Conservation of Natural Resources	79,181	76,412	3.6	(79,181)	(76,087)	(4.1)
Interest	237,862	243,158	(2.2)	(237,862)	(242,270)	1.8
Total	<u>\$ 28,847,975</u>	<u>\$ 27,697,861</u>	4.2	<u>\$ (12,883,128)</u>	<u>\$ (12,785,999)</u>	(0.8)

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL

The financial performance of the County as a whole is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported a combined fund balance of \$12,097,614.

Revenues for the County's governmental funds were \$30,706,630 while total expenditures were \$32,027,123.

GENERAL FUND

The General Fund includes the primary operations of the County in providing services to citizens and some capital outlay projects.

The following schedule presents a summary of General Fund Revenues:

General Fund Revenues

Revenue Source	Year Ended		Change	
	December 31, 2018	December 31, 2017	Increase (Decrease)	Percent
Taxes	\$ 6,101,689	\$ 6,041,999	\$ 59,690	1.0 %
Intergovernmental	2,904,739	2,370,021	534,718	22.6
Charges for Services	2,235,618	2,419,193	(183,575)	(7.6)
Interest	141,584	95,549	46,035	48.2
Miscellaneous and Other	1,222,213	1,260,684	(38,471)	(3.1)
Total General Fund Revenues	<u>\$ 12,605,843</u>	<u>\$ 12,187,446</u>	<u>\$ 418,397</u>	3.4

Total General Fund revenue increased by \$418,397 or 3.4 percent, from the previous year. The increase is primarily due to the increase in intergovernmental revenues in 2018 compared to 2017.

**KANABEC COUNTY
MORA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund expenditures:

**Table A-4
General Fund Expenditures**

	Year Ended		Change	
	December 31, 2018	December 31, 2017	Increase (Decrease)	Percent
General Government	\$ 6,179,751	\$ 5,886,816	\$ 292,935	5.0 %
Public Safety	6,262,296	6,008,329	253,967	4.2
Sanitation	132,471	91,048	41,423	45.5
Health	-	23,856	(23,856)	(100.0)
Conservation of Natural Resources	79,181	76,412	2,769	3.6
Intergovernmental	161,595	152,951	8,644	5.7
Capital Outlay	732,247	250,752	481,495	192.0
Debt Service	196,092	153,471	42,621	27.8
Total Expenditures	<u>\$ 13,743,633</u>	<u>\$ 12,643,635</u>	<u>\$ 1,099,998</u>	8.7

The General Fund had total fund balance of \$4,516,583 at the end of the current fiscal year. The fund balance of the General Fund decreased \$1,128,014 during the current fiscal year primarily due to more expenditures in 2018.

GENERAL FUND BUDGETARY HIGHLIGHTS

- Actual revenues were \$75,816 less than budget, primarily due to less grants received than was estimated.
- The actual expenditures were \$333,639 more than budget due primarily to more than anticipated expenditures for capital outlay.
- The County made no budget amendments in 2018 related to the General fund.

OTHER MAJOR FUNDS ANALYSIS

The Road and Bridge Fund had total fund balance of \$4,270,451 at the end of the current fiscal year. The total change in fund balance of the Road and Bridge Fund was a decrease of \$173,593 (before adjustments for inventory), during the current fiscal year primarily due to additional projects in 2018.

The Family Services Fund had total fund balance of \$940,093 at the end of the current fiscal year. The fund balance of the Family Services Fund decreased \$532,165 during the current fiscal year, which is a decrease of 36.15 percent over the prior year.

The Economic Development Fund had total fund balance of \$22,190 at the end of the current fiscal year. This was primarily due to additional revenue sources for this fund now that it has been in operation for a couple of years.

**KANABEC COUNTY
MORA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

OTHER MAJOR FUNDS ANALYSIS (CONTINUED)

The Community Health Fund had total fund balance of \$982,170 at the end of the current fiscal year. 2017 was the first year this fund has existed in the county. The fund balance of the Community Health Fund increased \$313,591 during the current fiscal year due to additional grants and charges for service in 2018.

The Forfeited Tax Fund had total fund balance of \$217,655 at the end of the current fiscal year. The fund balance of the Forfeited Tax Fund increased \$166,768 during the current fiscal year due to more forfeited land sales.

The Debt Service Fund had total fund balance of \$1,148,472 at the end of the current fiscal year. The fund balance of the Debt Service Fund increased \$59,483 during the current fiscal year, which is primarily due to levying 105% of the current principal and interest due in accordance with state statutes.

An annual levy is made to fund the bond payments for all previous bond issues.

CAPITAL ASSETS

By the end of 2018, the County had invested approximately \$115,000,000 in a broad range of capital assets, including buildings, computers, equipment, and infrastructure (see Table A-5). (More detailed information about capital assets can be found in Note 3.A.3 to the financial statements). Total depreciation expense for the year was \$2,449,215.

**Table A-5
The County's Capital Assets**

	Governmental Activities		Percent Change
	2018	2017	
Land	\$ 3,423,981	\$ 3,417,236	0.2 %
Construction-in-Progress	1,810,747	838,515	115.9
Infrastructure	79,614,827	77,135,822	3.2
Buildings	21,161,508	21,161,508	-
Machinery, Equipment, and Vehicles	8,646,272	7,971,589	8.5
Less: Accumulated Depreciation	(32,638,628)	(30,536,872)	6.9
Total	<u>\$ 82,018,707</u>	<u>\$ 79,987,798</u>	2.5

**KANABEC COUNTY
MORA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

LONG-TERM LIABILITIES

At year-end, the County had \$18,770,389 in long-term liabilities outstanding.

- The County's governmental activities total debt decreased \$4,025,417, due primarily to the changes in assumptions related to the net pension liability and scheduled debt payments which are included in Note 4.F and Note 3 C., respectively.

**Table A-6
The County's Long-Term Liabilities**

	2018	2017	Percent Change
Governmental Activities			
Compensated Absences Payable	\$ 670,989	\$ 752,147	(10.8)%
General Obligation Bonds	8,761,889	9,510,397	(7.9)
Capital Leases Payable	229,595	336,447	(31.8)
Loans Payable	537,986	572,051	(6.0)
Net Pension Liability	8,569,930	11,624,764	(26.3)
Total	<u>\$ 18,770,389</u>	<u>\$ 22,795,806</u>	(17.7)

FACTORS BEARING ON THE COUNTY'S FUTURE

The County is dependent on the State of Minnesota for a significant portion of its revenue. The state of the economy continues to increase the cost of services provided and general expenditures.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Coordinator, or Denise Snyder, County Auditor-Treasurer at (320) 679-6430. The County also recognizes FirstLight Health System as a discrete component unit that issues its own financial statements and notes. If you have any questions concerning FirstLight Health System, contact their finance department at 301 South Hwy 65, Mora, Minnesota 55051.

BASIC FINANCIAL STATEMENTS

**KANABEC COUNTY
MORA, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	Governmental Activities	Discretely Presented Component Unit
ASSETS		
Cash and Pooled Investments	\$ 13,036,395	29,324,850
Petty Cash and Change Funds	675	-
Investments	-	5,031,384
Taxes Receivable		
Delinquent	543,247	-
Special Assessments Receivable		
Unavailable	345,367	-
Delinquent	190	-
Accounts Receivable - Net	240,770	12,017,250
Accrued Interest Receivable	20,486	-
Due from Other Governments	1,505,461	-
Prepaid Items	45,048	735,811
Inventories	435,815	1,623,950
Investment in Joint Ventures	2,404,612	1,365,593
Restricted Assets		
Cash and Pooled Investments	-	28,059,670
Non-Depreciable Capital Assets		
Land	3,423,981	1,996,692
Construction in Progress	1,810,747	2,404,158
Depreciable Capital Assets - Net of Depreciation		
Building	16,825,871	39,426,235
Improvements Other Than Buildings	-	1,249,699
Machinery, Vehicles, Furniture, and Equipment	2,968,568	15,894,613
Infrastructure	56,989,540	-
Total Assets	100,596,773	139,129,905
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related	4,520,156	4,946,842
Other Postemployment Benefit Related	19,535	-
Loss on Refunding	27,257	-
Total Deferred Outflows of Resources	4,566,948	4,946,842

See accompanying Notes to Financial Statements.

**KANABEC COUNTY
MORA, MINNESOTA
STATEMENT OF NET POSITION (CONTINUED)
DECEMBER 31, 2018**

	Governmental Activities	Discretely Presented Component Unit
LIABILITIES		
Accounts Payable	\$ 888,329	\$ 6,673,609
Salaries Payable	794,968	3,273,167
Contracts Payable	261,999	-
Due to Other Governments	212,798	-
Accrued Interest Payable	20,486	135,627
Unearned Revenue	282,856	-
Other Current Liabilities	-	956,484
Compensated Absences Payable - Due within One Year	605,347	-
General Obligation Bonds Payable - Due within One Year	1,290,000	295,000
Capital Lease Payable - Due within One Year	82,796	-
Loans Payable - Due within One Year	81,919	-
Other Postemployment Benefits Liability - Due in More Than One Year	585,430	886,647
General Obligation Bonds Payable - Due in More Than One Year	7,471,889	913,576
Capital Lease Payable - Due in More Than One Year	146,799	-
Revenue Bonds Payable - Due in More Than One Year	-	56,600,000
Compensated Absences Payable - Due in More Than One Year	65,642	-
Loans Payable - Due in More Than One Year	456,067	-
Net Pension Liability - Due in More Than One Year	8,569,930	20,703,606
	<u>21,817,255</u>	<u>90,437,716</u>
Total Liabilities		
	<u>21,817,255</u>	<u>90,437,716</u>
DEFERRED INFLOWS OF RESOURCES		
Pension Related	6,280,674	5,550,152
	<u>6,280,674</u>	<u>5,550,152</u>
Total Deferred Inflows of Resources		
	<u>6,280,674</u>	<u>5,550,152</u>
NET POSITION		
Net Investment in Capital Assets	72,994,819	26,325,647
Restricted for:		
General Government	106,700	-
Public Safety	213,126	-
Highways and Streets	1,043,287	-
Sanitation	1,951,281	-
Debt Service	1,176,615	-
Operating Expenses	-	2,765,335
Unrestricted	(420,036)	18,997,897
	<u>(420,036)</u>	<u>18,997,897</u>
Total Net Position		
	<u>\$ 77,065,792</u>	<u>\$ 48,088,879</u>

See accompanying Notes to Financial Statements.

**KANABEC COUNTY
MORA, MINNESOTA
STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

FUNCTIONS/PROGRAMS					Net (Expense) Revenue and Changes in Net Position		
	Expenses	Program Revenues			Primary	Component	
		Fees, Charges, Fines, and Other	Operating		Capital	Government	Unit
			Grants and Contributions		Grants and Contributions	Governmental	FirstLight Health System
PRIMARY GOVERNMENT							
GOVERNMENTAL ACTIVITIES							
General Government	\$ 7,905,092	\$ 2,279,462	\$ 1,289,792	\$ -	\$ (4,335,838)	\$ -	
Public Safety	5,407,662	725,592	1,055,674	-	(3,626,396)	-	
Highways and Streets	5,232,258	201,480	1,421,687	2,171,108	(1,437,983)	-	
Sanitation	132,471	-	67,729	-	(64,742)	-	
Human Services	6,507,642	749,581	3,031,587	-	(2,726,474)	-	
Health	3,059,630	1,376,015	1,579,455	-	(104,160)	-	
Culture and Recreation	161,984	-	-	-	(161,984)	-	
Economic Development	124,193	1,755	13,930	-	(108,508)	-	
Conservation of Natural Resources	79,181	-	-	-	(79,181)	-	
Interest	237,862	-	-	-	(237,862)	-	
Total Governmental Activities	28,847,975	5,333,885	8,459,854	2,171,108	(12,883,128)	-	
COMPONENT UNIT							
FirstLight Health System	82,628,770	87,435,694	-	-	-	4,806,924	
Total Reporting Entity	\$ 111,476,745	\$ 92,769,579	\$ 8,459,854	\$ 2,171,108	(12,883,128)	4,806,924	
GENERAL REVENUES							
Property Taxes					11,280,804	-	
Wheelage Tax					168,733	-	
Mortgage Registry and Deed Tax					17,079	-	
Gravel Tax					18,277	-	
Tax Increments and Excess TIF					8,868	-	
Payments in Lieu of Tax					108,247	-	
Grants and Contributions not Restricted for a Particular Purpose					1,458,976	-	
Investment Earnings					147,752	130,507	
Miscellaneous					945,511	440,886	
Gain on the Sale of Capital Assets					11,334	-	
Total General Revenues					14,165,581	571,393	
CHANGE IN NET POSITION					1,282,453	5,378,317	
Net Position - Beginning of Year (as Previously Reported)					76,284,461	42,825,301	
Change in Accounting Principle					(501,122)	(114,739)	
Net Position - Beginning of Year (as Restated)					75,783,339	42,710,562	
NET POSITION - END OF YEAR					\$ 77,065,792	\$ 48,088,879	

See accompanying Notes to Financial Statements.

**KANABEC COUNTY
MORA, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	General	Road and Bridge
ASSETS		
Cash and Pooled Investments	\$ 4,958,931	\$ 4,494,507
Petty Cash and Change Funds	500	175
Taxes Receivable - Delinquent	286,273	101,870
Special Assessments Receivable - Delinquent	190	-
Special Assessments Receivable - Unavailable	345,367	-
Accounts Receivable	57,872	-
Accrued Interest Receivable	19,760	-
Due from Other Funds	18,773	13,527
Due from Other Governments	139,549	669,514
Inventories	-	435,815
Prepaid Asset	45,048	-
Total Assets	<u>\$ 5,872,263</u>	<u>\$ 5,715,408</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
LIABILITIES		
Accounts Payable	\$ 127,476	\$ 42,232
Salaries Payable	422,205	87,525
Contracts Payable	-	261,999
Due to Other Funds	15,441	-
Due to Other Governments	127,334	9,914
Unearned Revenue	-	282,856
Total Liabilities	692,456	684,526
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue - Tax Related	631,830	101,870
Unavailable Revenue - Grant Related	31,394	658,561
Total Deferred Inflows of Resources	663,224	760,431
Total Liabilities and Deferred Inflows of Resources	1,355,680	1,444,957
FUND BALANCES		
Nonspendable		
Inventory	-	435,815
Prepays	45,048	-
Restricted		
E-911	90,674	-
CWP Septic Loans	163,085	-
Attorney Forfeited Property	20,390	-
Sheriff's Forfeited Property	122,452	-
Land Office Technology Equipment	127,574	-
Law Library	9,494	-
Recorder's Equipment	76,212	-
Rural Addressing	438	-
SCORE	168,050	-
Transit MNDOT Fares	59,449	-
Landfill Closure/Post Closure	1,460,328	-
Water Planning	32,244	-
ORD 27	166	-
Debt Service	-	-
Committed		
Road and Bridge Fund Purposes	-	3,834,636
Family Services Fund Purposes	-	-
Community Health Fund Purposes	-	-
Economic Development Authority Fund Purposes	-	-
Regional Rail Fund Purposes	3,364	-
Assigned		
Forfeited Tax Fund Purposes	-	-
Vehicle Pool	120,238	-
Future Capital Equipment	521,393	-
Elections	21,635	-
Sheriff's Contingency	25,689	-
Transit Unemployment	412,515	-
Unassigned	1,036,145	-
Total Fund Balance	<u>4,516,583</u>	<u>4,270,451</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 5,872,263</u>	<u>\$ 5,715,408</u>

See accompanying Notes to Financial Statements.

**KANABEC COUNTY
MORA, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS (CONTINUED)
DECEMBER 31, 2018**

Family Services	Economic Development Authority	Community Health	Forfeited Tax	Debt Service	Total Governmental Funds
\$ 941,684	\$ 30,226	\$ 774,542	\$ 688,759	\$ 1,147,746	\$ 13,036,395
-	-	-	-	-	675
90,792	4,656	11,027	-	48,629	543,247
-	-	-	-	-	190
-	-	-	-	-	345,367
16,854	-	166,044	-	-	240,770
-	-	-	-	726	20,486
11,266	-	14,655	-	-	58,221
455,793	-	240,605	-	-	1,505,461
-	-	-	-	-	435,815
-	-	-	-	-	45,048
<u>\$ 1,516,389</u>	<u>\$ 34,882</u>	<u>\$ 1,206,873</u>	<u>\$ 688,759</u>	<u>\$ 1,197,101</u>	<u>\$ 16,231,675</u>
\$ 206,794	\$ 2,145	\$ 38,578	\$ 471,104	\$ -	\$ 888,329
157,795	5,514	121,929	-	-	794,968
-	-	-	-	-	261,999
29,127	-	13,653	-	-	58,221
35,657	377	39,516	-	-	212,798
-	-	-	-	-	282,856
429,373	8,036	213,676	471,104	-	2,499,171
90,792	4,656	11,027	-	48,629	888,804
56,131	-	-	-	-	746,086
146,923	4,656	11,027	-	48,629	1,634,890
576,296	12,692	224,703	471,104	48,629	4,134,061
-	-	-	-	-	435,815
-	-	-	-	-	45,048
-	-	-	-	-	90,674
-	-	-	-	-	163,085
-	-	-	-	-	20,390
-	-	-	-	-	122,452
-	-	-	-	-	127,574
-	-	-	-	-	9,494
-	-	-	-	-	76,212
-	-	-	-	-	438
-	-	-	-	-	168,050
-	-	-	-	-	59,449
-	-	-	-	-	1,460,328
-	-	-	-	-	32,244
-	-	-	-	-	166
-	-	-	-	1,148,472	1,148,472
-	-	-	-	-	3,834,636
940,093	-	-	-	-	940,093
-	-	982,170	-	-	982,170
-	22,190	-	-	-	22,190
-	-	-	-	-	3,364
-	-	-	217,655	-	217,655
-	-	-	-	-	120,238
-	-	-	-	-	521,393
-	-	-	-	-	21,635
-	-	-	-	-	25,689
-	-	-	-	-	412,515
-	-	-	-	-	1,036,145
<u>940,093</u>	<u>22,190</u>	<u>982,170</u>	<u>217,655</u>	<u>1,148,472</u>	<u>12,097,614</u>
<u>\$ 1,516,389</u>	<u>\$ 34,882</u>	<u>\$ 1,206,873</u>	<u>\$ 688,759</u>	<u>\$ 1,197,101</u>	<u>\$ 16,231,675</u>

See accompanying Notes to Financial Statements.

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

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ 12,097,614
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		82,018,707
Investment in joint ventures are reported in governmental activities and are not financial resources. Therefore, they are not reported in the governmental funds.		2,404,612
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		1,634,890
The County's Other Postemployment Benefit liability and related deferred outflows are recorded only on the statement of net position. Balances at year-end are:		
Other Postemployment Benefits Liability	(585,430)	
Deferred Outflows of Resources - OPEB Related	19,535	(565,895)
The County's net pension liability and related deferred inflows and outflows of resources are recorded on the statement of net position. Balances at year-end are:		
Net Pension Liability	\$ (8,569,930)	
Deferred Outflows of Resources - Pension Related	4,520,156	
Deferred Inflows of Resources - Pension Related	<u>(6,280,674)</u>	(10,330,448)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General Obligation Bonds Payable	(8,550,000)	
Loss on Refunding	27,257	
Loans Payable	(537,986)	
Unamortized Discounts	29,736	
Unamortized Premium	(241,625)	
Compensated Absences Payable	(670,989)	
Capital Lease Payable	(229,595)	
Accrued Interest Payable	<u>(20,486)</u>	(10,193,688)
NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 77,065,792</u>

**KANABEC COUNTY
MORA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018**

	<u>General</u>	<u>Road and Bridge</u>
REVENUES		
Taxes	\$ 6,101,689	\$ 2,305,150
Special Assessments	85,271	-
Licenses and Permits	88,365	31,360
Intergovernmental	2,904,739	4,300,909
Charges for Services	2,235,618	170,120
Fines and Forfeits	3,968	-
Gifts and Contributions	29,808	-
Interest on Investments	141,584	-
Miscellaneous	1,014,801	10,528
Total Revenues	<u>12,605,843</u>	<u>6,818,067</u>
EXPENDITURES		
CURRENT		
General Government	6,179,751	-
Public Safety	6,262,296	-
Highways and Streets	-	2,740,261
Sanitation	132,471	-
Human Services	-	-
Health	-	-
Economic Development	-	-
Conservation	79,181	-
Total Current	<u>12,653,699</u>	<u>2,740,261</u>
INTERGOVERNMENTAL		
Culture and Recreation	161,595	-
CAPITAL OUTLAY		
General Government	539,853	-
Public Safety	192,394	-
Highways and Streets	-	4,353,143
Total Capital Outlay	<u>732,247</u>	<u>4,353,143</u>
DEBT SERVICE		
Principal	181,413	1,946
Interest	14,679	310
Administrative (Fiscal) Charges	-	-
Total Debt Service	<u>196,092</u>	<u>2,256</u>
Total Expenditures	<u>13,743,633</u>	<u>7,095,660</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,137,790)	(277,593)
OTHER FINANCING SOURCES (USES)		
Transfers In	60,000	104,000
Transfers Out	(104,000)	-
Loan Proceeds	42,442	-
Proceeds from the Sale of Capital Assets	11,334	-
Total Other Financing Sources (Uses)	<u>9,776</u>	<u>104,000</u>
NET CHANGE IN FUND BALANCES	(1,128,014)	(173,593)
Fund Balance - Beginning of Year	5,644,597	4,527,105
Increase (Decrease) in Inventories	-	(83,061)
FUND BALANCE - END OF YEAR	<u>\$ 4,516,583</u>	<u>\$ 4,270,451</u>

See accompanying Notes to Financial Statements.

**KANABEC COUNTY
MORA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

Family Services	Economic Development Authority	Community Health	Forfeited Tax	Debt Service	Total Governmental Funds
\$ 1,947,678	\$ 135,721	\$ 321,541	\$ -	\$ 905,083	\$ 11,716,862
-	-	-	-	-	85,271
-	-	-	-	-	119,725
3,292,627	430	1,830,528	-	87,005	12,416,238
107,300	1,755	1,145,931	-	-	3,660,724
-	-	-	-	-	3,968
-	13,500	8,627	-	-	51,935
-	-	-	-	6,168	147,752
663,373	-	35,590	779,863	-	2,504,155
6,010,978	151,406	3,342,217	779,863	998,256	30,706,630
-	-	-	553,095	-	6,732,846
-	-	-	-	-	6,262,296
-	-	-	-	-	2,740,261
-	-	-	-	-	132,471
6,543,143	-	-	-	-	6,543,143
-	-	3,028,626	-	-	3,028,626
-	124,193	-	-	-	124,193
-	-	-	-	-	79,181
6,543,143	124,193	3,028,626	553,095	-	25,643,017
-	-	-	-	-	161,595
-	-	-	-	-	539,853
-	-	-	-	-	192,394
-	-	-	-	-	4,353,143
-	-	-	-	-	5,085,390
-	-	-	-	725,000	908,359
-	-	-	-	213,030	228,019
-	-	-	-	743	743
-	-	-	-	938,773	1,137,121
6,543,143	124,193	3,028,626	553,095	938,773	32,027,123
(532,165)	27,213	313,591	226,768	59,483	(1,320,493)
-	-	-	-	-	164,000
-	-	-	(60,000)	-	(164,000)
-	-	-	-	-	42,442
-	-	-	-	-	11,334
-	-	-	(60,000)	-	53,776
(532,165)	27,213	313,591	166,768	59,483	(1,266,717)
1,472,258	(5,023)	668,579	50,887	1,088,989	13,447,392
-	-	-	-	-	(83,061)
\$ 940,093	\$ 22,190	\$ 982,170	\$ 217,655	\$ 1,148,472	\$ 12,097,614

See accompanying Notes to Financial Statements.

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

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ (1,266,717)

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

In the fund level, under the modified accrual basis, distributions of joint venture equity interest are recorded as revenue. In the statement of net position, an asset is reported for the equity interest in joint ventures and distributions (decreases) and increases in joint venture equity are reported in the statement of activities. The change in net position differs from the change in fund balance by the increases and decreases in the investment in joint venture.

Equity Distribution	
Change in Investment in Joint Venture	17,036

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 depreciation expense.

Expenditures for General Capital Assets, Infrastructure, and Other Related		
Capital Assets Adjustments	\$ 4,480,124	
Current Year Depreciation	<u>(2,449,215)</u>	2,030,909

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(609,887)
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Pension expenditures on the governmental funds are measured by current year employer contributions. Pension expenses on the statement of activities are measured by the change in net pension liability and the related deferred inflows and outflows of resources.

Change in net pension liability	3,054,834	
Change in deferred pension outflows	(1,382,515)	
Change in net deferred pension inflows	<u>(1,381,218)</u>	291,101

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. The net proceeds for debt issuance of loan proceeds:	(42,442)
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net position.

Principal Repayments		
General Obligation Bonds	725,000	
Capital Lease	106,852	
CWP Loan	<u>76,507</u>	908,359

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

Change in Accrued Interest Payable	1,471	
Change in Loss on Refunding	(2,726)	
Change in Other Postemployment Benefits	(64,773)	
Amortization of Discounts	(5,780)	
Amortization of Premiums	29,288	
Change in Accrued Compensated Absences	79,675	
Change in Inventories	<u>(83,061)</u>	<u>(45,906)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u>1,282,453</u>
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**KANABEC COUNTY
MORA, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2018**

ASSETS

Cash and Pooled Investments	<u>\$ 998,265</u>
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LIABILITIES

Funds Held in Trust	\$ 250,647
Due to Other Governments	<u>747,618</u>
 Total Liabilities	 <u>\$ 998,265</u>

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**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

Kanabec County was established March 13, 1858, and is an organized county having the powers, duties, and privileges granted counties by Minnesota Statutes §373. As required by accounting principles generally accepted in the United States of America, these financial statements present Kanabec 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. The County Coordinator, appointed by the board, serves as the clerk of the board but has no vote.

For financial reporting purposes, Kanabec County has included all funds, organizations, agencies, boards, commissions, and authorities, and has considered all potential component units for which the County is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause Kanabec County's financial statements to be misleading or incomplete. The Governmental Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria included appointing a voting majority of an organization's governing body and (1) the ability of the County to impose its will on the organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the County.

As required by generally accepted accounting principles, these financial statements present Kanabec County (the Primary Government) and its component unit. The component unit discussed below is included in the County's reporting entity because of the significance of its operational or financial relationship with the County.

Discretely Presented Component Unit

While part of the reporting entity, a discretely presented component unit is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County. FirstLight Health System (the Hospital) (the System), also known as Kanabec Hospital, meets the criteria to be included as a discrete presentation. The Hospital is governed by the Hospital's board of directors as appointed by the County Board. Complete financial statements for the Hospital may be obtained at the Hospital's business office.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in several joint ventures which are described in Note 7.C. The County also participates in jointly-governed organizations which are described in Note 7.D.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the Primary Government and its component units. 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. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

In the government-wide statement of net position, governmental activities are: (a) are presented on a consolidated basis by column; and (b) recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position.

The 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 that are 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 that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. The County has no funds which are classified as nonmajor.

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 required to be accounted for in another fund.

The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways. Property taxes, committed through the Board approved levy, and restricted intergovernmental revenues are used to finance these projects.

The Family Services Special Revenue Fund is used to account for economic assistance and community social services programs. These programs are funded primarily by property taxes, committed through the Board approved levy, and restricted intergovernmental revenues.

The Economic Development Authority Fund is used to account for all funds collected per state statute for economic development.

The Community Health Fund is used to account for economic assistance and community social services programs. These programs are funded primarily by property taxes, committed through the Board approved levy, and restricted intergovernmental revenues.

The Forfeited Tax Special Revenue Fund is used to account for all funds collected per state statute for forfeited tax sales and rentals.

The Debt Service Fund is used to account for the payment of principal and interest payments on long-term debt which is financed by property tax revenue restricted through bond documents.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fiduciary fund type:

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 agency capacity.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the 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. 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. Kanabec County considers all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general 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, then unrestricted resources as they are needed.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred 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 and fund investments are reported at their fair value at December 31, 2018, based on market prices. Pursuant to Minnesota Statutes §385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. Deposits and Investments (Continued)

Kanabec 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 Minnesota Statutes §471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares. Detailed information about the MAGIC Fund is available in a separately issued report that includes financial statements and required supplementary information. That report can be obtained on the Internet at www.magicfund.org.

2. Receivables and Payables

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

All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on 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.

Significant portions of special assessments receivable are not expected to be collected within one year due to the nature of the receivable.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3. Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Reported inventories are equally offset by nonspendable fund balance to indicate that they do not constitute available spendable resources. Inventories at the government-wide level are recorded as expenses when consumed.

4. Restricted Assets

Certain funds of the County and its component unit are classified as restricted assets on the statement of net position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at acquisition value at the date of donation. In the case of the initial capitalization of general infrastructure reported in governmental activities, the County chose to include all such items regardless of their acquisition date or amount. The County was able to estimate the historical cost for the initial reporting of these assets through backtrending (estimating the current replacement costs of the infrastructure to be capitalized and using an appropriate price-level index to deflate the costs to the acquisition year or estimated acquisition year).

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

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

Assets	Years
Buildings	25-75
Infrastructure	15-75
Machinery, Vehicles, Furniture, and Equipment	3-15

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

6. Deferred Outflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate section represents a consumption of net position that applies to a future period. The County will not recognize the related outflow until a future event occurs. More detailed information about pension related deferred outflows of resources can be found in Note 4 to the financial statements.

7. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual vacation, sick leave, and paid time off (PTO) balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of known employee resignations and retirements.

8. Deferred Inflows of Resources

The County's governmental fund and government-wide financial statements report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position or fund balance that applies to a future period. The County will not recognize the related revenue until a future event occurs. The County has two types of items which occurs relating to revenue recognition: The deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the County's year) under the modified accrual basis of accounting. The second type relates to pension liabilities as described in Note 4 to the financial statements.

9. Long-Term Obligations

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

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

9. Long-Term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of the debt issued is reported as other financing sources. 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.

10. Other Postemployment Benefits

For purposes of measuring the OPEB liability, deferred outflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County's Retiree Benefits Plan (the Plan) and additions/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognized benefit payments when due and payable in accordance with the benefit term.

11. Pensions

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

12. Fund Balance

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned, and unassigned fund balances. Nonspendable portions of fund balance relate to prepaids, inventories, and long-term receivables, as applicable. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Commissioners. The Board passed a resolution authorizing the County Auditor-Treasurer to assign fund balances and their intended uses. Unassigned fund balance is the residual classification for the County's general fund and includes all spendable amounts not contained in other classifications.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

12. Fund Balance (Continued)

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the County's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the County's policy to use committed first, then assigned, and finally unassigned amounts.

13. Net Position

Fund equity is classified as net position in the government-wide financial statements and is displayed in three components. The net investment in capital assets is the net value of capital assets reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement for those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is displayed as unrestricted.

E. Revenues

1. Revenues

In accordance with Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs. The modified accrual basis of accounting is used by all governmental fund types. Under this basis, revenue is not recognized in the financial statements unless it is measurable and available to finance current expenditures.

2. Imposed Nonexchange Transactions

Imposed nonexchange transactions result from assessments by governments on nongovernmental entities and individuals. Property taxes, fines and penalties, and property forfeitures are imposed nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes were levied, to the extent they are collected in the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes receivable but not available are reported as deferred inflows of resources and will be recognized as revenue in the fiscal year that they become available. Fines and penalties and property forfeitures are recognized in the period received.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues (Continued)

3. Intergovernmental

Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose. The provider government establishes purpose restrictions and also may establish time requirements. Federal and state grants mandating the County perform particular programs are government-mandated nonexchange transactions. Revenues are recognized when eligibility and time requirements are met and the funds become measurable and available.

Voluntary nonexchange transactions result from legislative or contractual agreements, such as grants, entitlements, appropriations, and donations. The provider may establish purpose restriction or eligibility requirements. Revenues are recognized in the year to which they apply according to the statute or contract. Gifts and contributions from individuals are also considered voluntary nonexchange transactions and are generally recognized when received.

Tax credits paid by the state are included in intergovernmental revenues and are recognized as revenue in the fiscal year that they become available. State-aid highway allotments for highway maintenance and construction are recognized as revenue in the year of allotment.

4. Exchange Transactions

Special assessments levied against benefiting properties are recognized under the modified accrual basis when available to finance current expenditures. Other revenues, such as licenses and permits, charges for services, and investment income are recognized as revenue when earned.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Expenditures Over Budget

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

	Actual	Budget	Excess
General Fund	\$ 13,743,633	\$ 13,409,994	\$ 333,639
Road and Bridge Special Revenue Fund	7,095,660	6,574,152	521,508
Family Services Special Revenue Fund	6,543,143	5,774,891	768,252

These over-expenditures were funded by greater than anticipated revenues and existing fund balance.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Minnesota Statutes §§118A.02 and 118A.04 authorize the County to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statutes §118A.03 requires that all County deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least 10% more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Custodial Credit Risk - Deposits

In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County investment policy requires that collateral or bond be obtained for all uninsured amounts and that necessary documentation be obtained to show compliance with Minnesota Statutes for deposits.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledge must equal 110% of the deposits not covered by insurance or corporate surety bonds. Authorized collateral includes:

U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letters of credit issue by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

At December 31, 2018, the County's deposits were fully collateralized.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Minnesota Statutes §§118A.04 and 118A.05 generally authorize the following types of investments as available to the County:

- (a) 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 Minnesota Statutes §118a.04, Subd. 6;
- (b) Mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (c) 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;
- (d) Bankers' acceptances of United States banks;
- (e) 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
- (f) With certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

As of December 31, 2018, the County had the following investments:

Investment Type	Maturity	Fair Value	Rating	Concentration Risk
UBS Money Market	*	\$ 49,343	NR	N/A
Municipal Securities				
American Express Bank	9/12/2022	234,921	A3/A-2	7%
Comenity Bank	3/18/2019	98,787	A3/A-2	3
MAGIC Fund	*	<u>2,957,816</u>	NR	N/A
		<u><u>\$ 3,340,867</u></u>		

NR = Not Rated

N/A = Not Subject To Concentration Risk Calculation

* = No Stated Maturity Date

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Interest Rate Risk

Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates. The County has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The County investment policy limits the investment portfolio securities to those with maturities up to five years.

Credit Risk

Minnesota Statutes restrict the types of investments in which the County may invest. The County investment policy restricts its investment choices to only those complying with Minnesota Statutes. As of December 31, 2018, the County's investment in American Express Bank and Comenity Bank were rated A3/A-2 by Moody's and Standards and Poor's; investments in UBS Money Market and the MAGIC Fund were not rated.

Concentration Credit Risk

The County's investment policy places a limit of 15% on the amount the County may invest in any one issuer. More than 5% of the County's investments at December 31, 2018 were municipal securities with American Express Bank. These investments are more than 5% of the County's total investments.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of failure by the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County limits investments only to the extent that there is SIPC and excess SIPC coverage available.

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

Primary Government	
Cash and Pooled Investments	\$ 13,036,395
Petty Cash	675
Component Unit	
FirstLight Health System	34,356,234
Restricted and Internally Designated Assets	
Cash and Pooled	28,059,670
Agency Funds Cash	<u>998,265</u>
Total Cash and Investments	<u>\$ 76,451,239</u>

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Fair Market Value

The County uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures.

The County follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the County has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

- Level 1 – Financial assets are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.
- Level 2 – Financial assets are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.
- Level 3 – Financial assets are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use in pricing the asset.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Fair Market Value (Continued)

Assets measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
Investment by Fair Value				
Municipal Securities	\$ -	\$ 333,708	\$ -	\$ 333,708
Investments Measured at Amortized Cost				
Money Market				49,343
External Investment Pool				2,957,816
Total Investments				3,340,867
Deposits				9,695,528
Petty Cash				675
Agency Funds				998,265
FirstLight Health System				62,415,904
Total Investments				<u>\$ 76,451,239</u>

The 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 to 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 reasonable practical.

2. Receivables

Receivables as of December 31, 2018, for the County's governmental activities are as follows:

	Total Receivables	Amounts not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 543,247	\$ -
Special Assessments	345,557	345,367
Accounts	240,770	-
Interest	20,486	-
Due From Other Governments	1,505,461	-
Total Governmental Activities	<u>\$ 2,655,521</u>	<u>\$ 345,367</u>

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets

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

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Being Depreciated				
Land and Right-of-Way	\$ 3,417,236	\$ 6,745	\$ -	\$ 3,423,981
Construction-in-Progress	838,515	3,466,324	(2,494,092)	1,810,747
Total Capital Assets, Not Being Depreciated	4,255,751	3,473,069	(2,494,092)	5,234,728
Capital Assets, Being Depreciated				
Buildings	21,161,508	-	-	21,161,508
Machinery, Furniture, and Equipment	7,971,589	1,022,142	(347,459)	8,646,272
Infrastructure	77,135,822	2,479,005	-	79,614,827
Total Capital Assets, Being Depreciated	106,268,919	3,501,147	(347,459)	109,422,607
Less Accumulated Depreciation for				
Buildings	4,018,909	316,728	-	4,335,637
Machinery, Furniture, and Equipment	5,484,538	540,625	(347,459)	5,677,704
Infrastructure	21,033,425	1,591,862	-	22,625,287
Total Accumulated Depreciation	30,536,872	2,449,215	(347,459)	32,638,628
Total Capital Assets, Being Depreciated, Net	75,732,047	1,051,932	-	76,783,979
Governmental Activities Capital Assets, Net	\$ 79,987,798	\$ 4,525,001	\$ (2,494,092)	\$ 82,018,707

Depreciation expense was charged to functions/programs of the Primary Government as follows:

Governmental Activities

General Government	\$ 340,289
Public Safety	325,931
Highways and Streets, Including Depreciation of Infrastructure Assets	1,782,995
Total Depreciation Expense - Governmental Activities	<u>\$ 2,449,215</u>

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

Due to Other Funds and Due from Other Funds as of December 31, 2018, expected to be repaid within one year, consisted of the following:

Receivable Fund	Payable Fund	Amount	Reason
General Fund	Family Services Fund	\$ 16,386	Vehicle Usage, Office, and Salary Charges
	Community Health	2,387	Postage, Vehicle Use, and Telephone Service
	Total General Fund	18,773	
Road and Bridge Fund	General Fund	13,527	Fees for Services Performed
Family Services Fund	Community Health	11,266	Fees for Services Performed
Community Health	General Fund	1,914	Fees for Services Performed
	Family Services Fund	12,741	Fees for Services Performed
	Total Community Health	14,655	
Total Due To/From Other Funds		\$ 58,221	

2. Interfund Transfers

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

	Amount	Reason
Transfer from the General Fund to the Road and Bridge Fund	\$ 104,000	Vehicle Pool Charges
Transfer from the Forfeited Tax Fund to the General Fund	60,000	Parking Lot Project
Total Interfund Transfers	\$ 164,000	

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities

1. Long-Term Debt

Governmental Activities

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issues Amount	Outstanding Balance December 31, 2018
General Obligation Bonds					
2015A General Obligation Refunding Bonds	2027	\$220,000 - \$995,000	2.25 - 3.00	\$ 8,485,000	\$ 8,040,000
2012A General Obligation Refunding Bonds	2019	\$460,000 - \$510,000	.40 - 1.05	2,905,000	<u>510,000</u>
Subtotal					8,550,000
Add: Unamortized Premiums					241,625
Less: Unamortized Discounts					<u>(29,736)</u>
Total General Obligation Bonds					<u><u>\$ 8,761,889</u></u>
Capital Leases					
Motorola Lease	2021	\$47,420 - \$56,049	3.40	355,690	\$ 162,678
Vehicle Leases - 2015	2020	\$405	1.35	38,812	6,516
Copier Leases	2019	\$160 - \$162	2.75	18,182	804
Phone Lease	2019	\$1,662 - \$2,133	1.90	113,280	2,133
Vehicle Leases - 2016	2021	\$274.02 - \$441.93	1.25 - 1.35	78,958	34,241
Vehicle Leases - 2017	2022	\$274.02- \$321.21	1.25 - 1.35	44,091	<u>23,223</u>
Total Capital Leases					<u><u>\$ 229,595</u></u>
Loans Payable					
Clean Water Partnership Loans (CWP Loans)	2026	\$5,060 - \$11,308	2.00	665,175	<u><u>\$ 537,986</u></u>

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

2. Debt Service Requirements

Debt service requirements at December 31, 2018, were as follows:

Governmental Activities

Year Ending December 31,	General Obligation Bonds		CWP Loans	
	Principal	Interest	Principal	Interest
2019	\$ 1,290,000	\$ 201,353	\$ 81,919	\$ 8,627
2020	810,000	175,275	83,565	6,979
2021	840,000	150,975	85,245	5,299
2022	865,000	125,775	40,627	3,816
2023	900,000	99,825	41,444	2,998
2024-2027	3,845,000	211,863	205,186	4,161
Total	<u>\$ 8,550,000</u>	<u>\$ 965,066</u>	<u>\$ 537,986</u>	<u>\$ 31,880</u>

3. Changes in Long-Term Liabilities

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

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable					
General Obligation Bonds	\$ 9,275,000	\$ -	\$ 725,000	\$ 8,550,000	\$ 1,290,000
Unamortized Discounts	(35,516)	-	(5,780)	(29,736)	-
Unamortized Premiums	270,913	-	29,288	241,625	-
Total Bonds Payable	<u>9,510,397</u>	<u>-</u>	<u>748,508</u>	<u>8,761,889</u>	<u>1,290,000</u>
Loans Payable	572,051	42,442	76,507	537,986	81,919
Capital Lease Payable	336,447	-	106,852	229,595	82,796
Compensated Absences Payable	<u>752,147</u>	<u>1,329,883</u>	<u>1,411,041</u>	<u>670,989</u>	<u>605,347</u>
Governmental Activity Long-Term Liabilities	<u>\$ 11,171,042</u>	<u>\$ 1,372,325</u>	<u>\$ 2,342,908</u>	<u>\$ 10,200,459</u>	<u>\$ 2,060,062</u>

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

3. Changes in Long-Term Liabilities (Continued)

The General Obligation Bonds are liquidated by the debt service fund, and the loans payable, capital leases, and compensated absences are liquidated by the general, road and bridge, and family services funds.

The County participates in a program that resulted in entering into several loan agreements with the Minnesota Pollution Control Agency for financing septic systems. The revolving loans are secured by special assessments placed on the individual parcels requesting repair of septic systems.

4. Capital Leases

During 2017, the county entered into two capital leases to purchase vehicles. The leases totaled \$44,091 and are payable through 2022.

During 2016, the County entered into four capital leases to purchase four vehicles. The five year leases totaled \$78,958 and are payable through 2021.

During 2015, the County entered into two capital leases to purchase two vehicles. The five year leases totaled \$38,812 and are payable through September of 2020. In addition, the County began leasing radio equipment through Motorola for the squad cars under a five year term for a total of \$355,690 payable through 2021.

During 2014, the County entered into two capital leases to purchase copiers. These five year leases total \$18,182 and are payable through May of 2019. In addition, the County began leasing a phone system under a five year term for a total \$113,280 payable through 2019.

At December 31, 2018, the County has total assets under capital lease of \$716,561 with the related accumulated depreciation of \$314,505. The remaining capital lease obligations are as follows:

Year Ending December 31,	Capital Lease Obligations	
	Principal	Interest
2019	\$ 82,798	\$ 12,848
2020	79,370	10,483
2021	64,537	4,168
2022	2,890	780
Total	<u>\$ 229,595</u>	<u>\$ 28,279</u>

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Plan (GERF)

Most full-time and certain part-time employees of the County are covered by the General Employees Retirement Fund (GERF). GERF members belong to the Coordinated Plan, and are covered by Social Security.

2. Public Employees Police and Fire Plan (PEPFP)

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

3. Local Government Correctional Plan (PECF)

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

B. Benefits Provided

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

1. GERF Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% of average salary for each of the first 10 years of service and 1.7% of average salary.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. GERP Benefits (Continued)

for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90% funded for two consecutive years, benefit recipients are given a 2.5% increase. If the plan has not exceeded 90% funded, or have fallen below 80%, benefit recipients are given a 1% increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

2. PEPFP Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Police and Fire Plan benefit recipients receive a future annual 1.0% increase. An annual adjustment will equal 2.5% any time the plan exceeds a 90% funded ratio for two consecutive years. If the adjustment is increased to 2.5% and the funded ratio falls below 80% for one year or 85% for two consecutive years, the postretirement benefit increase will be lowered to one percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase. For retirements after May 31, 2014, the first increase will be delayed two years.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

3. PECF Benefits

Benefits for Correctional Plan members first hired after June 30, 2010, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. The annuity accrual rate is 1.9% of average salary for each year of service in that plan. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the Correctional Plan is at least 90% funded for two consecutive years, benefit recipients are given a 2.5% increase. If the plan has not exceeded 90% funded, or have fallen below 80%, benefit recipients are given a one percent increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

C. Contributions

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

1. GERP Contributions

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2018 and the County was required to contribute 7.50% for Coordinated Plan members. The County's contributions to the General Employees Fund for the year ended December 31, 2018 were \$644,121. The County's contributions were equal to the required contributions as set by state statute.

2. PEPFP Contributions

Plan members were required to contribute 10.8% of their annual covered salary and the County was required to contribute 16.20% of pay for members in fiscal year 2018. The County's contributions to the Police and Fire Fund for the year ended December 31, 2018 were \$242,989. The County's contributions were equal to the required contributions as set by state statute.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

C. Contributions (Continued)

3. PECF Contributions

Plan members were required to contribute 5.83% of their annual covered salary and the County was required to contribute 8.75% of pay for plan members in fiscal year 2018. The County's contributions to the Correctional Fund for the year ended December 31, 2018 were \$242,989. The County's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. GERF Pension Costs

At December 31, 2018, the County reported a liability of \$6,934,488 for its proportionate share of the General Employees Fund's net pension liability. The County's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million to the fund in 2018. The state of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the County totaled \$227,463, for a total net pension liability of \$7,161,951 associated with the County. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportionate share of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2018, the County's proportionate share was 0.125 % which was an increase of 0.0036% from its proportionate share measured as of June 30, 2017.

For the year ended December 31, 2018, the County recognized pension expense of \$748,023 for its proportionate share of the General Employees Plan's pension expense. In addition, the County recognized an additional \$53,044 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs (Continued)

At December 31, 2018, the System reported a liability of \$20,703,606 for its proportionate share of the General Employees Fund's net pension liability. The System's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million to the fund in 2018. The state of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the System totaled \$679,218, for a total net pension liability of \$21,382,824 associated with the System. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The System's proportionate share of the net pension liability was based on the System's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2018, the System's proportionate share was 0.3732% which was an decrease of 0.0021% from its proportionate share measured as of June 30, 2017.

For the year ended December 31, 2018, the System recognized pension expense of \$614,180 for its proportionate share of the General Employees Plan's pension expense. In addition, the System recognized an additional \$158,392 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2018, the County System reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Kanabec County		FirstLight Health System	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 183,545	\$ 202,249	\$ -	\$ 2,115,581
Changes in Actuarial Assumptions	662,419	779,164	1,977,719	2,326,273
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	708,595	547,992	603,835
Changes in Proportion and Differences Between County Contributions and Proportionate Share of Contributions	283,936	21,051	1,355,865	504,463
County Contributions Subsequent to the Measurement Date	321,839	-	1,065,266	-
Total	<u>\$ 1,451,739</u>	<u>\$ 1,711,059</u>	<u>\$ 4,946,842</u>	<u>\$ 5,550,152</u>

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs (Continued)

\$321,839 reported as deferred outflows of resources related to pensions resulting from County contributions to GERP subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019.

\$1,065,266 reported as deferred outflows of resources related to pensions resulting from System contributions to GERP subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to GERP pensions will be recognized in pension expense as follows:

Year Ended June 30	Kanabec County Pension Expenses Amount	FirstLight Health System Pension Expenses Amount
2019	\$ 331,788	\$ 1,298,709
2020	(260,645)	(687,089)
2021	(507,567)	(1,848,077)
2022	(144,735)	(432,119)
2023	-	-
Thereafter	-	-

2. PEPFP Pension Costs

At December 31, 2018, the County reported a liability of \$1,505,047 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportionate share of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2018, the County's proportionate share was 0.1412 % which was an increase of 0.0062 % from its proportionate share measured as of June 30, 2017. The County also recognized \$12,708 for the year ended December 31, 2018, as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the state of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. **PEPFP Pension Costs** (Continued)

For the year ended December 31, 2018, the County recognized pension expense of \$221,423 for its proportionate share of the PEPFPs pension expense.

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 60,662	\$ 369,226
Changes in Actuarial Assumptions	1,871,147	2,215,625
 Net Difference Between Projected and Actual Earnings on Pension Plan Investments	 -	 315,236
Changes in Proportion and Differences Between County Contributions and Proportionate Share of Contributions	213,384	-
County Contributions Subsequent to the Measurement Date	122,838	-
Total	<u>\$ 2,268,031</u>	<u>\$ 2,900,087</u>

\$122,838 reported as deferred outflows of resources related to pensions resulting from County contributions to the PEPFP subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to the PEPFP will be recognized in pension expense as follows:

Year Ended June 30	Pension Expenses Amount
2019	\$ 15,385
2020	(54,498)
2021	(168,041)
2022	(561,496)
2023	13,756
Thereafter	-

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

3. PECF Pension Costs

At December 31, 2018, the County reported a liability of \$130,394 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportionate share of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2018, the County's proportionate share was 0.793 % which was an increase/decrease of 0.073 % from its proportionate share measured as of June 30, 2017.

For the year ended December 31, 2018, the County recognized pension expense of (\$113,345) for its proportionate share of the Correctional Plan's pension expense.

At December 31, 2018, the County reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to PECF from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$ 6,810	\$ 13,937
Changes in Actuarial Assumptions	615,078	1,507,638
Net Difference Between Projected and Actual		
Earnings on Pension Plan Investments	-	147,952
Changes in Proportion	110,865	1
Contributions Paid to PERA Subsequent to the	-	
Measurement Date	67,633	-
Total	<u>\$ 800,386</u>	<u>\$ 1,669,528</u>

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

3. PECF Pension Costs (Continued)

\$67,633 reported as deferred outflows of resources related to pensions resulting from County contributions to PECF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to PECF will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 100,720
2020	(540,662)
2021	(469,537)
2022	(27,296)

E. Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2018, was \$856,101.

F. Actuarial Assumptions

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

	<u>GERF</u>	<u>PEPFP</u>	<u>PECF</u>
Inflation	2.50 Percent per Year	2.50 Percent per Year	2.00 Percent per Year
Active Member Payroll Growth	3.25 Percent per Year	3.25 Percent per Year	3.50 Percent per Year
Investment Rate of Return	7.50 Percent	7.50 Percent	7.50 Percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan, 1.0% per year for the Police and Fire Plan, and 2.0% per year for the Correctional Plan.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. The most recent four-year experience study for Police and Fire Plan was completed in 2016. The five-year experience study for the Correctional Plan, prepared by a former actuary, was completed in 2012. The mortality assumption for the Correctional Plan is based on the Police and Fire Plan experience study completed in 2016.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

F. Actuarial Assumptions (Continued)

Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

General Employees Fund

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase was changed from 1.0% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

Police and Fire Fund

- The mortality projection scale was changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0% per year through 2064 and 2.5% per year, thereafter, to 1.0% for all years, with no trigger.
- An end date of July 1, 2048, was added to the existing \$9.0 million state contribution. Additional, annual state aid will equal \$4.5 million in fiscal years 2019, and 2020, and \$9 million thereafter, until the plan reaches 100% funding, or July 1, 2048, if earlier.
- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80% to 11.30% and 11.80% of pay, respectively. Employer contributions were changed effective January 1, 2019 and January 1, 2020 from 16.20% to 16.95% and 17.70% of pay, respectively. Interest credited on member contributions decreased from 4% to 3% beginning July 1, 2018.
- Deferred augmentation was changed to 0% effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

Correctional Fund

- The Single Discount Rate was changed from 5.96% per annum to 7.50% per annum.
- The mortality projection scale was changed from MP-2016 to MP-2017.
- The assumed postretirement benefit increase was changed from 2.50% per year to 2.00% per year.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return 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.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

F. Actuarial Assumptions (Continued)

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	36 %	5.10 %
International Equity	17	5.30
Bonds	20	0.75
Alternative Assets	25	5.90
Cash	2	-

G. Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund, the Police and Fire Fund, and the Correctional Fund were projected to be available to make all projected future benefit payments of current plan members. 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.

H. Pension Liability Sensitivity

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

	Proportionate Share of the							
	General Employees Fund			Police and Fire Fund		Correctional Fund		
	Discount Rate	County Net Pension Liability	FirstLight Health System's Net Pension Liability	Discount Rate	County Net Pension Liability	Discount Rate	County Net Pension Liability	
1% Decrease	6.50%	\$ 11,269,430	\$ 33,646,010	6.50%	\$ 3,226,914	4.96%	\$ 1,115,929	
Current	7.50%	6,934,489	20,703,606	7.50%	1,505,047	5.96%	130,394	
1% Increase	8.50%	3,356,116	10,020,021	8.50%	81,134	6.96%	(658,008)	

I. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 5 PUBLIC EMPLOYEES DEFINED CONTRIBUTION PLAN

Two Commissioners of the County are covered by the Public Employees Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution 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. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees contributions must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives two percent of employer contributions and twenty-five hundredths of one percent (0.0025) of the assets in each member's account annually.

Total contributions made by the County during fiscal year 2018 were:

	Contribution Amount		Percentage of Covered Payroll		Required Rates
	Employee	Employer	Employee	Employer	
2018	\$ 5,631	\$ 5,631	5.0%	5.0%	5.0%

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS

A. Plan Description

The County provides health insurance benefits for certain retired employees under a single-employer fully-insured plan. The County provides benefits for retirees as required by Minnesota Statutes §471.61 subdivision 2b. County policy determines the County's contributions to the plan. Active employees who retire from the County when eligible to receive a retirement benefit from the Public Employees Retirement Association (PERA) of Minnesota (or similar plan) and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the County's health benefits program. Pursuant to the provisions of the plan, retirees are required to pay varying percentages of the total premium cost. As of December 31, 2018, there were two retirees receiving health benefits from the County's health plan and 161 active participants.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

B. Funding Policy

The County's OPEB plan is financed on a pay-as-you-go basis and currently has no assets that have been deposited into an irrevocable trust for future health benefits. Therefore, the actuarial value of assets is zero. Separate stand-alone financial statements are not issued for the plan.

C. Actuarial Methods and Assumptions

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

The total OPEB liability was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary	3.0%
Health Care Trend Rates	6.50% Decreasing to 5.00% Over 6 Years

Mortality rates were based on the RP-2014 white collar mortality tables with MP-2017 Generational Improvement Scale.

The actuarial assumptions used in the January 1, 2018 valuation were based on the results of an actuarial experience study for the General Employees Plan from 2015 and the Police and Fire Plan from 2016.

The discount rate used to measure the total OPEB liability was 3.3%. The discount rate is equal to the 20-Year Municipal Bond Yield.

D. Changes in Total OPEB Liability

	<u>Total OPEB liability</u>
Balance as of January 1, 2018	\$ 519,465
Changes for the Year:	
Service Cost	65,311
Interest	18,997
Benefit Payments	<u>(18,343)</u>
Net Change in Total OPEB Liability	<u>65,965</u>
Balance as of December 31, 2018	<u><u>\$ 585,430</u></u>

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

D. Changes in Total OPEB Liability (Continued)

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

Discount Rate Sensitivity		Discount Rate	
1% Decrease (2.30%)		(3.30%)	1% Increase (4.30%)
Total OPEB Liability	\$ 636,809	\$ 585,430	\$ 538,420

The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (5.5% decreasing to 4.00% over 6 years) or 1% higher (7.5% decreasing to 6.00% over 6 years) than the current healthcare cost trend rates:

Medical Trend Rate Sensitivity		Current Trend Rates	
1% Decrease (5.50% Decreasing to 4.00%)		(6.50% Decreasing to 5.00%)	1% Increase (7.50% Decreasing to 6.00%)
Total OPEB Liability	\$ 515,897	\$ 585,430	\$ 669,812

For the year ended December 31, 2018, the County recognized OPEB expense of \$65,965. At December 31, 2018, the County reported no deferred inflows of resources, and \$19,535 in deferred outflows of resources resulting from County contributions subsequent to the measurement date and will be recognized as a reduction of the OPEB liability in the year ended December 31, 2019.

NOTE 7 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 for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risks of loss, 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 four fiscal years.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

A. Risk Management (Continued)

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

B. Contingent Liabilities

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

The County is a defendant in various lawsuits and has received notice of other possible claims. Although the outcome of these lawsuits and other possible claims is not presently determinable, in the opinion of the county attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the County.

C. Joint Ventures

East Central Solid Waste Commission

The East Central Solid Waste Commission was established in March 1988 by a joint powers agreement among Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to conduct a solid waste management program on behalf of the participating counties. The Commission is an organized joint venture having powers, duties, and privileges granted joint powers by Minnesota Statutes §471.59. The commission comprises five members, one voting member from each county. At its annual meeting, the board of County commissioners of each county chooses a member and an alternate, both county commissioners, as representatives of the County. Each county has one voting member and, in the absence of the voting member, the alternate votes.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

C. Joint Ventures (Continued)

Each County's proportionate share of the total operating costs is based on the most recent census data available and is to adjust upon the admission of additional counties or the withdrawal of counties. The Commission will remain in existence so long as two or more counties remain as parties to the agreement or until July 1, 2026. Upon dissolution of the Commission, there will be an audit to determine assets and liabilities and the proceeds will be distributed to the counties based on their respective ratios set by the most recent census data.

Each county's share of the Commission's assets, liabilities, and equities cannot be accurately determined since it will fluctuate with census data rather than ownership interest.

During 2018, the County made no contributions to the Commission.

Complete financial statements of the East Central Solid Waste Commission can be obtained at 1756 – 180th Avenue, Mora, Minnesota 55051.

East Central Regional Library

The East Central Regional Library was established by a joint powers agreement among Aitkin, Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to provide an efficient and improved regional public library service. The Library Board comprises 18 members, one County board member, and two appointees from each member county.

During 2018, the County paid \$147,942 to the East Central Regional Library. The County has no fiscal responsibility to the library beyond the annual appropriation.

Complete financial statements of the East Central Regional Library can be obtained at 244 South Birch, Cambridge, Minnesota 55008.

Snake River Watershed Management Board (SRWMB)

The Snake River Watershed Management Board was established in April 1993 by Aitkin, Kanabec, Mille Lacs, and Pine counties, pursuant to Minnesota Statutes §471.59, as a joint powers entity. Its purpose is to coordinate the member county water plans and to develop objectives to promote sound hydrologic management of the water and related land resources.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

C. Joint Ventures (Continued)

Snake River Watershed Management Board (SRWMB) (Continued)

The four member board consists of one County Commissioner from each of the participating counties. Financial responsibility exists because once the SRWMB has established a budget and determined which projects will be undertaken, each member county is required by the agreement to provide appropriate financial support. The SRWMB establishes an annual budget and participation in the administrative costs is: Aitkin County 20.8 percent, Kanabec County 49.5 percent, Mille Lacs County 9.2 percent, and Pine County 20.5 percent. Upon dissolution, the personal property shall be returned to the member county contributing the same.

During 2018, the County paid \$24,072 for the SRWMB operations. Kanabec County is the fiscal agent and records the SRWMB's activities in an agency fund.

Separate financial information can be obtained from the Snake River Watershed Management Board.

Kanabec County Economic Development Commission

The Kanabec County Economic Development Commission was established in July 1996, pursuant to Minnesota Statutes §471.59 as a joint powers entity. Its purpose is to facilitate economic development within the City of Mora, Kanabec County, and the boundaries of Independent School District 332. The board consists of five members: two appointed by the City of Mora, two appointed by Kanabec County, and one appointed by Independent School District 332.

During 2018, the County paid \$0 to the Kanabec County Economic Development Commission.

The Commission is an advisory commission and the County has no fiscal responsibility (benefit or burden). Funding for the Commission is provided by donations. The City of Mora is the fiscal agent and records the Commission's activities in a special revenue fund. Separate financial information is not available.

South Country Health Alliance

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 Minnesota Statutes §471.59. In 2007, Cass, Crow Wing, Morrison, Todd, and Wadena Counties became members. Freeborn, Cass, Crow Wing, and Mower Counties have since withdrawn. The agreement was in accordance with Section 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.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

C. Joint Ventures (Continued)

South Country Health Alliance (Continued)

The purpose of 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, 2018 was \$2,404,612. The equity interest is reported as an investment in joint venture on the government-wide statement of net position. Changes in equity are included in the government-wide statement of activities as Human Services. The County did not receive any distributions from the SCHA during 2018 and does not anticipate any further distributions at this time.

Complete financial statements for the SCHA may be obtained from its fiscal agent at 630 Florence Avenue, P.O. Box 890, Owatonna, Minnesota 55060-0890.

D. Jointly-Governed Organizations

Kanabec County Collaborative

The Kanabec County Collaborative was established pursuant to Minnesota Statutes §121.8355 (now 124D.23). The members of the Collaborative include Kanabec County Social Services; Kanabec County Corrections; Kanabec County Public Health, Community Action Agency and Head Start; Mora School District; and Ogilvie School District. The purpose of the Collaborative is to expand prevention and early intervention services for children and families.

During 2018, the County made no contributions to the Collaborative.

The Collaborative is an advisory committee and the County has no fiscal responsibility (benefit or burden). Control of the Kanabec County Collaborative is vested in the Executive Committee which consists of a collaborative coordinator and a voting representative of each member agency. Separate financial statements are not available.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 8 RESTATEMENT FOR A CHANGE IN ACCOUNTING PRINCIPLE

During the year ended December 31, 2018, the County adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This pronouncement requires the restatement of the December 31, 2018 net position of the governmental activities and the discretely presented component unit as follows:

	Governmental Activities	Discretely Presented Component Unit	Total
Net Position, December 31, 2017, as Previously Reported	\$ 76,284,461	\$ 42,825,301	\$ 119,109,762
Affect of Application of GASB 75	<u>(501,122)</u>	<u>(114,739)</u>	<u>(615,861)</u>
Net Position, December 31, 2017, as Restated	<u>\$ 75,783,339</u>	<u>\$ 42,710,562</u>	<u>\$ 118,493,901</u>

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 9 COMPONENT UNIT DISCLOSURES

A. Summary of Significant Accounting Policies

In addition to those identified in Note 1, the County's discretely presented component unit, FirstLight Health System (Hospital) (System), has the following significant accounting policies:

1. Reporting Entities

The Hospital is governed by a board of directors who are appointed by the Board of County Commissioners.

2. Method of Accounting

The Hospital reports in accordance with the "Audit and Accounting Guide for Health Care Organizations" published by the American Institute of Certified Public Accountants which prescribes accounting and reporting policies, some of which are unique to providers of health care services.

3. Proprietary Fund Accounting

The Hospital's one fund is presented as a proprietary fund and is accounted for on the accrual basis. Substantially all revenue and expenses are subject to accrual.

4. Cash and Cash Equivalents

For purposes of the statements of cash flows, cash equivalents are considered to be highly liquid investments with an original maturity of ninety days or less and exclude noncurrent cash and investments. Cash and cash equivalents held by trustee for operating expenses is cash required to be held by the Hospital for operations under the arrangements of the Health Facilities Bonds.

5. Inventories

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

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 9 COMPONENT UNIT DISCLOSURES (CONTINUED)

A. Summary of Significant Accounting Policies (Continued)

6. Accounts Receivable

Patient receivables are shown at the amount expected to be collectable after determining the allowance for doubtful accounts and contractual adjustments from third-party payers.

The Hospital provides an allowance for bad debts using the allowance method, which is based on management judgment considering historical information. Services are sold on an unsecured basis. Payment is required 30 days after receipt of invoice. Accounts past due more than 90 days are individually analyzed for collectability. In addition, an allowance is provided for other accounts when a significant pattern of uncollectibility has occurred. At December 31, 2018, the allowance for doubtful account was \$5,961,000. When all collection efforts have been exhausted, the account is written-off against the related allowance.

7. Capital Assets

Capital Assets are stated at cost, if purchased or at fair market value on the date received, if donated, less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the property.

8. Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

9. Net Position

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

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 9 COMPONENT UNIT DISCLOSURES (CONTINUED)

B. Detailed Notes on All Funds

1. Assets

Deposits

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

As of December 31, 2018, the Hospital had total cash and investments of \$62,415,904 of which \$27,764,670 was classified as noncurrent.

Receivables

Patient accounts receivable reported as current assets by the Hospital at December 31, 2018 consist of these amounts:

Receivable from Patients and Their Insurance Carriers	\$ 16,697,731
Other	1,280,519
Less: Allowance for Uncollectible Amounts	<u>(5,961,000)</u>
Net Patient Accounts Receivable	<u><u>\$ 12,017,250</u></u>

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 9 COMPONENT UNIT DISCLOSURES (CONTINUED)

B. Detailed Notes on All Funds (Continued)

2. Assets (Continued)

Capital Assets

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

	Balance December 31, 2017	Additions	Transfers and Retirements	Balance December 31, 2018
Capital Assets, Not Being Depreciated				
Land	\$ 1,996,692	\$ -	\$ -	\$ 1,996,692
Construction-in-Progress	10,297,095	27,990,448	(35,883,385)	2,404,158
Total Capital Assets Not Being Depreciated	12,293,787	27,990,448	(35,883,385)	4,400,850
Capital Assets Depreciated				
Land Improvements	1,520,659	-	836,736	2,357,395
Buildings	19,584,435	142,429	31,220,799	50,947,663
Fixed Equipment	11,667,438	8,575	5,610,099	17,286,112
Leases Assets - Building	4,374,531	-	(4,374,531)	-
Movable Equipment	18,545,462	3,574,520	-	22,119,982
Ambulance and Minor Equipment	723,715	21,081	-	744,796
Total Capital Assets Being Depreciated	56,416,240	3,746,605	33,293,103	93,455,948
Less: Accumulated Depreciation for				
Land Improvements	992,721	114,975	-	1,107,696
Buildings	10,179,643	1,341,785	-	11,521,428
Fixed Equipment	6,830,736	735,985	-	7,566,721
Movable Equipment	14,663,020	1,406,632	-	16,069,652
Ambulance and Minor Equipment	557,848	62,056	-	619,904
Total Accumulated Depreciation	33,223,968	3,661,433	-	36,885,401
Capital Assets, Net	<u>\$ 35,486,059</u>	<u>\$ 28,075,620</u>	<u>\$ (2,590,282)</u>	<u>\$ 60,971,397</u>

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 9 COMPONENT UNIT DISCLOSURES (CONTINUED)

B. Detailed Notes on All Funds (Continued)

3. Liabilities

Long-Term Debt

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

Healthcare Revenue Bond Anticipation Notes, Series 2018, with an interest rate of 2.75%. The Series 2018 Notes are due December 1, 2019 at which time they will be refinanced with a USDA direct loan of \$56,600,000 at 3.25%, amortized over the 35-year term of the loan.	\$ 56,600,000
General Obligation Medical Facilities Bonds, Series 2001 refinanced to Series 2012B, Due in Varying Annual Installments of \$240,000 to \$310,000 including Interest Ranging from .35% to 1.6% to May 1, 2022, Secured by the Revenue and Taxing Powers of Kanabec County.	<u>1,215,000</u>
Total	57,815,000
Less: Current Maturities	(295,000)
Unamortized Bond Discount	<u>(6,424)</u>
Total Long-Term Portion	<u><u>\$ 57,513,576</u></u>

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 9 COMPONENT UNIT DISCLOSURES (CONTINUED)

B. Detailed Notes on All Funds (Continued)

3. Liabilities (Continued)

Long-Term Debt (Continued)

The following schedule summarizes the changes related to debt outstanding at December 31, 2018:

	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018	Due in One Year
General Obligation Bonds	\$ 1,505,000	\$ -	\$ (290,000)	\$ 1,215,000	\$ 295,000
Revenue Bonds	7,520,000	56,600,000	(7,520,000)	56,600,000	-
Bond Discount	(8,350)	-	(1,926)	(6,424)	-
Total	<u>\$ 9,016,650</u>	<u>\$ 56,600,000</u>	<u>\$ (7,811,926)</u>	<u>\$ 57,808,576</u>	<u>\$ 295,000</u>

Following is a maturity schedule of long-term debt as of December 31, 2018:

Year Ending December 31,	Long-Term Debt	
	Principal	Interest
2019	\$ 295,000	\$ 14,599
2020	1,183,593	1,837,590
2021	1,222,741	1,804,397
2022	1,252,851	1,769,637
2023	973,954	1,736,054
2023-2026	<u>52,886,861</u>	<u>31,095,658</u>
Total	<u>\$ 57,815,000</u>	<u>\$ 38,257,935</u>

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 9 COMPONENT UNIT DISCLOSURES (CONTINUED)

C. Employee Retirement Systems and Pension Plans

All full-time and certain part-time employees of the Hospital are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA) as described in Note 4. The Hospital's contributions to PERA for the years ended December 31, 2018, 2017, and 2016 were \$1,952,623, \$1,830,855, and \$1,713,228, respectively, and such amounts equal the required contributions for each year.

D. Other Postemployment Benefits

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

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

As of December 31, 2018, the Hospital implemented the requirements of Governmental Accounting Standards Board (GASB) No. 75. Qualified employees may choose to participate in the Hospital's insurance plan after retirement, with no contribution from the Hospital. The Hospital provides these benefits to retirees as required by Minnesota Statutes §471.61 subdivision 2b. The System currently finances the retiree benefit plan on a pay-as-you-go basis.

Net OPEB Liability (Asset)

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

Total OPEB Liability	\$ 886,647
Plan Fiduciary Net Position	-
System's Net OPEB Liability (Asset)	<u>\$ 886,647</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)	0%

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 9 COMPONENT UNIT DISCLOSURES (CONTINUED)

D. Other Postemployment Benefits

Net OPEB Liability (Asset) (Continued)

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

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at December 31, 2017	\$ 801,103	\$ -	\$ 801,103
Changes for the Year:			
Service Cost	79,698	-	79,698
Interest Cost	28,693	-	28,693
Differences Between Expected and Actuarial Experience	-	-	-
Changes in Assumptions or Other Inputs	-	-	-
Contributions - Employer	-	-	-
Net Investment Income	-	-	-
Benefit Payments	(22,847)	-	(22,847)
Administrative Expense	-	-	-
Net Changes	85,544	-	85,544
Balances at December 31, 2018	\$ 886,647	\$ -	\$ 886,647

The following presents the net OPEB liability (asset) of the System, as well as what the System's net OPEB liability (asset) would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate and total OPEB liability if the medical trend rates were calculated using one percentage point lower or one percentage point higher, respectively:

December 31, 2018	1% Decrease (2.30%)	Discount Rate (3.30%)	1% Increase (4.30%)
Net OPEB Liability (Asset)	\$ 964,585	\$ 886,647	\$ 814,519
Medical Trend Rate Sensitivity	1% Decrease	Current Trend Rates	1% Increase
Total OPEB Liability	\$ 781,806	\$ 886,647	\$ 1,012,796

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 9 COMPONENT UNIT DISCLOSURES (CONTINUED)

D. Other Postemployment Benefits (Continued)

Net OPEB Liability (Asset) (Continued)

For the year ended December 31, 2018, the System recognized OPEB expenses of \$108,391. At December 31, 2018, the System report deferred outflows of resources and deferred inflows of resources related to OPEB. The full amount of deferred outflows is related to 2019.

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Liability	\$ -	\$ -
Changes in Assumptions	-	-
Net Difference Between Projected and Actual Investment Earnings	-	-
Employer Contributions	30,778	-
Total	<u>\$ 30,778</u>	<u>\$ -</u>

Actuarial Methods and Assumptions

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

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

Discount Rate	3.30 %
20-Year Municipal Bond Yield	3.30 %
Inflation Rate	2.50 %
Salary Increases	3.00 %
Health Care Trend Rates	6.5%
	Decreasing to 5.00% over 6 years

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

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

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 9 COMPONENT UNIT DISCLOSURES (CONTINUED)

D. Other Postemployment Benefits (Continued)

Actuarial Methods and Assumptions (Continued)

Experience gains and losses are amortized over a closed period starting on January 1, 2018 equal to the average remaining service of active and inactive plan members.

Funded Status and Funding Progress

As of January 1, 2018, the most recent valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$886,647 and the actuarial value of assets is none resulting in an unfunded actuarial accrued liability (UAAL) of \$886,647. The covered payroll was \$21,455,603 and the ratio of the UAAL to the covered payroll was 4.13%.

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

E. Investment in Joint Ventures

Central Minnesota Diagnostic, Inc. (CMDI)

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

CMDI provides the equipment for CT scans, ultrasound, MRI, and other services for the System's patients. The System billed and collected the revenue for these services to patients and paid CMDI \$1,779,774 in 2018 and \$1,681,218 in 2017 for the use of the equipment. Accounts payable to CMDI for these services at December 31, 2018 and 2017, amounted to \$152,918 and \$-0-, respectively. At December 31, 2018 and 2017, the System owned 3.60% and 3.44% of CMDI. The outstanding balance in joint ventures consists primarily of CMDI. Separate financial statements of CMDI are prepared and are available from CMDI.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 9 COMPONENT UNIT DISCLOSURES (CONTINUED)

E. Investment in Joint Ventures (Continued)

SISU Medical Solutions, LLC

The System is one of several members of SISU Medical Solutions, a Minnesota limited liability company. Its principal business is managing health care information systems for its members and other health care organizations in Northern Minnesota. The majority of its revenue is from related parties, principally SISU Medical Systems and member organizations.

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MD&A**

**KANABEC COUNTY
MORA, MINNESOTA
SCHEDULE OF THE COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST TEN FISCAL YEARS**

	Measurement Date June 30, 2018	Measurement Date June 30, 2017	Measurement Date June 30, 2016	Measurement Date June 30, 2015
General Employees Retirement Fund - Kanabec County				
County's Proportion of the Net Pension Liability	0.125%	0.121%	0.117%	0.119%
County's Proportionate Share of the Net Pension Liability	\$ 6,934,488	\$ 7,750,096	\$ 9,516,059	\$ 6,162,015
State's Proportionate Share of the Net Pension Liability	\$ 227,463	\$ 97,450	\$ 124,251	\$ -
County's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability	\$ 7,161,951	\$ 7,847,546	\$ 9,640,310	\$ 6,162,015
County's Covered Payroll	\$ 8,404,865	\$ 7,822,331	\$ 7,161,882	\$ 7,008,658
County's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	82.51%	99.08%	132.87%	87.92%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.90%	75.90%	68.90%	78.20%
General Employees Retirement Fund - FirstLight Health System				
FirstLight Health System's Proportion of the Net Pension Liability	0.375%	0.375%	0.346%	0.334%
FirstLight Health System's Proportionate Share of the Net Pension Liability	\$ 20,703,606	\$ 23,958,904	\$ 28,069,125	\$ 17,299,248
State's Proportionate Share of the Net Pension Liability	\$ 679,218	\$ 301,301	\$ 366,578	\$ -
County's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability	\$ 21,382,824	\$ 24,260,205	\$ 28,435,703	\$ 17,299,248
FirstLight Health System's Covered Payroll	\$ 26,801,936	\$ 24,133,388	\$ 22,010,296	\$ 20,870,249
FirstLight Health System's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	77.25%	99.28%	127.53%	82.89%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.90%	75.90%	68.90%	78.20%
Public Employees Police and Fire Fund				
County's Proportion of the Net Pension Liability	0.141%	0.135%	0.127%	0.122%
County's Proportionate Share of the Net Pension Liability	\$ 1,505,047	\$ 1,822,661	\$ 5,096,731	\$ 1,386,205
County's Covered Payroll	\$ 1,488,422	\$ 1,382,226	\$ 1,223,073	\$ 1,100,671
County's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	101.12%	131.86%	416.72%	125.94%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.43%	85.43%	63.90%	86.60%
Public Employees Correctional Fund				
County's Proportion of the Net Pension Liability	0.793%	0.720%	0.710%	0.710%
County's Proportionate Share of the Net Pension Liability	\$ 130,394	\$ 2,052,007	\$ 2,593,729	\$ 109,766
County's Covered Payroll	\$ 1,619,222	\$ 1,476,879	\$ 1,338,653	\$ 1,227,322
County's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	8.05%	138.94%	193.76%	8.94%
Plan Fiduciary Net Position as a Percentage of the total Pension Liability	67.89%	67.89%	58.20%	96.90%

NOTE: Amounts prior to the measurement date of June 30, 2015 are not available.

**KANABEC COUNTY
MORA, MINNESOTA
SCHEDULE OF THE COUNTY'S CONTRIBUTIONS
LAST TEN FISCAL YEARS**

	2018	2017	2016	2015	2014
General Employees Retirement Fund - Kanabec County					
Contractually Required Contribution	\$ 630,365	\$ 586,563	\$ 555,930	\$ 535,155	\$ 495,857
Contributions in Relation to the Contractually Required Contribution	(630,365)	(586,563)	(555,930)	(535,155)	(495,857)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
County's Covered Payroll	\$ 8,404,867	\$ 7,820,840	\$ 7,412,400	\$ 7,135,400	\$ 6,839,407
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.50%	7.25%
General Employees Retirement Fund - FirstLight Health System					
Contractually Required Contribution	\$ 1,952,623	\$ 1,830,855	\$ 1,713,228	\$ 1,551,539	\$ 1,333,574
Contributions in Relation to the Contractually Required Contribution	(1,952,623)	(1,830,855)	(1,713,228)	(1,551,539)	(1,333,574)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
The System's Covered Payroll	\$ 26,748,260	\$ 24,411,400	\$ 22,843,040	\$ 20,687,187	\$ 18,394,124
Contributions as a Percentage of Covered Payroll	7.30%	7.50%	7.50%	7.50%	7.25%
Public Employees Police and Fire Fund					
Contractually Required Contribution	\$ 241,125	\$ 223,933	\$ 206,674	\$ 192,551	\$ 166,985
Contributions in Relation to the Contractually Required Contribution	(241,125)	(223,933)	(206,674)	(192,551)	(166,985)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
County's Covered Payroll	\$ 1,488,426	\$ 1,382,302	\$ 1,275,765	\$ 1,188,586	\$ 1,091,405
Contributions as a Percentage of Covered Payroll	16.20%	16.20%	16.20%	16.20%	15.30%
Public Employees Correctional Fund					
Contractually Required Contribution	\$ 141,682	\$ 126,364	\$ 118,881	\$ 114,901	\$ 108,884
Contributions in Relation to the Contractually Required Contribution	(141,682)	(126,364)	(118,881)	(114,901)	(108,884)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
County's Covered Payroll	\$ 1,619,223	\$ 1,444,160	\$ 1,358,640	\$ 1,313,154	\$ 1,244,389
Contributions as a Percentage of Covered Payroll	8.75%	8.75%	8.75%	8.75%	8.75%

NOTE: Amounts for prior to 2014 are not available.

**KANABEC COUNTY
MORA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 6,234,430	\$ 6,234,430	\$ 6,101,689	\$ (132,741)
Special Assessments	1,000	1,000	85,271	84,271
Licenses and Permits	63,750	63,750	88,365	24,615
Intergovernmental	3,109,196	3,109,196	2,904,739	(204,457)
Charges for Services	2,169,872	2,169,872	2,235,618	65,746
Fines and Forfeits	-	-	3,968	3,968
Gifts and Contributions	1,000	1,000	29,808	28,808
Investments Earnings	72,064	72,064	141,584	69,520
Miscellaneous	1,029,717	1,029,717	1,014,801	(14,916)
Total Revenues	12,681,029	12,681,029	12,605,843	(75,186)
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Commissioners	182,577	182,577	189,902	(7,325)
Courts	35,000	35,000	24,210	10,790
Law Library	15,000	15,000	12,542	2,458
County Administration	353,312	353,312	528,766	(175,454)
County Auditor-Treasurer	660,163	660,163	744,711	(84,548)
County Assessor	505,240	505,240	516,120	(10,880)
Elections	47,600	47,600	40,020	7,580
Data Processing	334,067	334,067	365,314	(31,247)
Attorney	692,372	692,372	749,391	(57,019)
Recorder	182,933	182,933	236,875	(53,942)
Surveyor	30,000	30,000	5,450	24,550
Planning and Zoning	249,269	249,269	306,445	(57,176)
Buildings and Plant	706,163	706,163	837,298	(131,135)
Veterans Service Officer	67,750	67,750	78,848	(11,098)
Other General Government	351,210	351,210	306,211	44,999
Regional Rail Authority	-	-	1,999	(1,999)
Public Transit	1,622,385	1,622,385	1,235,649	386,736
Total General Government	6,035,041	6,035,041	6,179,751	(144,710)
PUBLIC SAFETY				
Sheriff	2,374,442	2,374,442	2,560,343	(185,901)
Boat and Water Safety	6,600	6,600	4,909	1,691
Coroner	40,000	40,000	33,092	6,908
E-911 System	40,726	40,726	41,218	(492)
County Jail	3,425,583	3,425,583	3,095,375	330,208
Probation and Parole	522,920	522,920	527,359	(4,439)
ATV Program	3,154	3,154	-	3,154
Total Public Safety	6,413,425	6,413,425	6,262,296	151,129

Notes to Required Supplementary Information are an Integral Part of this Schedule.

**KANABEC COUNTY
MORA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES (Continued)				
CURRENT (Continued)				
SANITATION				
Solid Waste	\$ 182,234	\$ 182,234	\$ 132,471	\$ 49,763
CONSERVATION OF NATURAL RESOURCES				
County Extension	82,955	82,955	79,181	3,774
INTERGOVERNMENTAL				
Culture and Recreation	164,895	164,895	161,595	3,300
CAPITAL OUTLAY				
General Government	365,500	365,500	539,853	(174,353)
Public Safety	134,954	134,954	192,394	(57,440)
Total Capital Outlay	500,454	500,454	732,247	(231,793)
DEBT SERVICE				
Principal Retirement	29,656	29,656	181,413	(151,757)
Interest	1,334	1,334	14,679	(13,345)
Total Debt Service	30,990	30,990	196,092	(165,102)
 Total Expenditures	 13,409,994	 13,409,994	 13,743,633	 (333,639)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(728,965)	(728,965)	(1,137,790)	(408,825)
OTHER FINANCING SOURCES (USES)				
Transfer In	368,500	368,500	60,000	(308,500)
Transfer Out	(462,000)	(462,000)	(104,000)	358,000
Loan Proceeds	-	-	42,442	42,442
Proceeds from the Sale of Capital Assets	-	-	11,334	11,334
Total Other Financing Sources (Uses)	(93,500)	(93,500)	9,776	103,276
NET CHANGE IN FUND BALANCE	<u>\$ (822,465)</u>	<u>\$ (822,465)</u>	(1,128,014)	<u>\$ (305,549)</u>
 Fund Balance - Beginning of Year			<u>5,644,597</u>	
FUND BALANCE - END OF YEAR			<u>\$ 4,516,583</u>	

Notes to Required Supplementary Information are an Integral Part of this Schedule.

**KANABEC COUNTY
MORA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 2,580,000	\$ 2,580,000	\$ 2,305,150	\$ (274,850)
Licenses and Permits	33,000	33,000	31,360	(1,640)
Intergovernmental	2,839,100	2,839,100	4,300,909	1,461,809
Charges for Services	-	-	170,120	170,120
Miscellaneous	150,000	150,000	10,528	(139,472)
Total Revenues	5,602,100	5,602,100	6,818,067	1,215,967
EXPENDITURES				
CURRENT				
HIGHWAY AND STREETS				
Administration	329,726	329,726	303,435	26,291
Maintenance	1,805,000	1,805,000	781,834	1,023,166
Construction	553,000	553,000	203,526	349,474
Equipment and Maintenance Shops	609,100	609,100	694,959	(85,859)
Unallocated - Highways and Streets	856,336	856,336	756,507	99,829
Total Current	4,153,162	4,153,162	2,740,261	1,412,901
CAPITAL OUTLAY	2,390,000	2,390,000	4,353,143	(1,963,143)
DEBT SERVICE				
Principal Retirement	29,656	29,656	1,946	27,710
Interest	1,334	1,334	310	1,024
Total Debt Service	30,990	30,990	2,256	28,734
Total Expenditures	6,574,152	6,574,152	7,095,660	(521,508)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(972,052)	(972,052)	(277,593)	694,459
OTHER FINANCING SOURCES (USES)				
Transfer In	462,000	462,000	104,000	(358,000)
Total Other Financing Sources (Uses)	462,000	462,000	104,000	(358,000)
NET CHANGE IN FUND BALANCE	<u>\$ (510,052)</u>	<u>\$ (510,052)</u>	(173,593)	<u>\$ 336,459</u>
Fund Balance - Beginning of Year			4,527,105	
DECREASE IN INVENTORIES			(83,061)	
FUND BALANCE - END OF YEAR			<u>\$ 4,270,451</u>	

Notes to Required Supplementary Information are an Integral Part of this Schedule.

**KANABEC COUNTY
MORA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 2,182,145	\$ 2,182,145	\$ 1,947,678	\$ (234,467)
Intergovernmental	3,037,596	3,037,596	3,292,627	255,031
Charges for Services	98,000	98,000	107,300	9,300
Miscellaneous	459,300	459,300	663,373	204,073
Total Revenues	5,777,041	5,777,041	6,010,978	233,937
EXPENDITURES				
CURRENT				
HUMAN SERVICES				
Income Maintenance	1,879,604	1,879,604	2,090,329	(210,725)
Social Services	3,895,287	3,895,287	4,452,814	(557,527)
Total Human Services	5,774,891	5,774,891	6,543,143	(768,252)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,150	2,150	(532,165)	(534,315)
NET CHANGE IN FUND BALANCE	\$ 2,150	\$ 2,150	(532,165)	\$ (534,315)
Fund Balance - Beginning of Year			1,472,258	
FUND BALANCE - END OF YEAR			\$ 940,093	

Notes to Required Supplementary Information are an Integral Part of this Schedule.

**KANABEC COUNTY
MORA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
ECONOMIC DEVELOPMENT AUTHORITY FUND
YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 140,000	\$ 140,000	\$ 135,721	\$ (4,279)
Intergovernmental	20,000	20,000	430	(19,570)
Charges for Services	4,000	4,000	1,755	(2,245)
Gifts and Contributions	13,000	13,000	13,500	500
Total Revenues	<u>177,000</u>	<u>177,000</u>	<u>151,406</u>	<u>(25,594)</u>
EXPENDITURES				
CURRENT				
ECONOMIC DEVELOPMENT				
Economic Development	<u>177,000</u>	<u>177,000</u>	<u>124,193</u>	<u>52,807</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	27,213	<u>\$ 27,213</u>
Fund Balance - Beginning of Year			<u>(5,023)</u>	
FUND BALANCE - END OF YEAR			<u>\$ 22,190</u>	

Notes to Required Supplementary Information are an Integral Part of this Schedule.

**KANABEC COUNTY
MORA, MINNESOTA
BUDETARY COMPARISON SCHEDULE – COMMUNITY HEALTH FUND
YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 364,102	\$ 364,102	\$ 321,541	\$ (42,561)
Intergovernmental	1,654,737	1,654,737	1,830,528	175,791
Charges for Services	931,000	931,000	1,145,931	214,931
Gifts and Contributions	11,000	11,000	8,627	(2,373)
Miscellaneous	143,852	143,852	35,590	(108,262)
Total Revenues	3,104,691	3,104,691	3,342,217	237,526
EXPENDITURES				
CURRENT				
HEALTH				
Community Health	3,104,691	3,104,691	3,028,626	76,065
Total Health	3,104,691	3,104,691	3,028,626	76,065
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	313,591	<u>\$ 313,591</u>
Fund Balance - Beginning of Year			<u>668,579</u>	
FUND BALANCE - END OF YEAR			<u>\$ 982,170</u>	

Notes to Required Supplementary Information are an Integral Part of this Schedule.

**KANABEC COUNTY
MORA, MINNESOTA
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY, RELATED RATIOS, AND NOTES
LAST TEN FISCAL YEARS
YEAR ENDED DECEMBER 31, 2018**

	Measurement Date January 1, 2018
Total OPEB Liability	
Service Cost	\$ 65,311
Interest	18,997
Benefit Payments	<u>(18,343)</u>
Net Change in Total OPEB Liability	65,965
Total OPEB Liability - Beginning	<u>519,465</u>
Total OPEB Liability - Ending	<u><u>\$ 585,430</u></u>
 Covered Employee Payroll	 \$ 8,989,178
 County's OPEB Liability as a Percentage of Covered Employee Payroll	 7%

Note 1: The County implemented GASB Statement No. 75 in 2018, and the above table will be expanded to 10 years of information as the information becomes available.

Note 2: No assets are accumulated in a trust.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018**

I. BUDGETARY INFORMATION

The Board of County Commissioners adopts an annual budget for the following major funds: The General Fund, Road and Bridge Special Revenue Fund, Family Services Special Revenue Fund, Economic Development Authority Special Revenue Fund, and Community Health Special Revenue Fund. These budgets are prepared on the modified accrual basis of accounting. Annual budgets are not adopted for the Forfeited Tax Special Revenue Fund, and Debt Service Fund.

Based on a process established by the Board of County Commissioners, all departments of the County submit requests for appropriations to the County Coordinator each year. After review, analysis and discussions with the departments, the County Coordinator's proposed budget is presented to the Board of County Commissioners for review. The Board of County Commissioners holds public hearings and a final budget must be prepared and adopted no later than December 31.

The overall budget is prepared by fund, function, and department. The legal level of budgetary control – the level at which expenditures may not legally exceed appropriations – is the fund level. Budgets may be amended during the year with proper approval.

II. EXCESS OF EXPENDITURES OVER BUDGET

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

	Actual	Budget	Excess
General Fund	\$ 13,743,633	\$ 13,409,994	\$ 333,639
Road and Bridge Special Revenue Fund	7,095,660	6,574,152	521,508
Family Services Special Revenue Fund	6,543,143	5,774,891	768,252

These over-expenditures were funded by greater than anticipated revenues and existing fund balance.

III. 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 December 31, 2018.

General Employees Plan

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018**

III. Defined benefit pension plans – changes in significant plan provisions, actuarial methods, and assumptions (Continued)

General Employees Plan (Continued)

2017

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5 % per year thereafter.
- Minneapolis Employees Retire Fund plan provisions change the employer supplemental contribution to \$21,000,000 in calendar years 2017 and 2018 and returns to \$31,000 through calendar year 2031. The state's required contribution is \$16,000,000 in PERA's fiscal years 2018 and 2019 and returns to \$6,000,000 annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Police and Fire Plan

2018

- The mortality projection scale was changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0% per year through 2064 and 2.5% per year, thereafter, to 1.0% for all years, with no trigger.
- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution. Additionally, annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter, until the plan reaches 100 percent funding or July 1, 2048, if earlier.
- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80 percent to 11.30 and 11.80 percent of pay, respectively. Employer contributions were changed effective January 1, 2019 and January 1, 2020 from 16.20 percent to 16.95 percent and 17.70 percent of pay, respectively. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent effective January 1, 2019. Augmentation that has an already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018**

III. Defined benefit pension plans – changes in significant plan provisions, actuarial methods, and assumptions (Continued)

Police and Fire Plan (Continued)

2017

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30% for vested and non-vested deferred members. The CSA has been changed to 33% for vested members and 2% for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65% to 60%.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00% for all years to 1.00% per year through 2064 and 2.50% thereafter.
- The single discount rate was changed from 5.6% per annum to 7.5% percent per annum.

2016

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018**

III. Defined benefit pension plans – changes in significant plan provisions, actuarial methods, and assumptions (Continued)

Correctional Plan

2018

- The Single Discount Rate was changed from 5.96% per annum to 7.50% per annum.
- The morality projection scale was changed from MP-2016 to MP-2017.
- The assumed post-retirement benefit increase was changed from 2.50% per year to 2.00% per year.

2017

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to MP-2016).
- The Combined Service Annuity (CSA) load was 30% for vested and non-vested, deferred members. The CSA has been changed to 35% for vested members and 1% for non-vested members.
- The Single Discount Rate was changed from 5.31% per annum to 5.96% per annum.

2016

- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.31%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

IV. Other postemployment benefit changes in significant plan provisions, actuarial methods, and assumptions:

Due to the county not having Other Postemployment Benefits in the prior year, no assumptions changes noted.

SUPPLEMENTARY INFORMATION

**KANABEC COUNTY
MORA, MINNESOTA
DESCRIPTION OF FUNDS**

Agency Funds

Kanabec County Collaborative

The Kanabec County Collaborative Fund is used to account for monies passed through to the Kanabec County Collaborative.

Knife Lake Improvement District

The Knife Lake Improvement District Fund is used to account for collection and payment of contributions to the Knife Lake Improvement District.

Mortgage Registry and State Deed Tax

The Mortgage Registry and State Deed Tax Fund are used to account for the collection and payment of mortgage registry and state deed tax.

Taxes and Penalties

The Taxes and Penalties Fund is used to account for the collection and distribution of property taxes within the County for all municipalities.

Prepaid Tax

The Prepaid Tax Fund is used to account for the collection and payment of prepaid taxes.

Snake River Watershed Management Board

The Snake River Watershed Management Board Fund is used to account for activities performed as a fiscal agent.

State Revenue

The State Revenue Fund is used for transfers of the state share of mortgage registry tax.

Town and Road

The Town and Road Fund are used to account for collection of state town road funds and their distribution to townships.

Withholding Tax and Social Security

The Withholding Tax and Social Security Fund is used to account for income tax and FICA deductions withheld from the salaries of County employees.

Employees Benefit Fund

The Employees Benefit Fund is used to account for receipts and disbursements used withheld for employee benefit programs.

Jail Inmate

The Jail Inmate Fund is used to account for receipts and disbursements relating to jail inmates.

Over Remittance

The Over Remittance Fund is used to account for receipts and disbursements related to over payments received by the County.

Social Welfare

The Social Welfare Fund is used to account for the receipts and disbursements related to the County's Social Welfare program.

**KANABEC COUNTY
MORA, MINNESOTA
DESCRIPTION OF FUNDS (CONTINUED)**

Agency Funds (Continued)

Blandin

The Blandin Fund is used to account for the receipts and disbursements related to the County's Blandin Grant.

Wellness Committee

The Wellness Committee Fund is used to account for the receipts and disbursements related to the County's Wellness program.

**KANABEC COUNTY
MORA, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2018**

	Balance January 1	Additions	Deductions	Balance December 31
KANABEC COUNTY COLLABORATIVE				
ASSETS				
Cash and Pooled Investments	\$ 290,168	\$ 68,900	\$ 160,000	\$ 199,068
LIABILITIES				
Due to Other Governments	\$ 290,168	\$ 68,900	\$ 160,000	\$ 199,068
KNIFE LAKE IMPROVEMENT DISTRICT				
ASSETS				
Cash and Pooled Investments	\$ 142,083	\$ 44,737	\$ 43,908	\$ 142,912
LIABILITIES				
Funds Held in Trust	\$ 142,083	\$ 44,737	\$ 43,908	\$ 142,912
MORTGAGE REGISTRY AND STATE DEED TAX				
ASSETS				
Cash and Pooled Investments	\$ 27,623	\$ 585,083	\$ 576,409	\$ 36,297
LIABILITIES				
Due to Other Governments	\$ 27,623	\$ 585,083	\$ 576,409	\$ 36,297

**KANABEC COUNTY
MORA, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)
ALL AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2018**

	Balance January 1	Additions	Deductions	Balance December 31
TAXES AND PENALTIES				
ASSETS				
Cash and Pooled Investments	\$ 203,946	\$ 19,258,892	\$ 19,228,006	\$ 234,832
LIABILITIES				
Due to Other Governments	\$ 203,946	\$ 19,258,892	\$ 19,228,006	\$ 234,832
PREPAID TAX				
ASSETS				
Cash and Pooled Investments	\$ 224,633	\$ 400,834	\$ 568,738	\$ 56,729
LIABILITIES				
Due to Other Governments	\$ 224,633	\$ 400,834	\$ 568,738	\$ 56,729
SNAKE RIVER WATERSHED MANAGEMENT BOARD				
ASSETS				
Cash and Pooled Investments	\$ 253,604	\$ 74,005	\$ 110,740	\$ 216,869
LIABILITIES				
Due to Other Governments	\$ 253,604	\$ 74,005	\$ 110,740	\$ 216,869
STATE REVENUE				
ASSETS				
Cash and Pooled Investments	\$ 4,666	\$ 28,547	\$ 29,440	\$ 3,773
LIABILITIES				
Due to Other Governments	\$ 4,666	\$ 28,547	\$ 29,440	\$ 3,773

**KANABEC COUNTY
MORA, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)
ALL AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2018**

	Balance January 1	Additions	Deductions	Balance December 31
TOWN AND ROAD				
ASSETS				
Cash and Pooled Investments	\$ 50	\$ 196,692	\$ 196,692	\$ 50
LIABILITIES				
Due to Other Governments	\$ 50	\$ 196,692	\$ 196,692	\$ 50
WITHHOLDING TAX AND SOCIAL SECURITY				
ASSETS				
Cash and Pooled Investments	\$ -	\$ 10,417,363	\$ 10,417,363	\$ -
LIABILITIES				
Due to Other Governments	\$ -	\$ 10,417,363	\$ 10,417,363	\$ -
EMPLOYEES BENEFIT FUND				
ASSETS				
Cash and Pooled Investments	\$ 2,305	\$ 286,832	\$ 286,805	\$ 2,332
LIABILITIES				
Funds Held in Trust	\$ 2,305	\$ 286,832	\$ 286,805	\$ 2,332
JAIL INMATE				
ASSETS				
Cash and Pooled Investments	\$ 67,886	\$ 104,369	\$ 96,655	\$ 75,600
LIABILITIES				
Funds Held in Trust	\$ 67,886	\$ 104,369	\$ 96,655	\$ 75,600

**KANABEC COUNTY
MORA, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)
ALL AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2018**

	Balance January 1	Additions	Deductions	Balance December 31
OVER REMITTANCE				
ASSETS				
Cash and Pooled Investments	\$ -	\$ 474,605	\$ 474,605	\$ -
LIABILITIES				
Funds Held in Trust	\$ -	\$ 474,605	\$ 474,605	\$ -
SOCIAL WELFARE				
ASSETS				
Cash and Pooled Investments	\$ 43,344	283,310	\$ 302,000	\$ 24,654
LIABILITIES				
Funds Held in Trust	\$ 43,344	\$ 283,310	\$ 302,000	\$ 24,654
BLANDIN				
ASSETS				
Cash and Pooled Investments	\$ 2,017	\$ -	\$ -	\$ 2,017
LIABILITIES				
Funds Held in Trust	\$ 2,017	\$ -	\$ -	\$ 2,017
WELLNESS COMMITTEE				
ASSETS				
Cash and Pooled Investments	\$ 3,132	\$ -	\$ -	\$ 3,132
LIABILITIES				
Funds Held in Trust	\$ 3,132	\$ -	\$ -	\$ 3,132

**KANABEC COUNTY
MORA, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)
ALL AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2018**

	Balance January 1	Additions	Deductions	Balance December 31
TOTAL ALL AGENCY FUNDS				
ASSETS				
Cash and Pooled Investments	\$ 1,265,457	\$ 32,224,169	\$ 32,491,361	\$ 998,265
LIABILITIES				
Funds Held in Trust	\$ 260,767	\$ 1,193,853	\$ 1,203,973	\$ 250,647
Due to Other Governments	1,004,690	31,030,316	31,287,388	747,618
Total Liabilities	\$ 1,265,457	\$ 32,224,169	\$ 32,491,361	\$ 998,265

**KANABEC COUNTY
MORA, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUE
YEAR ENDED DECEMBER 31, 2018**

	General	Road and Bridge	Welfare	Economic Development Authority	Community Health	Debt Service	Total
SHARED REVENUE							
State							
Highway Users Tax	\$ -	\$ 4,020,826	\$ -	\$ -	\$ -	\$ -	\$ 4,020,826
Market Value Credit - Agriculture	141,564	50,445	47,011	-	7,923	17,167	264,110
PERA Rate Reimbursement	33,947	7,384	12,878	-	-	-	54,209
Disparity Reduction Aid	2,290	816	760	-	128	278	4,272
Police Aid	134,127	-	-	-	-	-	134,127
County Program Aid	569,797	203,044	189,225	-	31,892	69,099	1,063,057
Aquatic Invasive Species Aid	48,632	-	-	-	-	-	48,632
E-911	89,238	-	-	-	-	-	89,238
Total Shared Revenue	1,019,595	4,282,515	249,874	-	39,943	86,544	5,678,471
REIMBURSEMENT FOR SERVICES							
Human Services	-	-	673,909	-	415,404	-	1,089,313
PAYMENTS							
Local							
Local	9,100	-	-	-	12,500	-	21,600
Payments in Lieu of Taxes	105,203	1,341	1,244	430	207	461	108,886
Total Payments	114,303	1,341	1,244	430	12,707	461	130,486
GRANTS							
State							
Minnesota Department/Board of							
Corrections	142,056	-	-	-	-	-	142,056
Health	-	-	-	-	450,882	-	450,882
Natural Resources	24,093	-	-	-	-	-	24,093
Human Services	-	-	747,527	-	95,783	-	843,310
Peace Officers Board	21,054	-	-	-	-	-	21,054
IT Services	55,503	-	-	-	-	-	55,503
Pollution Control Agency	67,729	-	-	-	-	-	67,729
Water and Soil Board	62,864	-	-	-	-	-	62,864
Transportation	874,109	-	-	-	-	-	874,109
Secretary of State	37,160	-	-	-	-	-	37,160
Public Safety	15,076	-	-	-	6,000	-	21,076
Veteran Affairs	10,000	-	-	-	-	-	10,000
Total State Grants	1,309,644	-	747,527	-	552,665	-	2,609,836
Federal							
Department of							
Agriculture	-	-	121,548	-	121,536	-	243,084
Transportation	362,791	17,053	-	-	-	-	379,844
Health and Human Services	98,406	-	1,498,525	-	688,273	-	2,285,204
Total Federal Grants	461,197	17,053	1,620,073	-	809,809	-	2,908,132
Total State and Federal Grants	1,770,841	17,053	2,367,600	-	1,362,474	-	5,517,968
Total Intergovernmental Revenue	<u>\$ 2,904,739</u>	<u>\$ 4,300,909</u>	<u>\$ 3,292,627</u>	<u>\$ 430</u>	<u>\$ 1,830,528</u>	<u>\$ 87,005</u>	<u>\$ 12,416,238</u>

**REPORTS RELATED TO
GOVERNMENT AUDITING STANDARDS
AND SINGLE AUDIT**



**INDEPENDENT AUDITORS' 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**

Board of County Commissioners
Kanabec County
Mora, Minnesota

We have audited, in accordance with the 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 Kanabec County (the County), Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Kanabec County's basic financial statements, and have issued our report thereon dated September 23, 2019. The financial statements of FirstLight Health System 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 Kanabec County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kanabec County's internal control. Accordingly, we do not express an opinion on the effectiveness of Kanabec County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies 2018-001 to 2018-006 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kanabec County's financial statements are free of 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*.

Kanabec County's Responses to Findings

Kanabec County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Kanabec County's responses were not subjected to auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kanabec County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Brainerd, Minnesota
September 23, 2019



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of County Commissioners
Kanabec County
Mora, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Kanabec County's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Kanabec County's major federal programs for the year ended December 31, 2018. Kanabec County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. FirstLight Health System was not audited under *OMB Compliance Supplement* because it received no federal grant funding in 2018.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Kanabec 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 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 Kanabec 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 Kanabec County's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Kanabec 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 Kanabec 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 Kanabec County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 a 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 a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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 result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Brainerd, Minnesota
September 23, 2019

**KANABEC COUNTY
MORA, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2018**

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X none reported

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X none reported
- Significant deficiency(ies) identified? yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? yes X no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
93.563	Child Support Enforcement
93.778	Medical Assistance (Medicaid Cluster)

Dollar threshold used to distinguish between Type A and Type B programs: \$187,500/\$750,000

Auditee qualified as low-risk auditee? yes X no

**KANABEC COUNTY
MORA, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

SECTION II – FINANCIAL STATEMENT FINDINGS

2018-001 SEGREGATION OF DUTIES

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria: County management should constantly be aware of the need to have adequate segregation of duties regarding the processing of transactions for the County. In addition, County management should be aware that the concentration of duties and responsibilities in one or a very few individuals is not desirable from an internal control perspective.

Condition: Adequate segregation of the accounting functions necessary to ensure adequate internal accounting control is not in place in a number of departments throughout the County.

Cause: The County has a limited number of personnel within several County departments.

Possible Effect: The lack of adequate segregation of duties can result in incorrect financial information, failure to detect misstatements or misappropriations, and lack of adherence to the County's procedures.

Repeat Finding: Prior year finding identified as Finding 2017-001.

Recommendation: We recommend County management be aware of the lack of segregation of duties within the accounting functions and provide oversight to ensure the internal control policies and procedures are being implemented by organization staff.

VIEW OF RESPONSIBLE OFFICIAL AND PLANNED CORRECTIVE ACTION:

Contact Person: Denise Snyder, Auditor-Treasurer

Corrective Action Planned: A corrective action is in place.

Anticipated Completion Date: December 31, 2019

**KANABEC COUNTY
MORA, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

2018-002 AUDIT ADJUSTMENTS

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria: County management is responsible for establishing and maintaining internal controls for the proper recording of all County's receipts and disbursements, including reclassifications between funds and recording of accruals.

Condition: As part of the audit, we proposed account reclassification entries relating to the coding of receipts and disbursements, accruals, corrections to fund balance, and other reclassifications. These entries indicate a lack of controls over the year-end financial reporting process. The absence of this control procedure is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the County's internal control.

Cause: The County has a limited number of personnel.

Possible Effect: The design of the internal controls over recording receipts and disbursement, including reclassifications, could affect the ability of the County to detect or prevent a misappropriation of assets or fraudulent activity.

Repeat Finding: Prior year finding identified as Finding 2017-002.

Recommendation: We recommend County management be consistently aware of all procedures and processes involved in recording receipts, disbursements, and reclassifications, and develop internal control policies to ensure proper recording of these items.

VIEW OF RESPONSIBLE OFFICIAL AND PLANNED CORRECTIVE ACTION:

Contact Person: Denise Snyder, Auditor-Treasurer

Corrective Action Planned: A corrective action is in place.

Anticipated Completion Date: December 31, 2019

**KANABEC COUNTY
MORA, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

2018-003 ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria: Management is responsible for establishing and maintaining internal controls, and for the fair presentation of the financial statements including the related disclosures, in conformity with U.S. generally accepted accounting principles (GAAP).

Condition: The County does not have an internal control policy in place over financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures are complete and presented in accordance with GAAP.

Cause: The County relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and the related footnote disclosures.

Possible Effect: The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the County's internal controls.

Repeat Finding: Prior year finding identified as Finding 2017-003.

Recommendation: Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.

VIEW OF RESPONSIBLE OFFICIAL AND PLANNED CORRECTIVE ACTION:

Contact Person: Denise Snyder, Auditor-Treasurer

Corrective Action Planned: A corrective action is in place.

Anticipated Completion Date: December 31, 2019

**KANABEC COUNTY
MORA, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

2018-004 TIMELY DEPOSITS

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria: Standard internal control procedures recommend that deposits should be made on a daily basis.

Condition: Various departments in the County do not deposit on a daily basis.

Cause: Past practice.

Possible Effect: The County's failure to make daily deposits increases the risk that fraud could occur and not be detected in a timely manner.

Repeat Finding: Prior year finding identified as Finding 2017-004.

Recommendation: We recommend the departments deposit their collections with the County Auditor-Treasurer office on a daily basis in order to minimize the risk of misappropriation of assets.

VIEW OF RESPONSIBLE OFFICIAL AND PLANNED CORRECTIVE ACTION:

Contact Person: Denise Snyder, Auditor-Treasurer

Corrective Action Planned: A corrective action is in place.

Anticipated Completion Date: December 31, 2019

**KANABEC COUNTY
MORA, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

2018-005 TIMELY ADJUSTMENTS TO INVENTORY

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria: Timely additions and removals of inventory items from the inventory tracking system is recommended to improve internal controls and accuracy over inventory balances.

Condition: The Road and Bridge inventory balances were negative before they physical inventory count due to the Highway Accountant not adjusting inventory balances when new items were purchased during the year.

Cause: Past practice.

Possible Effect: Inventory counts may not be accurate for financial statement purposes.

Repeat Finding: See 2017-005 in previous year.

Recommendation: We recommend inventories are adjusted in a timely manner through-out the year.

VIEW OF RESPONSIBLE OFFICIAL AND PLANNED CORRECTIVE ACTION:

Contact Person: Chad Gramentz, Public Works Director

Corrective Action Planned: A corrective action is in place.

Anticipated Completion Date: December 31, 2018

2018-006 REVIEW ADJUSTMENTS TO INVENTORY

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria: For increased internal control, when adjustments are made, those adjustments should be reviewed by someone other than the person entering them.

Condition: The Road and Bridge inventory adjustments were not reviewed by someone other than the person entering them and additional adjustments were required for the year ended December 31, 2018.

Cause: Past practice.

Possible Effect: Inventory counts may not be accurate for financial statement purposes.

Repeat Finding: See 2017-006 in previous year.

Recommendation: It is recommended County inventories, when adjusted, are reviewed by someone other than the person entering them.

VIEW OF RESPONSIBLE OFFICIAL AND PLANNED CORRECTIVE ACTION:

Contact Person: Chad Gramentz, Public Works Director

Corrective Action Planned: A corrective action is in place.

Anticipated Completion Date: December 31, 2019

**KANABEC COUNTY
MORA, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

OTHER ITEM FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE

2018-007 MINNESOTA LEGAL COMPLAINT-UNCLAIMED PROPERTY

Criteria: Minnesota State Statutes 345.41 and 345.43 requires that unclaimed property held for more than three years must be remitted and paid to the state commissioner of commerce.

Condition and Context: It is a requirement that unclaimed property be turned in to the Commissioner of Commerce, we recommend the County turnover the unclaimed checks from outstanding items to the Commissioner of Commerce.

Possible effect: County not in compliance with state statute.

Recommendation: It is a requirement that unclaimed property be turned in to the Commissioner of Commerce, we recommend the County turnover the unclaimed checks from outstanding items to the Commissioner of Commerce.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The County will work with the Department of Commerce to correct.

Name of the contact person responsible for corrective action plan: Denise Snyder, Auditor-Treasurer

Planned completion date for corrective action plan: December 31, 2019

**KANABEC COUNTY
MORA, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2018**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Pass-through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Passed Through Minnesota Department of Human Services WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	Not provided	\$ 121,536	\$ -
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Part of SNAP Cluster)	10.561	182MN101S2514, 182MN127Q7503, 182MN101S2520	130,414	-
Total Department of Agriculture			251,950	
U.S. Department of Justice				
Passed Through Minnesota Department of Public Safety Crime Victim Assistance	16.575	F-CVSP-2018-KANABECCO	71,222	-
Total U.S. Department of Justice			71,222	
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation Highway Planning and Construction (Part of Highway Planning and Construction Cluster)	20.205	8611229	17,053	-
Formula Grants for Rural Areas and Tribal Transit Program	20.509	MN18X081	217,135	-
Passed Through Minnesota Department of Public Safety State and Community Highway Safety (Total Highway Safety Cluster \$5,106)	20.600	18X9204020MN15	600	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	18X9205464MN14	9,602	-
National Priority Safety Programs (Total Highway Safety Cluster \$5,106)	20.616	18X920405BMN14	4,506	-
Total Department of Transportation			248,896	-
U.S. Department of Education				
Passed Through Minnesota Department of Health Special Education - Grants for Infants and Families	84.181	H181A140029	2,263	-
U.S. Department of Health and Human Services				
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	U90TP000418	42,302	-
Early Hearing Detection and Intervention	93.251	Not Provided	525	-
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	93.314	Not Provided	75	-
Temporary Assistance for Needy Families (Total TANF Cluster \$224,358)	93.558	1601MNTANF	36,735	-
Maternal and Child Health Services Block Grant to the States	93.994	Not Provided	21,857	-
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	1801MNFPS	4,744	-
Temporary Assistance for Needy Families (Total TANF Cluster \$224,358)	93.558	1801MNTANF	187,623	-
Passed Through Minnesota Department of Human Services				
Child Support Enforcement	93.563	1804MNCSES, 1804MNCEST	433,078	-
Child Care and Development Block Grant (Part of CCDF Cluster)	93.575	G1801MNCCDF	3,360	-
Community - Based Child Abuse Prevention Grants	93.590	G-1802MNFPRG	3,908	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1801MNCWSS	3,685	-
Foster Care Title IV-E	93.658	1801MNFOST	146,580	-
Social Services Block Grant	93.667	G-1801MNSOSR	103,545	-

**KANABEC COUNTY
MORA, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Pass-through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services (Continued)				
Passed Through Minnesota Department of Human Services (Continued)				
John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674	G-1801MNCILP	\$ 4,100	\$ -
Children's Health Insurance Program	93.767	1805MN5R21	135	-
Medical Assistance Program (Part of Medicaid Cluster)	93.778	1805MN5ADM	622,822	-
Maternal, Infant and Early Childhood Home Visiting Grant (Part of MIECHV Cluster)	93.870	Not provided	330,647	-
Total Department of Health and Human Services			<u>1,945,721</u>	<u>-</u>
U.S. Department of Homeland Security				
Passed Through Minnesota Department of Public Safety				
Emergency Management Performance Grants	97.042	5795910900	796	-
Total Department of Homeland Security			<u>796</u>	<u>-</u>
Total Cash Type Federal Awards			<u>\$ 2,520,848</u>	<u>\$ -</u>

Clusters of programs are groupings of closely related programs that share common compliance requirements.
Total expenditures by cluster are:

Temporary Assistance for Needy Families (TANF) Cluster	\$	224,358
CCDF Cluster		3,360
Medicaid Cluster		622,822
SNAP Cluster		130,414
Highway Planning and Construction Cluster		17,053
Highway Safety Cluster		5,106
Maternal, Infant, and Early Childhood Home Visiting (MIECHV) Cluster		330,647

**KANABEC COUNTY
MORA, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Kanabec 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 the County under programs of the federal government for the year ended December 31, 2018. The information in this schedule is presented in accordance with the requirement 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 the County, it is not intended to and does not present the financial position, changes in net position, or cash flows of the 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. The 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

Reconciliation to Schedule of Intergovernmental Revenue

Federal Grant Revenue Per Schedule of Intergovernmental Revenue	\$ 2,908,132
Expenditures included on the Schedule of Expenditures of Federal Awards that are not considered Intergovernmental Revenues	37,992
Revenues included on the Schedule of Intergovernmental Revenue that are not considered Federal Grant Expenditures	(425,276)
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 2,520,848</u>



INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of County Commissioners
Kanabec County
Mora, 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 accompanying financial statements of the governmental activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of Kanabec County, Minnesota (the County), as of and for the year ended December 31, 2018, and the related notes to the financial statements which collectively comprise the County's basic financial statements and have issued our report thereon dated September 23, 2019. This report does not include the results of the FirstLight Health System testing of compliance and other matters since they have their own audit.

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

In connection with our audit, nothing came to our attention that caused us to believe that Kanabec County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties* except for the item described in the schedule of findings and questioned costs as finding 2018-007. 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 Kanabec County's noncompliance with the above-referenced provisions, in so far as they relate to accounting matters.

Kanabec County's written response to the legal compliance finding identified in our audit is described in the schedule of findings and questions costs. Kanabec County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Counties* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Brainerd, Minnesota
September 23, 2019