

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

TRAVERSE COUNTY
WHEATON, MINNESOTA

YEAR ENDED DECEMBER 31, 2016

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Year Ended December 31, 2016



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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2016

		<u>Term Expires</u>
Elected		
Commissioners		
Board Member	Todd Johnson	District 1 January 2019
Chair	Kevin Leininger	District 2 January 2021
Board Member	Mark Gail	District 3 January 2019
Vice Chair	David Salberg	District 4 January 2021
Board Member	Thomas Monson, Jr.	District 5 January 2019
Attorney	Matthew Franzese	January 2019
Auditor/Treasurer	Kit Johnson	January 2019
County Recorder	LeAnn Peyton	January 2019
Registrar of Titles	LeAnn Peyton	January 2019
County Sheriff	Trevor Wright	January 2019
Appointed		
County Coordinator	Rhonda Antrim	Indefinite
Assessor	Dianne Reinart	January 2021
County Engineer	Larry Haukos	May 2019
Coroner	Stanley Gallagher, D.O.	January 2018
Examiner of Titles	Matthew Franzese	Indefinite
Social Services Director	Rhonda Antrim	Indefinite
Veterans Service Officer	Dustin Kindelberger	April 2019

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Traverse County
Wheaton, Minnesota

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

relevant to the 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Traverse County as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Traverse County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to

the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2017, on our consideration of Traverse County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Traverse County's internal control over financial reporting and compliance.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

October 23, 2017

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

INTRODUCTION

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of Traverse County's financial activities for the fiscal year ended December 31, 2016. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$41,217,572, of which \$39,186,589 is the net investment in capital assets. Of the governmental activities' net position, \$2,875,423 is restricted to specific purposes/uses by the County, and unrestricted is a deficit (\$844,440).
- Business-type activities (Traverse Care Center and Prairieview Place) have a deficit total net position of (\$1,140,014), of which there is a negative net investment in capital assets balance of (\$729,381).
- Traverse County's net position increased by \$436,139 for the year ended December 31, 2016. Of the increase, \$526,323 was in the governmental activities' net position, while the business-type activities' net position decreased by \$90,184.
- The net cost of Traverse County's governmental activities for the year ended December 31, 2016, was \$4,610,448. General revenues totaling \$5,136,771 funded the net cost.
- Traverse County's governmental funds' fund balances decreased by \$119,446 in 2016. This net decrease consisted of a \$276,271 decrease in the General Fund, an increase of \$331,144 in the Road and Bridge Special Revenue Fund, a decrease of \$129,646 in the Social Services Special Revenue Fund, and a decrease of \$44,673 in the Jail/LEC Debt Service Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The basic financial statements consist of three parts: (1) government-wide financial statements, (2) fund level financial statements, and (3) notes to the financial statements. This report also contains other required supplementary information. The following chart demonstrates how the different pieces are interrelated.

Management's Discussion and Analysis (Required Supplementary Information)
--

Government-Wide Financial Statements	Fund Financial Statements
Notes to the Financial Statements	

Required Supplementary Information (Other than Management's Discussion and Analysis)

Traverse County presents two government-wide financial statements: the Statement of Net Position and the Statement of Activities. These two government-wide financial statements provide information about the County as a whole and present a longer-term view of Traverse County’s finances. The County’s fund financial statements follow these two government-wide financial statements. For governmental activities, these statements tell how Traverse County financed these services in the short-term as well as what remains for future spending. Fund financial statements also report the County’s operations in more detail than the government-wide statements by providing information about the County’s most significant/major funds. For proprietary activities, these statements provide detailed financial information relating to Traverse Care Center and Prairieview Place operations and facilities. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside the government.

Government-Wide Financial Statements

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

The Statement of Net Position presents information on all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the County using the full accrual basis of accounting, with the difference (assets plus deferred outflows of resources, less liabilities and deferred inflows of resources) being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. It is important to consider other nonfinancial factors, such as changes in the County’s property tax base and the condition of County roads and other capital assets, to assess the overall health of the County.

The Statement of Activities presents the County’s governmental activities. Most of the basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and

economic development. Property taxes and state and federal grants finance most of these activities. The County has Traverse Care Center and Prairieview Place reported under business-type activities.

The government-wide financial statements are Exhibits 1 and 2 of this report.

Fund Financial Statements

Fund financial statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law or by bond covenants. However, the County Board establishes some funds to help control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using modified accrual accounting. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Social Services Special Revenue Fund, and the Jail/LEC Debt Service Fund. Budgetary comparison schedules have been provided as either required or other supplementary information for each of these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements are Exhibits 3 through 6 of this report.

Proprietary funds are used to account for operations financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing services to the general public be financed or recovered primarily through user charges. The Traverse Care Center and Prairieview Place are included in the proprietary fund reporting. The proprietary funds are Exhibits 7 through 9 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside of the County. Fiduciary funds are not reflected in the government-wide statements because the resources of these funds are not available to support the County's own programs or activities. The

County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All fiduciary activities are reported in a separate Statement of Fiduciary Net Position on Exhibit 10.

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29 through 83 of this report.

Other Information

Other information is provided as supplementary information regarding Traverse County's intergovernmental revenue.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analysis focuses on net position (Table 1) and changes in net position (Table 2) of the County's governmental and business-type activities. Comparative data with 2015 is presented.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current and other assets	\$ 8,363,706	\$ 8,635,933	\$ 147,116	\$ 955,468	\$ 8,510,822	\$ 9,591,401
Capital assets	42,544,131	41,253,805	2,662,489	2,884,286	45,206,620	44,138,091
Total Assets	\$ 50,907,837	\$ 49,889,738	\$ 2,809,605	\$ 3,839,754	\$ 53,717,442	\$ 53,729,492
Deferred Outflows of Resources						
Deferred pension outflows	\$ 2,858,457	\$ 395,413	\$ -	\$ -	\$ 2,858,457	\$ 395,413
Deferred charges on bond refunding	-	-	81,537	81,537	81,537	81,537
Total Deferred Outflows of Resources	\$ 2,858,457	\$ 395,413	\$ 81,537	\$ 81,537	\$ 2,939,994	\$ 476,950
Liabilities						
Long-term liabilities	\$ 11,107,091	\$ 8,145,146	\$ 4,004,127	\$ 4,936,897	\$ 15,111,218	\$ 13,082,043
Other liabilities	724,184	1,173,424	27,029	34,224	751,213	1,207,648
Total Liabilities	\$ 11,831,275	\$ 9,318,570	\$ 4,031,156	\$ 4,971,121	\$ 15,862,431	\$ 14,289,691
Deferred Inflows of Resources						
Advance from other governments	\$ 245,081	\$ -	\$ -	\$ -	\$ 245,081	\$ -
Deferred pension inflows	472,366	275,332	-	-	472,366	275,332
Total Deferred Inflows of Resources	\$ 717,447	\$ 275,332	\$ -	\$ -	\$ 717,447	\$ 275,332
Net Position						
Net investment in capital assets	\$ 39,186,589	\$ 37,784,331	\$ (729,381)	\$ (784,558)	\$ 38,457,208	\$ 36,999,773
Restricted	2,875,423	2,345,382	-	-	2,875,423	2,345,382
Unrestricted	(844,440)	561,536	(410,633)	(265,272)	(1,255,073)	296,264
Total Net Position	\$ 41,217,572	\$ 40,691,249	\$ (1,140,014)	\$ (1,049,830)	\$ 40,077,558	\$ 39,641,419

Traverse County's total net position as of December 31, 2016, is \$40,077,558. The governmental activities' and the business-type activities of the County report deficit unrestricted net position of (\$844,440) and (\$410,633), respectively.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues						
Fees, charges, fines, and other	\$ 1,243,250	\$ 952,047	\$ 17,673	\$ 16,869	\$ 1,260,923	\$ 968,916
Operating grants and contributions	5,124,239	5,381,502	-	-	5,124,239	5,381,502
Capital grants and contributions	320,857	368,893	-	-	320,857	368,893
General revenues						
Property taxes	4,685,248	4,527,863	-	-	4,685,248	4,527,863
Other taxes	3,799	2,217	-	-	3,799	2,217
Grants, gifts, and miscellaneous	447,724	476,537	326,741	318,465	774,465	795,002
Total Revenues	\$ 11,825,117	\$ 11,709,059	\$ 344,414	\$ 335,334	\$ 12,169,531	\$ 12,044,393
Expenses						
General government	\$ 1,758,875	\$ 1,751,502	\$ -	\$ -	\$ 1,758,875	\$ 1,751,502
Public safety	2,332,221	1,833,917	-	-	2,332,221	1,833,917
Highways and streets	4,234,856	5,335,456	-	-	4,234,856	5,335,456
Sanitation	163,332	153,867	-	-	163,332	153,867
Human services	2,106,034	2,135,075	-	-	2,106,034	2,135,075
Health	75,246	74,634	-	-	75,246	74,634
Culture and recreation	81,457	70,264	-	-	81,457	70,264
Conservation of natural resources	393,912	355,727	-	-	393,912	355,727
Economic development	46,266	9,571	-	-	46,266	9,571
Interest	106,595	85,983	-	-	106,595	85,983
Traverse Care Center	-	-	378,564	380,876	378,564	380,876
Prairieview Place	-	-	56,034	103,117	56,034	103,117
Total Expenses	\$ 11,298,794	\$ 11,805,996	\$ 434,598	\$ 483,993	\$ 11,733,392	\$ 12,289,989
Increase (Decrease) in Net Position	\$ 526,323	\$ (96,937)	\$ (90,184)	\$ (148,659)	\$ 436,139	\$ (245,596)
Net Position - January 1,	40,691,249	40,788,186	(1,049,830)	(901,171)	39,641,419	39,887,015
Net Position - December 31	<u>\$ 41,217,572</u>	<u>\$ 40,691,249</u>	<u>\$ (1,140,014)</u>	<u>\$ (1,049,830)</u>	<u>\$ 40,077,558</u>	<u>\$ 39,641,419</u>

The County's activities increased net position by 1.1 percent (\$40,077,558 for 2016 compared to \$39,641,419 for 2015).

Governmental Activities

The cost of all governmental activities in 2016 was \$11,298,794. However, as shown in the Statement of Activities, the amount that taxpayers ultimately financed for these activities through County taxes and other general revenues was only \$5,136,771, because some of the cost was paid by those who directly benefited from the programs (\$1,243,250) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,445,096).

Table 3 presents the cost of each of Traverse County's five largest program functions, as well as each function's net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden that was placed on the County's taxpayers by each of these functions.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost (Revenue) of Services	
	2016	2015	2016	2015
Highways and streets	\$ 4,234,856	\$ 5,335,456	\$ 57,294	\$ 1,157,749
Public safety	2,332,221	1,833,917	1,647,531	1,096,660
Human services	2,106,034	2,135,075	760,039	821,776
General government	1,758,875	1,751,502	1,567,481	1,549,028
Conservation of natural resources	393,912	355,727	268,102	255,988
All others	472,896	394,319	310,001	222,353
Total	<u>\$ 11,298,794</u>	<u>\$ 11,805,996</u>	<u>\$ 4,610,448</u>	<u>\$ 5,103,554</u>

Business-Type Activities

Revenues for Traverse County's business-type activities (see Table 2) were \$344,414, and expenses were \$434,598.

THE COUNTY'S FUNDS

Upon completing the year, Traverse County's governmental funds' fund balance decreased by \$119,446. This decrease was due to a decrease of \$276,271 in the General Fund, an increase of \$331,144 in the Road and Bridge Special Revenue Fund, a decrease of \$129,646 in the Social Services Special Revenue Fund, and a decrease of \$44,673 in the Jail/LEC Debt Service Fund.

General Fund Budgetary Highlights and Other Budgetary Highlights

The Traverse County Board of Commissioners, over the course of the year, may amend/revise the County's budget. These budget amendments usually will fall into one of two categories: new information changing original budget estimations and greater than anticipated revenues or costs. Over the course of the year, the County did not revise its original budget.

Budgeted revenues exceeded actual revenues in the General Fund by \$150,207, primarily due to tax revenues of \$341,200 under projections. These were primarily offset by charges for services revenue of \$49,075 and intergovernmental revenue of \$219,049 over the projected totals.

Actual expenditures were more than budgeted expenditures in the General Fund by \$185,725, primarily due to greater than expected expenditures of \$82,131 in public safety and \$42,969 in general government.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, Traverse County had \$45,206,620 in a broad range of capital assets, net of accumulated depreciation. The investment in capital assets includes land, buildings, bridges, highways, machinery, furniture, and equipment (see Table 4). The investment in capital assets increased \$1,068,529, or 2.4 percent, from the previous year.

Table 4
Capital Assets at Year-End
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 189,281	\$ 189,281	\$ 16,175	\$ 16,175	\$ 205,456	\$ 205,456
Right-of-way	962,548	962,548	-	-	962,548	962,548
Construction in progress	20,000	22,094	-	-	20,000	22,094
Buildings	2,905,298	3,020,531	2,612,178	2,826,997	5,517,476	5,847,528
Land improvements	115,762	83,406	288	452	116,050	83,858
Machinery, furniture, and equipment	1,744,446	1,594,835	33,848	40,662	1,778,294	1,635,497
Infrastructure	36,606,796	35,381,110	-	-	36,606,796	35,381,110
Totals	\$ 42,544,131	\$ 41,253,805	\$ 2,662,489	\$ 2,884,286	\$ 45,206,620	\$ 44,138,091

Long-Term Debt

As of December 31, 2016, Traverse County had \$6,685,000 in long-term obligations, compared with \$7,770,000 as of December 31, 2015--a decrease of 14.0 percent due to the closing of the General Obligation Governmental Housing Refunding Bonds, Series 2005A--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$ 3,255,000	\$ 3,370,000	\$ 720,000	\$ 1,525,000	\$ 3,975,000	\$ 4,895,000
Revenue bonds	-	-	2,710,000	2,875,000	2,710,000	2,875,000
Totals	<u>\$ 3,255,000</u>	<u>\$ 3,370,000</u>	<u>\$ 3,430,000</u>	<u>\$ 4,400,000</u>	<u>\$ 6,685,000</u>	<u>\$ 7,770,000</u>

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS

Traverse County’s elected and appointed officials considered many factors when setting the fiscal year 2016 budget and tax levy. These factors include: state aid levels, increasing input costs, appropriate fund balances, being mindful of the burden on County taxpayers, and a need to provide a certain level of services to Traverse County residents/taxpayers.

Traverse County management is constantly looking for opportunities for collaboration and efficiency. Actions taken on this front over the past several years are a major reason Traverse County has been able to keep operating costs down.

Traverse County’s Board of Commissioners settled on a final 2017 levy of \$5,000,130, an increase of 4.6 percent from the 2016 levy of \$4,780,508.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of Traverse County’s finances and to show the County’s accountability for the money it receives and spends. If you have questions about this report or need additional financial information, contact Traverse County’s Auditor/Treasurer, Kit Johnson, Traverse County Courthouse, 702 - 2nd Avenue North, Wheaton, Minnesota 56296.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 1

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

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 5,740,492	\$ 147,116	\$ 5,887,608
Investment with escrow agent	1,550,729	-	1,550,729
Taxes receivable			
Delinquent	69,145	-	69,145
Accounts receivable	20,087	-	20,087
Due from other governments	887,480	-	887,480
Inventories	46,643	-	46,643
Prepaid items	49,130	-	49,130
Noncurrent assets			
Capital assets			
Non-depreciable	1,171,829	16,175	1,188,004
Depreciable - net of accumulated depreciation	41,372,302	2,646,314	44,018,616
Total Assets	\$ 50,907,837	\$ 2,809,605	\$ 53,717,442
<u>Deferred Outflows of Resources</u>			
Deferred pension outflows	\$ 2,858,457	\$ -	\$ 2,858,457
Deferred charges on bond refunding	-	81,537	81,537
Total Deferred Outflows of Resources	\$ 2,858,457	\$ 81,537	\$ 2,939,994

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 1
(Continued)**

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

	Governmental Activities	Business-Type Activities	Total
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 187,929	\$ 1,369	\$ 189,298
Salaries payable	167,290	-	167,290
Due to other governments	93,870	-	93,870
Contracts payable	203,828	-	203,828
Accrued interest payable	33,934	25,660	59,594
Unearned revenue	37,333	-	37,333
Compensated absences payable - current	202,704	-	202,704
General obligation bonds payable - current	1,684,317	70,000	1,754,317
Revenue bonds payable - current	-	170,000	170,000
Leases payable - current	16,680	-	16,680
Noncurrent liabilities			
Compensated absences payable	102,062	-	102,062
Net other postemployment benefits obligation	2,316,129	530,720	2,846,849
Net pension liability	5,128,654	-	5,128,654
General obligation bonds payable	-	653,812	653,812
General obligation crossover bonds payable	1,633,867	-	1,633,867
Revenue bonds payable	-	2,579,595	2,579,595
Leases payable	22,678	-	22,678
	\$ 11,831,275	\$ 4,031,156	\$ 15,862,431
<u>Deferred Inflows of Resources</u>			
Deferred pension inflows	\$ 472,366	\$ -	\$ 472,366
Advance from other governments	245,081	-	245,081
	\$ 717,447	\$ -	\$ 717,447
<u>Net Position</u>			
Net investment in capital assets	\$ 39,186,589	\$ (729,381)	\$ 38,457,208
Restricted for			
Public safety	71,833	-	71,833
Highways and streets	776,754	-	776,754
Sanitation	143,343	-	143,343
Debt service	1,684,398	-	1,684,398
Conservation of natural resources	69,992	-	69,992
Other purposes	129,103	-	129,103
Unrestricted	(844,440)	(410,633)	(1,255,073)
	\$ 41,217,572	\$ (1,140,014)	\$ 40,077,558

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Governmental activities		
General government	\$ 1,758,875	\$ 173,115
Public safety	2,332,221	529,134
Highways and streets	4,234,856	316,644
Sanitation	163,332	55,448
Human services	2,106,034	145,156
Health	75,246	-
Culture and recreation	81,457	13,737
Conservation of natural resources	393,912	10,016
Economic development	46,266	-
Interest	106,595	-
Total governmental activities	\$ 11,298,794	\$ 1,243,250
Business-type activities		
Traverse Care Center	\$ 378,564	\$ 17,673
Prairieview Place	56,034	-
Total business-type activities	\$ 434,598	\$ 17,673
Total	\$ 11,733,392	\$ 1,260,923

General Revenues

Property taxes
Mortgage registry and deed tax
Grants and contributions not restricted to
specific programs
Payments in lieu of tax
Investment income
Miscellaneous

Total general revenues

Change in net position

Net Position - Beginning

Net Position - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 18,279	\$ -	\$ (1,567,481)	\$ -	\$ (1,567,481)
155,556	-	(1,647,531)	-	(1,647,531)
3,540,061	320,857	(57,294)	-	(57,294)
68,710	-	(39,174)	-	(39,174)
1,200,839	-	(760,039)	-	(760,039)
-	-	(75,246)	-	(75,246)
-	-	(67,720)	-	(67,720)
115,794	-	(268,102)	-	(268,102)
25,000	-	(21,266)	-	(21,266)
-	-	(106,595)	-	(106,595)
\$ 5,124,239	\$ 320,857	\$ (4,610,448)	\$ -	\$ (4,610,448)
\$ -	\$ -	\$ -	\$ (360,891)	\$ (360,891)
-	-	-	(56,034)	(56,034)
\$ -	\$ -	\$ -	\$ (416,925)	\$ (416,925)
\$ 5,124,239	\$ 320,857	\$ (4,610,448)	\$ (416,925)	\$ (5,027,373)
		\$ 4,685,248	\$ -	\$ 4,685,248
		3,799	-	3,799
		286,582	-	286,582
		23,701	-	23,701
		41,073	1,007	42,080
		96,368	325,734	422,102
		\$ 5,136,771	\$ 326,741	\$ 5,463,512
		\$ 526,323	\$ (90,184)	\$ 436,139
		40,691,249	(1,049,830)	39,641,419
		\$ 41,217,572	\$ (1,140,014)	\$ 40,077,558

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 3

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Jail/LEC Debt Service</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled investments	\$ 3,454,143	\$ 442,815	\$ 1,561,790	\$ 163,961	\$ 5,622,709
Petty cash and change funds	1,400	-	100	-	1,500
Undistributed cash in agency funds	66,600	34,254	11,610	3,819	116,283
Cash with escrow agent	-	-	-	1,550,729	1,550,729
Taxes receivable					
Delinquent	39,846	19,972	7,053	2,274	69,145
Accounts receivable	9,836	4,014	6,237	-	20,087
Due from other funds	18,704	-	7,812	-	26,516
Due from other governments	184,074	560,597	142,809	-	887,480
Inventories	-	46,643	-	-	46,643
Prepaid items	42,333	-	6,797	-	49,130
Total Assets	\$ 3,816,936	\$ 1,108,295	\$ 1,744,208	\$ 1,720,783	\$ 8,390,222
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 52,357	\$ 93,082	\$ 41,857	\$ 633	\$ 187,929
Salaries payable	83,570	56,003	27,717	-	167,290
Contracts payable	-	203,828	-	-	203,828
Due to other funds	7,812	586	18,118	-	26,516
Due to other governments	30,504	7,951	55,415	-	93,870
Unearned revenue	-	37,333	-	-	37,333
Total Liabilities	\$ 174,243	\$ 398,783	\$ 143,107	\$ 633	\$ 716,766
Deferred Inflows of Resources					
Unavailable revenue	\$ 14,838	\$ 543,154	\$ 25,954	\$ 673	\$ 584,619
Advance from other governments	-	245,081	-	-	245,081
Total Deferred Inflows of Resources	\$ 14,838	\$ 788,235	\$ 25,954	\$ 673	\$ 829,700

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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 3
(Continued)**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Jail/LEC Debt Service</u>	<u>Total</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
(Continued)					
Fund Balances					
Nonspendable					
Inventories	\$ -	\$ 46,643	\$ -	\$ -	\$ 46,643
Prepaid items	42,333	-	6,797	-	49,130
Restricted for					
Law library	654	-	-	-	654
Recorder's equipment	67,217	-	-	-	67,217
Recorder's compliance fund	61,232	-	-	-	61,232
Enhanced 911	71,833	-	-	-	71,833
Invasive species aid	69,992	-	-	-	69,992
Solid waste assessments	143,343	-	-	-	143,343
Debt service	-	-	-	1,719,477	1,719,477
Highway allotments	-	274,723	-	-	274,723
Assigned to					
Capital projects	586,398	-	-	-	586,398
Social services	-	-	1,568,350	-	1,568,350
Unassigned	2,584,853	(400,089)	-	-	2,184,764
Total Fund Balances	\$ 3,627,855	\$ (78,723)	\$ 1,575,147	\$ 1,719,477	\$ 6,843,756
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 3,816,936	\$ 1,108,295	\$ 1,744,208	\$ 1,720,783	\$ 8,390,222

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2016**

Fund balance - total governmental funds (Exhibit 3)	\$	6,843,756
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.		42,544,131
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds.		2,858,457
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources--unavailable revenue in the governmental funds.		584,619
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	\$ (3,318,184)	
Capital leases	(39,358)	
Compensated absences	(304,766)	
Net pension liability	(5,128,654)	
Accrued interest payable	(33,934)	
Net other postemployment benefits obligation	<u>(2,316,129)</u>	(11,141,025)
Deferred inflows of resources resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds.		<u>(472,366)</u>
Net Position of Governmental Activities (Exhibit 1)	\$	<u>41,217,572</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 5

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Jail/LEC Debt Service</u>	<u>Total</u>
Revenues					
Taxes	\$ 2,524,171	\$ 1,511,498	\$ 512,183	\$ 168,814	\$ 4,716,666
Special assessments	55,448	-	-	-	55,448
Licenses and permits	7,875	-	-	-	7,875
Intergovernmental	572,744	3,869,478	1,182,830	-	5,625,052
Charges for services	631,787	288,587	11,478	-	931,852
Fines and forfeits	6	-	-	-	6
Investment earnings	27,264	-	-	13,809	41,073
Miscellaneous	178,626	32,133	170,354	-	381,113
Total Revenues	\$ 3,997,921	\$ 5,701,696	\$ 1,876,845	\$ 182,623	\$ 11,759,085
Expenditures					
Current					
General government	\$ 1,671,347	\$ -	\$ -	\$ -	\$ 1,671,347
Public safety	1,876,746	-	-	-	1,876,746
Highways and streets	-	5,112,147	-	-	5,112,147
Sanitation	149,635	-	-	-	149,635
Human services	-	-	2,006,491	-	2,006,491
Health	75,246	-	-	-	75,246
Culture and recreation	80,684	-	-	-	80,684
Conservation of natural resources	383,037	-	-	-	383,037
Economic development	46,266	-	-	-	46,266
Intergovernmental	-	259,588	-	-	259,588
Debt service					
Principal	14,490	-	-	115,000	129,490
Interest	284	-	-	111,213	111,497
Administrative charges	-	-	-	1,083	1,083
Total Expenditures	\$ 4,297,735	\$ 5,371,735	\$ 2,006,491	\$ 227,296	\$ 11,903,257

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 5
(Continued)**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Jail/LEC Debt Service</u>	<u>Total</u>
Excess of Revenues Over (Under) Expenditures	\$ (299,814)	\$ 329,961	\$ (129,646)	\$ (44,673)	\$ (144,172)
Other Financing Sources (Uses)					
Capital leases	23,543	-	-	-	23,543
Net Change in Fund Balance	\$ (276,271)	\$ 329,961	\$ (129,646)	\$ (44,673)	\$ (120,629)
Fund Balance - January 1	3,904,126	(409,867)	1,704,793	1,764,150	6,963,202
Increase (decrease) in inventories	-	1,183	-	-	1,183
Fund Balance - December 31	<u>\$ 3,627,855</u>	<u>\$ (78,723)</u>	<u>\$ 1,575,147</u>	<u>\$ 1,719,477</u>	<u>\$ 6,843,756</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

Net change in fund balance - total governmental funds (Exhibit 5) \$ (120,629)

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

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Unavailable revenue - December 31	\$ 584,619	
Unavailable revenue - January 1	(533,241)	51,378

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. The difference is the net book value of the assets disposed of.

Expenditures for general capital assets and infrastructure	\$ 3,033,034	
Net book value of assets disposed of	(211,593)	
Current year depreciation	(1,531,115)	1,290,326

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net assets. Also, governmental funds report the net effect of premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of activities.

Principal repayments		
General obligation bonds	\$ 115,000	
Capital leases	14,490	129,490

Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability (see Note 3.C.4. for more information). (23,543)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 6
(Continued)**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

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.

Current year amortization of bond premiums	\$	5,985	
Change in compensated absences		(16,333)	
Change in net other postemployment benefits obligation		(214,480)	
Change in net pension liability		(2,843,064)	
Change in deferred pension outflows		2,463,044	
Change in deferred pension inflows		(197,034)	
Change in inventories		1,183	
		(800,699)	
Change in Net Position of Governmental Activities (Exhibit 2)		\$ 526,323	

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PROPRIETARY FUNDS

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 7

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

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 30,097	\$ 117,019	\$ 147,116
Noncurrent assets			
Capital assets			
Nondepreciable	\$ -	\$ 16,175	\$ 16,175
Depreciable - net of accumulated depreciation	514,727	2,131,587	2,646,314
Total noncurrent assets	\$ 514,727	\$ 2,147,762	\$ 2,662,489
Total Assets	\$ 544,824	\$ 2,264,781	\$ 2,809,605
<u>Deferred Outflows of Resources</u>			
Deferred charges on bond refunding	\$ -	\$ 81,537	\$ 81,537

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 7
(Continued)**

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

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 633	\$ 736	\$ 1,369
Accrued interest payable	-	25,660	25,660
General obligation bonds payable - current	70,000	-	70,000
Revenue bonds payable - current	-	170,000	170,000
Total current liabilities	\$ 70,633	\$ 196,396	\$ 267,029
Noncurrent liabilities			
Net other postemployment benefits obligation	\$ 665	\$ 530,055	\$ 530,720
General obligation bonds payable - long-term	653,812	-	653,812
Revenue bonds payable - long-term	-	2,579,595	2,579,595
Total noncurrent liabilities	\$ 654,477	\$ 3,109,650	\$ 3,764,127
Total Liabilities	\$ 725,110	\$ 3,306,046	\$ 4,031,156
<u>Net Position</u>			
Net investment in capital assets	\$ (209,085)	\$ (520,296)	\$ (729,381)
Unrestricted	28,799	(439,432)	(410,633)
Total Net Position	\$ (180,286)	\$ (959,728)	\$ (1,140,014)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Operating Revenues			
Miscellaneous	\$ -	\$ 17,673	\$ 17,673
Operating Expenses			
Employee benefits and payroll taxes	\$ -	\$ 140,415	\$ 140,415
Professional services	1,382	3,074	4,456
Depreciation	45,754	176,043	221,797
Total Operating Expenses	\$ 47,136	\$ 319,532	\$ 366,668
Operating Income (Loss)	\$ (47,136)	\$ (301,859)	\$ (348,995)
Nonoperating Revenues (Expenses)			
Interest income	\$ 1,007	\$ -	\$ 1,007
Lease revenue	96,115	229,619	325,734
Interest expense	(8,898)	(59,032)	(67,930)
Total Nonoperating Revenues (Expenses)	\$ 88,224	\$ 170,587	\$ 258,811
Change in Net Position	\$ 41,088	\$ (131,272)	\$ (90,184)
Net Position - January 1	(221,374)	(828,456)	(1,049,830)
Net Position - December 31	\$ (180,286)	\$ (959,728)	\$ (1,140,014)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016
Increase (Decrease) in Cash and Cash Equivalents**

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Prairieview Place</u>	<u>Traverse Care Center</u>	<u>Totals</u>
Cash Flows from Operating Activities			
Receipts from customers and users	\$ -	\$ 17,188	\$ 17,188
Payments to suppliers and employees	(750)	(103,873)	(104,623)
Nonoperating revenue received	96,105	229,619	325,724
Net cash provided by (used in) operating activities	\$ 95,355	\$ 142,934	\$ 238,289
Cash Flows from Capital and Related Financing Activities			
Principal paid on long-term debt	\$ (805,000)	\$ (165,000)	\$ (970,000)
Interest paid on long-term debt	(14,413)	(63,235)	(77,648)
Net cash provided by (used in) capital and related financing activities	\$ (819,413)	\$ (228,235)	\$ (1,047,648)
Cash Flows from Investing Activities			
Interest received	\$ 1,007	\$ -	\$ 1,007
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (723,051)	\$ (85,301)	\$ (808,352)
Cash and Cash Equivalents at January 1	753,148	202,320	955,468
Cash and Cash Equivalents at December 31	\$ 30,097	\$ 117,019	\$ 147,116
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating income (loss)	\$ (47,136)	\$ (301,859)	\$ (348,995)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	\$ 45,754	\$ 176,043	\$ 221,797
Nonoperating revenue received	96,115	229,619	325,734
Increase (decrease) in accounts payable	633	610	1,243
Increase (decrease) in net other postemployment benefits obligation	(11)	38,521	38,510
Total adjustments	\$ 142,491	\$ 444,793	\$ 587,284
Net Cash Provided by (Used in) Operating Activities	\$ 95,355	\$ 142,934	\$ 238,289

FIDUCIARY FUNDS

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TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2016

<u>Assets</u>	
Cash and pooled investments	\$ 58,548
Prepaid taxes	84,740
Total Assets	\$ 143,288
<u>Liabilities</u>	
Due to other governments	\$ 143,288

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

Traverse County was established February 20, 1862, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Coordinator, appointed by the Board, serves as the Clerk of the Board but does not vote in its decisions.

Joint Ventures and Related Organization

The County participates in joint ventures described in Note 6.B. The County also participates in a related organization described in Note 6.C.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about Traverse County. 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 revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

In the government-wide statement of net position, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis that 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 County first utilizes restricted resources to finance qualifying activities.

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

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, proprietary, and fiduciary--are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. The County presents two enterprise funds. The County reports all of its governmental and proprietary funds as major funds.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

- The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.
- The Road and Bridge Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as assigned property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.
- The Social Services Special Revenue Fund accounts for restricted revenues from the federal, state, and other oversight agencies, as well as assigned property tax revenues used for economic assistance and community social services programs.
- The Jail/LEC Debt Service Fund is used to account for the accumulation of restricted resources for, and the payment of principal, interest, and related costs of general obligation bonds.

The County reports the following major enterprise funds:

- The Prairieview Place Fund is used to account for the lease revenues and debt payments of the County's congregate housing. Effective December 1, 2010, the County leased its property and operations of Prairieview Place to LSS of Traverse, LLC. Note 6.D. contains additional information related to this lease.
- The Traverse Care Center Fund is used to account for the lease revenues and debt payments of the County's nursing home. Effective December 1, 2010, the County leased its property and operations of Traverse Care Center to LSS of Traverse, LLC. Note 6.D. contains additional information related to this lease.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following 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 agent capacity.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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. Traverse County considers all revenues as available if collected within 60 days after the end of the current period. Property taxes are recognized as revenues in the year for which they are levied provided they are also available. Shared revenues are generally recognized in the period the appropriation goes into effect and the revenues are available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Issuances of long-term debt and acquisitions under capital leases are reported as other financing sources.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

1. Cash and Cash Equivalents

Cash and cash equivalents are identified only for the purpose of the statement of cash flows for the proprietary funds. The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can be deposited or effectively withdrawn from cash at any time without prior notice or penalty.

2. 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, 2016. A market approach is used to value all investments other than external investment pools, which are measured at the net asset value. Pursuant to Minn. Stat. § 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. Pooled investment earnings for 2016 were \$28,221.

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

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

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15 or November 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

Special assessments receivable consist of delinquent special assessments payable in the years 2010 through 2016 and noncurrent special assessments payable in 2017 and after. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments.

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

Certain funds of the County 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.

6. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (such as roads, bridges, sidewalks, and similar items), and intangible assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the County 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 or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value (entry price) on the date of donation.

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the County did not have any capitalized interest.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25 - 40
Land improvements	20 - 35
Infrastructure	15 - 70
Machinery, furniture, and equipment	3 - 15

7. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated vacation, sick leave, and comp time 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. A liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide financial statements. The government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion consists of all comp time and vacation to the extent of vacation earned during the current year. The noncurrent portion consists of the remaining amount of vacation and vested sick leave balances. Compensated absences are liquidated by the General Fund, Road and Bridge Special Revenue Fund, and Social Services Special Revenue Fund.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Long-Term Obligations

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

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as 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.

9. Pension Plan

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The County has two items, deferred pension outflows and deferred charges on bond refunding, which qualify for reporting in this category. Deferred pension outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date, differences between expected and actual pension plan economic experience, the differences between projected and actual earnings on pension plan investments, changes in actuarial assumptions, and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position. The deferred charge on bond refunding is reported in the Traverse Care Center Enterprise Fund in the business-type activities statement of net position. A deferred charge on bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has three types of deferred inflows. The governmental funds report unavailable revenue from delinquent taxes receivable, grant monies receivable, and other receivables, for amounts that are not considered to be available to liquidate liabilities in the current period. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The County also has deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Deferred Outflows/Inflows of Resources (Continued)

changes in proportionate share and, accordingly, are reported only in the statement of net position. The last item, advance from other governments, arises under both the modified accrual and the full accrual basis of accounting, and is reported in both the governmental funds balance sheet and on the statement of net position.

11. Unearned Revenue

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

12. Classification of Net Position

Net position in the government-wide and proprietary fund financial statements is classified in the following categories:

- Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.
- Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

13. Classification of Fund Balances

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

13. Classification of Fund Balances (Continued)

- Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.
- Restricted - amounts in which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.
- Assigned - amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Auditor/Treasurer who has been delegated that authority by County Board resolution.
- Unassigned - the residual classification for the General Fund, and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

14. Minimum Fund Balance

Traverse County has adopted a minimum fund balance policy for the General Fund and special revenue funds. The General Fund and special revenue funds are heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined it needs to maintain a minimum unrestricted fund balance (committed, assigned, and unassigned) of approximately 35 to 50 percent of fund operating revenues or no less than five months of operating expenditures. At December 31, 2016, unrestricted fund balance for the General Fund and Social Services Special Revenue Fund was at or above the minimum fund balance level. The Road and Bridge Fund was below the minimum fund balance level, see Note 2 for more information.

15. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Excess of Expenditures Over Budget

The Jail/LEC Debt Service Fund had expenditures in excess of budget for the year ended December 31, 2016:

<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
\$ 227,296	\$ 197,558	\$ 29,738

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

2. Stewardship, Compliance, and Accountability (Continued)

B. Deficit Fund Balance

The Road and Bridge Special Revenue Fund had a deficit fund balance of \$78,723 at December 31, 2016. This deficit will be eliminated by future state aid revenue collections.

C. Deficit Net Position

The following funds had deficit net position as of December 31, 2016:

Prairieview Place Enterprise Fund	\$	180,286
Traverse Care Center Enterprise Fund		959,728

The net position deficits will be eliminated by future lease revenues and repayment of long-term debt.

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

Reconciliation of the County's total cash and investments to the basic financial statements follows:

Government-wide statement of net position		
Governmental activities		
Cash and pooled investments	\$	5,740,492
Investment with escrow agent		1,550,729
Business-type activities		
Cash and pooled investments		147,116
Statement of fiduciary net position		
Cash and pooled investments		58,548
Total Cash and Investments	\$	7,496,885

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The County is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County's policy is to minimize deposit custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2016, \$1,166 of the County's deposits were exposed to custodial credit risk.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

b. Investments

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County’s policy is to minimize interest rate risk by: (1) structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments

Interest Rate Risk (Continued)

avoiding the need to sell securities in the open market; and (2) investing operating funds primarily in shorter-term securities, money markets, or similar investment pools.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirement set by state statute.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage are available. As of December 31, 2016, the County did not have any investments subject to custodial credit risk.

Concentration of Credit Risk

Traverse County will minimize concentration of credit risk, which is the risk of loss due to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. This will be based on the applicable opinion units.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

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

Investment Type	Credit Risk		Concentration	Interest Rate	Carrying (Fair) Value
	Credit Rating	Rating Agency	Risk Over 5 Percent of Portfolio	Risk Maturity Date	
Negotiable certificates of deposit with brokers					
Union Bank	N/R	N/A	<5%	02/28/2017	\$ 25,178
HSBC Bank	N/R	N/A	<5%	05/01/2017	98,200
GE Capital Retail	N/R	N/A	>5%	06/08/2018	201,782
Comenity Bank	N/R	N/A	<5%	10/21/2019	100,275
Goldman Sachs Bank USA	N/R	N/A	<5%	01/14/2020	100,869
Total negotiable certificates of deposit with brokers					<u>\$ 526,304</u>
U.S. government agency security					
Federal National Mortgage Association Bonds	AAA	Moody's	>5%	01/30/2017	\$ 1,550,729
Investment pools/mutual funds					
Federated Total Return Government Bond Fund	N/R	N/A	<5%	N/A	\$ 40,279
MAGIC Fund	N/R	N/A	<5%	N/A	6,601
Total investment pools/mutual funds					<u>\$ 46,880</u>
Total investments					\$ 2,123,913
Checking					4,023,950
Savings					682,161
Non-negotiable certificates of deposit					665,361
Change funds					1,500
Total Cash and Investments					<u>\$ 7,496,885</u>

N/R - Not Rated
N/A - Not Applicable

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

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

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

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

	December 31, 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
Negotiable certificates of deposit	\$ 526,304	\$ -	\$ 526,304	\$ -
U.S. government agency security	1,550,729	-	1,550,729	-
	<u>\$ 2,077,033</u>	<u>\$ -</u>	<u>\$ 2,077,033</u>	<u>\$ -</u>
Total Investments Included in the Fair Value Hierarchy				
	<u>\$ 2,077,033</u>	<u>\$ -</u>	<u>\$ 2,077,033</u>	<u>\$ -</u>
Investments measured at the net asset value (NAV)				
MAGIC Portfolio	\$ 6,601			
Mutual fund	40,279			
	<u>46,880</u>			
Total Investments Measured at the NAV				
	<u>\$ 46,880</u>			

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

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

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

The County also holds \$40,729 in money market mutual funds. The fair value of the investment is the fair value per share of the underlying portfolio. There are no restrictions on these funds.

2. Receivables

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

	Governmental Activities	Business-Type Activities
Taxes	\$ 69,145	\$ -
Accounts receivable	20,087	-
Due from other governments	887,480	-
Total Receivables	\$ 976,712	\$ -

All receivables are expected to be collected during the subsequent year.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

3. Capital Assets

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

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 189,281	\$ -	\$ -	\$ 189,281
Right-of-way	962,548	-	-	962,548
Construction in progress	22,094	10,000	12,094	20,000
Total capital assets not depreciated	<u>\$ 1,173,923</u>	<u>\$ 10,000</u>	<u>\$ 12,094</u>	<u>\$ 1,171,829</u>
Capital assets depreciated				
Buildings	\$ 5,360,449	\$ -	\$ -	\$ 5,360,449
Land improvements	159,244	44,065	-	203,309
Machinery, furniture, and equipment	5,043,872	686,781	547,941	5,182,712
Infrastructure	48,992,420	2,292,188	-	51,284,608
Total capital assets depreciated	<u>\$ 59,555,985</u>	<u>\$ 3,023,034</u>	<u>\$ 547,941</u>	<u>\$ 62,031,078</u>
Less: accumulated depreciation for				
Buildings	\$ 2,339,918	\$ 115,233	\$ -	\$ 2,455,151
Land improvements	75,838	11,709	-	87,547
Machinery, furniture, and equipment	3,449,037	337,671	348,442	3,438,266
Infrastructure	13,611,310	1,066,502	-	14,677,812
Total accumulated depreciation	<u>\$ 19,476,103</u>	<u>\$ 1,531,115</u>	<u>\$ 348,442</u>	<u>\$ 20,658,776</u>
Total capital assets depreciated, net	<u>\$ 40,079,882</u>	<u>\$ 1,491,919</u>	<u>\$ 199,499</u>	<u>\$ 41,372,302</u>
Governmental Activities Capital Assets, Net	<u>\$ 41,253,805</u>	<u>\$ 1,501,919</u>	<u>\$ 211,593</u>	<u>\$ 42,544,131</u>

Construction in progress at December 31, 2016, consists of amounts paid to date for new tax software.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 16,175	\$ -	\$ -	\$ 16,175
Capital assets depreciated				
Buildings	\$ 6,398,048	\$ -	\$ 22,309	\$ 6,375,739
Land improvements	43,938	-	1,859	42,079
Machinery, furniture, and equipment	550,477	-	49,405	501,072
Total capital assets depreciated	\$ 6,992,463	\$ -	\$ 73,573	\$ 6,918,890
Less: accumulated depreciation for				
Buildings	\$ 3,571,051	\$ 214,819	\$ 22,309	\$ 3,763,561
Land improvements	43,486	164	1,859	41,791
Machinery, furniture, and equipment	509,815	6,814	49,405	467,224
Total accumulated depreciation	\$ 4,124,352	\$ 221,797	\$ 73,573	\$ 4,272,576
Total capital assets depreciated, net	\$ 2,868,111	\$ (221,797)	\$ -	\$ 2,646,314
Business-Type Activities				
Capital Assets, Net	\$ 2,884,286	\$ (221,797)	\$ -	\$ 2,662,489

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

Governmental Activities	
General government	\$ 109,625
Public safety	79,188
Highways and streets, including depreciation of infrastructure assets	1,331,738
Human services	6,365
Sanitation	3,426
Culture and recreation	773
Total Depreciation Expense - Governmental Activities	<u>\$ 1,531,115</u>
Business-Type Activities	
Traverse Care Center	\$ 176,043
Prairieview Place	45,754
Total Depreciation Expense - Business-Type Activities	<u>\$ 221,797</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

Due To/From Other Funds

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

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Special Revenue Fund Social Services Special Revenue Fund	\$ 586 18,118
Total General Fund		\$ 18,704
Social Services Special Revenue Fund	General Fund	7,812
Total Due To/Due From Other Funds		\$ 26,516

The outstanding balances between funds result from the time lag between the dates the interfund goods and services are provided and reimbursable expenditures occurred, when transactions are recorded in the accounting system, and when the funds are repaid. All balances are expected to be liquidated in the subsequent year.

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2016, were as follows:

	Governmental Activities	Business-Type Activities
Accounts payable	\$ 187,929	\$ 1,369
Salaries payable	167,290	-
Due to other governments	93,870	-
Contracts payable	203,828	-
Total Payables	\$ 652,917	\$ 1,369

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

2. Unearned Revenues/Deferred Inflows of Resources

In the governmental funds, unearned revenues and deferred inflows of resources consist of taxes, state and federal grants, and charge for service revenues not collected soon enough after year-end to pay liabilities of the current period, and state and federal grants received but not yet earned. Unearned revenues and deferred inflows of resources at December 31, 2016, are summarized below by fund:

	Taxes	Grants	Other	Total
Governmental funds				
General Fund	\$ 14,838	\$ -	\$ -	\$ 14,838
Special Revenue Funds				
Road and Bridge	5,570	819,998	-	825,568
Social Services	2,038	23,267	649	25,954
Jail/LEC Debt Service Fund	673	-	-	673
Total	<u>\$ 23,119</u>	<u>\$ 843,265</u>	<u>\$ 649</u>	<u>\$ 867,033</u>
Liability				
Unearned revenue	\$ -	\$ 37,333	\$ -	\$ 37,333
Deferred inflows of resources				
Advance from other governments	-	245,081	-	245,081
Unavailable revenue	23,119	560,851	649	584,619
Total	<u>\$ 23,119</u>	<u>\$ 843,265</u>	<u>\$ 649</u>	<u>\$ 867,033</u>

3. Construction Commitments

The County had no active construction projects as of December 31, 2016. Construction commitments for highway projects are state-funded and, therefore, not obligations of the County.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

4. Leases

Capital Leases

Governmental Activities

The County has entered into lease agreements as lessee for financing the acquisition of certain equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. Capital leases consist of the following at December 31, 2016:

<u>Leases</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
2016 Ford Police Interceptor	2019	Monthly	\$ 8,012	\$ 23,543	\$ 17,657
Recorder - copier	2019	Monthly	1,307	5,604	4,013
2015 GMC Sierra	2020	Monthly	7,581	30,323	17,688
Total Governmental Activities Capital Leases					<u>\$ 39,358</u>

Capital lease payments are paid from the General Fund. The future minimum lease obligations and the net present value of the remaining minimum lease payments as of December 31, 2016, were as follows:

<u>Year Ending December 31</u>	<u>Lease Payments</u>
2017	\$ 16,899
2018	16,571
2019	5,796
2020	544
Less: amount representing interest	(452)
Net Present Value of Minimum Lease Payments	<u>\$ 39,358</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

5. Long-Term Debt

Governmental Activities

On November 15, 2006, Traverse County issued General Obligation Jail Bonds, Series 2006A, in the amount of \$2,515,000, with interest rates of 4.00 to 4.25 percent, to be paid over 20 years. Proceeds from the sale of the bonds were used to acquire, construct, and equip a new jail. Payments on the general obligation jail bonds are made by the Jail/LEC Debt Service Fund.

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2016
General obligation bonds					
2006A G.O. Jail Bonds	2027	\$50,000 - \$185,000	4.00 - 4.25	\$ 2,515,000	\$ 1,660,000
2015A G.O. Crossover Refunding Bonds	2027	\$140,000 - \$180,000	2.50 - 2.75	1,595,000	1,595,000
Add: unamortized premium					<u>63,184</u>
Total General Obligation Bonds, Net					<u>\$ 3,318,184</u>

Business-Type Activities

In 2013, Traverse County issued General Obligation Governmental Housing Refunding Bonds, Series 2013A, in the amount of \$785,000, with interest rates of 1.05 percent to 2.50 percent, to advance refund the General Obligation Housing Refunding Bonds, Series 2005A, with an interest rate of 5.00 percent. The net present value of the benefit is \$58,479. Principal payments are made by the Traverse Care Center Enterprise Fund.

In 2012, Traverse County issued General Obligation Governmental Nursing Home Revenue Refunding Bonds, Series 2012A, in the amount of \$3,350,000, with interest rates of 2.0 percent to 2.8 percent, to advance refund the General Obligation Nursing Home Revenue Bonds, Series 2003A, with an interest rate of 5.00 percent. The net present value of the benefit is \$819,923. Principal payments are made by the Prairieview Place Enterprise Fund.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

5. Long-Term Debt

Business-Type Activities (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2016
2013A G.O. Governmental Housing Refunding Bonds	2027	\$65,000 - \$80,000	1.05 - 2.50	\$ 785,000	\$ 720,000
Add: unamortized premium					3,812
Total G.O. Bonds, Net					<u>\$ 723,812</u>
2012A G.O. Nursing Home Revenue Refunding Bonds	2030	\$160,000 - \$225,000	0.00 - 2.80	\$ 3,350,000	\$ 2,710,000
Add: unamortized premium					39,595
Total Revenue Refunding Bonds, Net					<u>\$ 2,749,595</u>

6. Debt Service Requirements

Debt service requirements at December 31, 2016, were as follows:

Governmental Activities

Year Ending December 31	G.O. Jail Bonds, Series 2006A		G.O. Crossover Refunding Bonds, Series 2015A	
	Principal	Interest	Principal	Interest
2017	\$ 1,660,000	\$ 65,750	\$ -	\$ 40,763
2018	-	-	140,000	39,013
2019	-	-	145,000	35,450
2020	-	-	150,000	31,763
2021	-	-	155,000	27,950
2022 - 2026	-	-	825,000	79,531
2027	-	-	180,000	2,475
Total	<u>\$ 1,660,000</u>	<u>\$ 65,750</u>	<u>\$ 1,595,000</u>	<u>\$ 256,945</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

6. Debt Service Requirements (Continued)

Business-Type Activities

Year Ending December 31	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2017	\$ 70,000	\$ 13,443	\$ 170,000	\$ 59,885
2018	70,000	12,708	170,000	56,485
2019	70,000	11,973	175,000	53,035
2020	70,000	10,923	175,000	49,535
2021	70,000	9,873	180,000	45,985
2022 - 2026	370,000	27,255	970,000	171,313
2027 - 2030	-	-	870,000	47,910
Total	<u>\$ 720,000</u>	<u>\$ 86,175</u>	<u>\$ 2,710,000</u>	<u>\$ 484,148</u>

7. Changes in Long-Term Liabilities

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

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
G.O. bonds payable	\$ 3,370,000	\$ -	\$ 115,000	\$ 3,255,000	\$ 1,660,000
Unamortized bond premium	69,169	-	5,985	63,184	24,317
Capital leases	30,305	23,543	14,490	39,358	16,680
Compensated absences	288,433	253,487	237,154	304,766	102,062
Governmental Activities					
Long-Term Liabilities	<u>\$ 3,757,907</u>	<u>\$ 277,030</u>	<u>\$ 372,629</u>	<u>\$ 3,662,308</u>	<u>\$ 1,803,059</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

7. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable					
General obligation refunding bonds	\$ 1,525,000	\$ -	\$ 805,000	\$ 720,000	\$ 70,000
Revenue bonds	2,875,000	-	165,000	2,710,000	170,000
Premium on bonds	47,619	-	4,212	43,407	-
Discount on bonds	(2,932)	-	(2,932)	-	-
Business-Type Activities					
Long-Term Liabilities	<u>\$ 4,444,687</u>	<u>\$ -</u>	<u>\$ 971,280</u>	<u>\$ 3,473,407</u>	<u>\$ 240,000</u>

8. Crossover Refunding

In 2015, the County issued \$1,595,000 General Obligation Crossover Refunding Bonds, Series 2015A. Proceeds from the sale of the bonds will be used to crossover refund the \$2,515,000 General Obligation Jail Bonds, Series 2006A. Maturities 2018 through 2027, inclusive, will be called for redemption on February 1, 2017, at a price of par plus accrued interest. The County refunded the Series 2006A bonds to obtain an economic gain (difference between the present value of debt service payments on the old and new debt) of \$78,871.

The bonds are valid and binding general obligations of Traverse County, payable from ad valorem taxes. The full faith and credit of the County is pledged to their payment, and the County has validly obligated itself to levy additional ad valorem taxes upon all taxable property within the County, without limitation to amount, in the event of any deficiency in the debt service account established for this issue.

Principal due with respect to the \$1,595,000 General Obligation Crossover Refunding Bonds, Series 2015A, is payable annually on February 1, commencing on February 1, 2018, and interest due with respect to the bonds is payable semi-annually on February 1 and August 1 of each year.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description

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

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No County employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

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

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Public Employees Correctional Plan (accounted for in

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

the Correctional Fund). For members hired after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years.

2. Benefits Provided

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

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Plan members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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

3. Contributions

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

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

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

3. Contributions (Continued)

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

General Employees Retirement Plan	\$	186,551
Public Employees Police and Fire Plan		54,138
Public Employees Correctional Plan		40,380

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

4. Pension Costs

General Employees Retirement Plan

At December 31, 2016, the County reported a liability of \$3,004,216 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.0370 percent. It was 0.0364 percent measured as of June 30, 2015. The County recognized pension expense of \$436,309 for its proportionate share of the General Employees Retirement Plan's pension expense.

The County also recognized \$11,704 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

County's proportionate share of the net pension liability	\$ 3,004,216
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>39,254</u>
Total	<u><u>\$ 3,043,470</u></u>

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 243,002
Changes in actuarial assumptions	588,228	-
Difference between projected and actual investment earnings	568,005	-
Changes in proportion	23,321	65,765
Contributions paid to PERA subsequent to the measurement date	<u>97,259</u>	<u>-</u>
Total	<u><u>\$ 1,276,813</u></u>	<u><u>\$ 308,767</u></u>

The \$97,259 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

Year Ended December 31	Pension Expense Amount
2017	\$ 232,562
2018	232,562
2019	297,147
2020	108,516

Public Employees Police and Fire Plan

At December 31, 2016, the County reported a liability of \$1,284,216 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.032 percent. It was 0.032 percent measured as of June 30, 2015. The County recognized pension expense of \$217,058 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

The County also recognized \$2,880 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Plan. Legislation requires the State of Minnesota to contribute \$9 million to the Public Employees Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 147,323
Changes in actuarial assumptions	706,760	-
Difference between projected and actual investment earnings	195,980	-
Changes in proportion	-	7,200
Contributions paid to PERA subsequent to the measurement date	29,538	-
Total	\$ 932,278	\$ 154,523

The \$29,538 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	\$ 160,683
2018	160,683
2019	160,683
2020	144,846
2021	121,322

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Correctional Plan

At December 31, 2016, the County reported a liability of \$840,222 for its proportionate share of the Public Employees Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.23 percent. It was 0.23 percent measured as of June 30, 2015. The County recognized pension expense of \$234,165 for its proportionate share of the Public Employees Correctional Plan's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual economic experience	\$ 658	\$ 9,076
Changes in actuarial assumptions	535,323	-
Difference between projected and actual investment earnings	94,402	-
Contributions paid to PERA subsequent to the measurement date	18,983	-
	<u> </u>	<u> </u>
Total	<u>\$ 649,366</u>	<u>\$ 9,076</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Plan (Continued)

The \$18,983 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2017	\$ 199,575
2018	199,575
2019	204,113
2020	18,044

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2016, was \$887,532.

5. Actuarial Assumptions

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

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

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

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

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

6. Discount Rate

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2016:

General Employees Retirement Plan

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

Public Employees Police and Fire Plan

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions (Continued)

Public Employees Correctional Plan

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

8. Pension Liability Sensitivity

The following presents the County’s proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the County’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	Proportionate Share of the					
	General Employees Retirement Plan		Public Employees Police and Fire Plan		Public Employees Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 4,266,878	4.60%	\$ 1,797,732	4.31%	\$ 1,265,115
Current	7.50	3,004,216	5.60	1,284,216	5.31	840,222
1% Increase	8.50	1,964,127	6.60	864,634	6.31	508,512

9. Pension Plan Fiduciary Net Position

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

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

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

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

	Employee	Employer
Contribution amount	\$ 2,711	\$ 2,711
Percentage of covered payroll	5%	5%

C. Other Postemployment Benefits (OPEB)

Plan Description and Funding Policy

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Plan Description and Funding Policy (Continued)

The contribution requirements of the plan members and the County are established and may be amended by the Traverse County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2016, there were 124 participants in the plan, including 53 retirees.

The OPEB liability is liquidated by the General Fund, Road and Bridge Special Revenue Fund, and Social Services Special Revenue Fund. The Traverse Care Center and Prairieview Place are charged directly for their share of the annual OPEB cost.

Annual OPEB Cost and Net OPEB Obligation

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

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

ARC	\$	665,410
Interest on net OPEB obligation		103,755
Adjustment to ARC		<u>(147,090)</u>
Annual OPEB cost (expense)	\$	622,075
Contributions made during the year		<u>(369,085)</u>
Increase in net OPEB obligation	\$	252,990
Net OPEB Obligation - Beginning of Year		<u>2,593,859</u>
Net OPEB Obligation - End of Year	\$	<u>2,846,849</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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

<u>Fiscal Year-End</u>	<u>Annual OPEB Cost</u>	<u>Annual Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2014	\$ 627,249	\$ 316,836	50.5%	\$ 2,310,122
December 31, 2015	619,768	336,031	54.2	2,593,859
December 31, 2016	622,075	369,085	59.3	2,846,849

Funded Status and Funding Progress

Governmental Activities

As of January 1, 2014, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial accrued liability for benefits was \$6,487,794, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,487,794. The covered payroll (annual payroll of active employees covered by the plan) was \$2,892,233, and the ratio of the UAAL to the covered payroll was 291.3 percent.

Business-Type Activities

As of January 1, 2014, the most recent actuarial valuation date, the County had no assets to fund the plan. The Traverse Care Center's UAAL was \$1,937,688. The annual payroll for active employees covered by the plan in the actuarial valuation was zero, as most of the Care Center's employees became employees of LSS effective with the lease of the facility on December 31, 2010.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2014, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.0 percent investment rate of return (net of investment expenses), which is Traverse County's implicit rate of return on the General Fund. The annual health care cost trend is 7.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 10 years. Both rates included a 2.5 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2016, was 22 years.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; or natural disasters, for which the County carries commercial insurance. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For group employee health benefits, the County has entered into a joint powers agreement, the Lakes Country Service Cooperative. For all other risk, other than pertaining to health insurance, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

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

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

The Lakes Country Service Cooperative (Service Cooperative) is a joint powers entity which sponsors a plan to provide group employee health benefits to its participating members. All members pool premiums and losses; however, a particular member may receive increases or decreases depending on a good or bad year of claims experience. Premiums are determined annually by the Service Cooperative and are based partially on the experience of the County and partially on the experience of the group. The Service Cooperative solicits proposals from carriers and negotiates the contracts.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

The County is a defendant in various lawsuits. Although the outcome of these lawsuits 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 government.

B. Joint Ventures

Horizon Public Health

Horizon Public Health was formed pursuant to Minn. Stat. § 471.59 by Douglas, Grant, Pope, Stevens, and Traverse Counties. Horizon Public Health began official operation on January 1, 2015, as a five-county public health organization. The primary functions of the health service are to prevent illness and to promote efficiency and economy in the delivery of community health services.

Control is vested in the Community Health Board, which is responsible for all duties as set forth in Minn. Stat. ch. 145A. The Board consists of 13 members composed of 11 County Commissioners and 2 community representatives.

Financing is provided by federal and state grants and appropriations from member counties. Traverse County's contribution for 2016 was \$63,784.

Complete financial statements for Horizon Public Health can be obtained from:

Horizon Public Health
809 Elm Street, Suite 1200
Alexandria, Minnesota 56308

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Rainbow Rider Transit Board

Douglas, Grant, Pope, Stevens, and Traverse Counties entered into a joint powers agreement to establish the West Central Multi-County Joint Powers Transit Board effective December 1, 1994, and empowered under Minn. Stat. § 471.59. Effective January 13, 2000, the Board changed its name from West Central Multi-County Joint Powers Transit Board to Rainbow Rider Transit Board. The purpose of the Board is to provide coordinated service delivery and a funding source for public transportation. Grant County terminated its membership in Rainbow Rider on May 31, 1999. Grant County rejoined, and Todd County became a member county effective January 1, 2011 and 2012, respectively.

The Board consists of two members appointed by each member county from its County Board for terms of one year each. Rainbow Rider is a joint venture with no county having control over the Board. Each county has an ongoing responsibility to provide funding for the operating costs of the Board allocated in accordance with the actual expenses incurred by representatives of the respective counties on the Board.

The joint powers agreement remains in force until any single county notifies the other parties of its intentions to withdraw, at least 90 days before the termination takes effect. The remaining counties may agree to continue the agreement with the remaining counties as members. During 2016, Traverse County contributed \$7,204 to Rainbow Rider.

Complete financial information can be obtained from:

Rainbow Rider
P. O. Box 136
Lowry, Minnesota 56349

PrimeWest Rural Minnesota Health Care Access Initiative

The PrimeWest Central County-Based Purchasing Initiative (since renamed PrimeWest Rural Minnesota Health Care Access Initiative) was established in December 1998 by a joint powers agreement with Big Stone, Douglas, Grant, McLeod, Meeker, Pipestone, Pope, Renville, Stevens, and Traverse Counties under the authority of Minn. Stat.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

PrimeWest Rural Minnesota Health Care Access Initiative (Continued)

§ 471.59. Beltrami, Clearwater, and Hubbard Counties were later added to the PrimeWest Rural Minnesota Health Care Access Initiative. Pipestone County has since joined Southwest Health and Human Services for public health and human services functions. The partnership is organized to directly purchase health care services for county residents who are eligible for Medical Assistance and General Assistance Medical Care as authorized by Minn. Stat. § 256B.692. County-based purchasing is the local control alternative favored for improved coordination of services to prepaid Medical Assistance programs in complying with Minnesota Department of Health requirements as set forth in Minn. Stat. chs. 62D and 62N.

Control of the PrimeWest Rural Minnesota Health Care Access Initiative is vested in a Joint Powers Board, composed of two Commissioners from each member county (one active and one alternate). Each member of the Joint Powers Board is appointed by the County Commissioners of the county represented.

In the event of termination of the joint powers agreement, all assets owned pursuant to this agreement shall be sold, and the proceeds, together with monies on hand, will be distributed to the current members based on their proportional share of each member's county-based purchasing eligible population.

Douglas County acts as fiscal agent for the PrimeWest Rural Minnesota Health Care Access Initiative and reports the cash transactions as an investment trust fund on its financial statements. Financing is provided by Medical Assistance and General Assistance Medical Care payments from the Minnesota Department of Human Services.

Complete financial information can be obtained from its administrative office at:

PrimeWest Rural Minnesota Health Care Access Initiative
3905 Dakota Street
Alexandria, Minnesota 56308

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Region 4 South Adult Mental Health Consortium

Pope, Douglas, Grant, Stevens, and Traverse Counties entered into a joint powers agreement creating and operating Region 4 South Adult Mental Health Consortium, pursuant to Minn. Stat. § 471.59, to provide a system of care that will serve the needs of adults with serious and persistent mental illness for the mutual benefit of each of the joint participants.

Control of the Consortium is vested in a Governing Board, which consists of each participating County's Director of Social Services, Family Services, or Human Services, as the case may be. The Governing Board operates under the ultimate authority of the Executive Commissioner Board. The Executive Commissioner Board is composed of one Commissioner of each county appointed by their respective County Board.

Any county may withdraw by providing notice to the chair of the Board 90 days prior to the date of the proposed withdrawal. Withdrawal does not act to discharge any liability incurred or chargeable to any county before the effective date of the withdrawal.

Dissolution of the Consortium shall occur by unanimous vote of the counties, or when the membership in the Consortium is reduced to less than two counties. Upon dissolution of the Consortium, the member counties shall share in the current liabilities and current financial assets, including real property, of the Consortium equally if no county has contributed during the term of the Consortium or based upon their percentage of contribution to the Consortium's budget during the period applicable to such liabilities and assets.

Financing is predominantly provided by state grants. Grant County, in a fiscal host capacity, reports the cash transactions of the Consortium as an agency fund on its financial statements.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Rural Minnesota Concentrated Employment Program, Inc. (Workforce Investment Act - Rural Minnesota Workforce Service Area 2)

The Rural Minnesota Concentrated Employment Program, Inc. (RMCEP), is a private non-profit corporation that provides workforce development services in a 19-county area in North Central and West Central Minnesota. The agency was incorporated in 1968 to operate employment and training programs which include Workforce Investment Act (WIA) services. RMCEP was established to create job training and employment opportunities for economically disadvantaged, underemployed and unemployed persons, and youthful persons in both the private and the public sector. Traverse County provided \$54,264 to this organization in 2016.

Traverse County Connections

Traverse County Connections was established in 1999 under the authority of Minn. Stat. §§ 124D.23 and 245.491. Traverse County Connections was formed as a children's mental health and family services collaborative for the purpose of providing coordinated children and family services and to create an integrated system of services for children and families with multiple and special needs. This collaborative includes Traverse County Social Services, Horizon Public Health, Wheaton Public Schools, Browns Valley Public Schools, Traverse County Court Services, the Life Center, West Central Minnesota Community Action, and Prairie Community Services.

Control of Traverse County Connections is vested in a collaborative governing board and an Executive Committee. The governing board is composed of one member and an alternate from each agency involved, except for Prairie Community Services. The governing board has revenue authority and approves the annual budget. The Executive Committee comprises a representative from each agency and a parent nominated from the area. The Executive Committee has design and policy oversight authority as well as authority over expenditures.

In the event of withdrawal from Traverse County Connections, the withdrawing party shall give a 180-day notice. The withdrawing party shall not be entitled to a refund of monies contributed to the collaborative prior to the effective date of withdrawal. The governing board shall continue to exist if the collaborative is terminated for the limited purpose of discharging the collaborative's debts and liabilities, settling its affairs, and disposing of integrated fund assets, if any.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Traverse County Connections (Continued)

Financing is provided by state and federal grants and contributions from the member parties. Traverse County, in an agent capacity, reports the cash transactions of Traverse County Connections as an agency fund on its financial statements. The County did not make a contribution to Traverse County Connections in 2016.

Viking Library System

Traverse County, along with ten cities and five other counties participates in the Viking Library System in order to establish, continue, strengthen, and improve library services in the participating cities and counties. The Viking Library System was created as a public library service in 1975 by the Counties of Douglas, Grant, Otter Tail, and Stevens, along with the Cities of Alexandria, Elbow Lake, Fergus Falls, Hancock, and Morris. Additions to the Library System included the Cities of Browns Valley, Glenwood, New York Mills, Perham, and Wheaton in 1976; Pope County in 1981, Traverse County in 1983, and the City of Pelican Rapids in 1988. In 1992, the City of Alexandria library became the Douglas County library. The Viking Library System is governed by a governing board which consists of 19 members. Each participating County Board of Commissioners appoints a resident of the county; each participating City's Library Board appoints a representative; and any library with a service area population over 15,000 has an additional representative. Currently, the City of Fergus Falls and Douglas County have additional representatives. During 2016, Traverse County provided \$32,160 to the Viking Library System.

Complete financial information can be obtained at:

Viking Library System
1915 Fir Avenue West
Fergus Falls, Minnesota 56537

Court Services - Big Stone, Grant, Stevens, Traverse, and Wilkin Counties

Big Stone, Grant, Stevens, Traverse, and Wilkin Counties participate in a joint venture to provide corrections services to the five-county area. The joint powers agreement was effective June 1, 1962.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Court Services - Big Stone, Grant, Stevens, Traverse, and Wilkin Counties (Continued)

Court services are headquartered in Wheaton, Minnesota, with office locations at the county seats of the member counties.

The two probation officers for the five-county area are appointed by three area judges, who also set the probation officer salaries. The Minnesota Department of Corrections reimburses Traverse County for a portion of the probation officer salaries. The remaining expenses are allocated to each participating county based on population. During 2016, Traverse County contributed \$28,340 to the entity.

Traverse County acts as fiscal agent. Traverse County reports the probation activity in a separate department within the General Fund.

C. Related Organization

Traverse County Housing and Redevelopment Authority

The Traverse County Housing and Redevelopment Authority (HRA) has its own governing board appointed by the Traverse County Board of Commissioners. The County's accountability for the organization does not extend beyond making the appointments. In 2013, the HRA issued \$785,000 of General Obligation Government Housing Refunding Bonds, Series 2013A, for the full advance refunding of the General Obligation Governmental Housing Refunding Bonds, Series 2005A, on behalf of Traverse County, which is responsible for making the payments.

D. Lease of Property

On December 1, 2010, Traverse County entered into a lease with LSS of Traverse, LLC (LSS), whereby LSS is renting the property of Prairieview Place and operating it as a congregate housing facility. The lease was amended on February 8, 2017, to extend the lease for an additional five-year term beginning on December 1, 2016. The lease calls for monthly payments to be made by LSS to Traverse County in amounts equal to the required debt service of Prairieview Place's debts, approximately \$8,000 per month. Prairieview Place employees became employees of LSS on December 1, 2010.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Lease of Property (Continued)

On December 1, 2010, Traverse County entered into a lease with LSS of Traverse, LLC (LSS), whereby LSS is renting the property of the Traverse Care Center and operating it as a skilled nursing facility. The lease was amended on February 8, 2017, to extend the lease for an additional five-year term beginning on December 1, 2016. The lease calls for monthly payments to be made by LSS to Traverse County in amounts equal to the required debt service of the Traverse Care Center's debts, approximately \$20,000 per month. Most Traverse Care Center employees became employees of LSS on December 1, 2010.

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REQUIRED SUPPLEMENTARY INFORMATION

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,865,371	\$ 2,865,371	\$ 2,524,171	\$ (341,200)
Special assessments	56,000	56,000	55,448	(552)
Licenses and permits	8,335	8,335	7,875	(460)
Intergovernmental	353,695	353,695	572,744	219,049
Charges for services	582,712	582,712	631,787	49,075
Fines and forfeits	-	-	6	6
Investment earnings	34,000	34,000	27,264	(6,736)
Miscellaneous	248,015	248,015	178,626	(69,389)
Total Revenues	\$ 4,148,128	\$ 4,148,128	\$ 3,997,921	\$ (150,207)
Expenditures				
Current				
General government				
Commissioners	\$ 192,543	\$ 192,543	\$ 192,820	\$ (277)
Law library	6,000	6,000	4,588	1,412
County coordinator	80,325	80,325	71,542	8,783
County auditor/treasurer	231,523	231,523	250,381	(18,858)
License bureau	89,506	89,506	87,687	1,819
County assessor	154,239	154,239	149,458	4,781
Elections	19,703	19,703	32,038	(12,335)
Accounting and auditing	49,000	49,000	47,088	1,912
Data processing	139,750	139,750	193,935	(54,185)
Attorney	110,963	110,963	115,397	(4,434)
Recorder	164,926	164,926	175,207	(10,281)
Buildings and plant	145,771	145,771	134,881	10,890
Veterans service officer	79,992	79,992	77,066	2,926
Other general government	164,137	164,137	139,259	24,878
Total general government	\$ 1,628,378	\$ 1,628,378	\$ 1,671,347	\$ (42,969)
Public safety				
Sheriff	\$ 760,569	\$ 760,569	\$ 755,586	\$ 4,983
Boat and water	3,000	3,000	833	2,167
Coroner	6,000	6,000	6,645	(645)
Enhanced 911 system	293,701	293,701	353,752	(60,051)
Jail	360,546	360,546	396,061	(35,515)
Probation officer	287,237	287,237	273,824	13,413
Civil defense	83,562	83,562	90,045	(6,483)
Total public safety	\$ 1,794,615	\$ 1,794,615	\$ 1,876,746	\$ (82,131)

The notes to the required supplementary information are an integral part of this schedule.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT A-1
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	\$ 155,738	\$ 155,738	\$ 149,635	\$ 6,103
Health				
Nursing service	\$ 74,654	\$ 74,654	\$ 75,246	\$ (592)
Culture and recreation				
County fair	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Parks	16,000	16,000	25,724	(9,724)
Regional library	44,023	44,023	44,960	(937)
Total culture and recreation	\$ 70,023	\$ 70,023	\$ 80,684	\$ (10,661)
Conservation of natural resources				
County extension	\$ 136,541	\$ 136,541	\$ 139,428	\$ (2,887)
Aquatic invasive species	-	-	500	(500)
Soil and water conservation	191,534	191,534	190,085	1,449
Weed control	52,727	52,727	53,024	(297)
Total conservation of natural resources	\$ 380,802	\$ 380,802	\$ 383,037	\$ (2,235)
Economic development				
Community development	\$ 7,800	\$ 7,800	\$ 46,266	\$ (38,466)
Debt service				
Principal	\$ -	\$ -	\$ 14,490	\$ (14,490)
Interest	-	-	284	(284)
Total debt service	\$ -	\$ -	\$ 14,774	\$ (14,774)
Total Expenditures	\$ 4,112,010	\$ 4,112,010	\$ 4,297,735	\$ (185,725)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

***EXHIBIT A-1
(Continued)***

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Excess of Revenues Over (Under) Expenditures	\$ 36,118	\$ 36,118	\$ (299,814)	\$ (335,932)
Other Financing Sources (Uses)				
Transfers out	\$ 364,000	\$ 364,000	\$ -	\$ (364,000)
Capital leases	-	-	23,543	23,543
Total Other Financing Sources (Uses)	\$ 364,000	\$ 364,000	\$ 23,543	\$ (340,457)
Net Change in Fund Balance	\$ 400,118	\$ 400,118	\$ (276,271)	\$ (676,389)
Fund Balance - January 1	3,904,126	3,904,126	3,904,126	-
Fund Balance - December 31	<u>\$ 4,304,244</u>	<u>\$ 4,304,244</u>	<u>\$ 3,627,855</u>	<u>\$ (676,389)</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-2

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,587,900	\$ 1,587,900	\$ 1,511,498	\$ (76,402)
Intergovernmental	3,335,000	3,335,000	3,869,478	534,478
Charges for services	423,000	423,000	288,587	(134,413)
Miscellaneous	85,000	85,000	32,133	(52,867)
Total Revenues	\$ 5,430,900	\$ 5,430,900	\$ 5,701,696	\$ 270,796
Expenditures				
Current				
Highways and streets				
Administration	\$ 299,800	\$ 299,800	\$ 376,094	\$ (76,294)
Authorized work	45,423	45,423	20,393	25,030
Engineering	55,867	55,867	61,162	(5,295)
Construction	2,593,109	2,593,109	2,246,197	346,912
Maintenance	2,062,370	2,062,370	1,710,346	352,024
Equipment maintenance and shops	594,738	594,738	652,889	(58,151)
Material and services for resale	5,573	5,573	45,066	(39,493)
Total highways and streets	\$ 5,656,880	\$ 5,656,880	\$ 5,112,147	\$ 544,733
Intergovernmental				
Highways and streets	-	-	259,588	(259,588)
Total Expenditures	\$ 5,656,880	\$ 5,656,880	\$ 5,371,735	\$ 285,145
Net Change in Fund Balance	\$ (225,980)	\$ (225,980)	\$ 329,961	\$ 555,941
Fund Balance - January 1	(409,867)	(409,867)	(409,867)	-
Increase (decrease) in inventories	-	-	1,183	1,183
Fund Balance - December 31	\$ (635,847)	\$ (635,847)	\$ (78,723)	\$ 557,124

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 503,918	\$ 503,918	\$ 512,183	\$ 8,265
Intergovernmental	1,156,522	1,156,522	1,182,830	26,308
Charges for services	10,468	10,468	11,478	1,010
Miscellaneous	144,994	144,994	170,354	25,360
Total Revenues	\$ 1,815,902	\$ 1,815,902	\$ 1,876,845	\$ 60,943
Expenditures				
Current				
Human services				
Income maintenance	\$ 633,635	\$ 633,635	\$ 667,768	\$ (34,133)
Social services	1,182,267	1,182,267	1,338,723	(156,456)
Total Expenditures	\$ 1,815,902	\$ 1,815,902	\$ 2,006,491	\$ (190,589)
Net Change in Fund Balance	\$ -	\$ -	\$ (129,646)	\$ (129,646)
Fund Balance - January 1	1,704,793	1,704,793	1,704,793	-
Fund Balance - December 31	\$ 1,704,793	\$ 1,704,793	\$ 1,575,147	\$ (129,646)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-4

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

Governmental Activities

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2009	\$ -	\$ 8,043,747	\$ 8,043,747	0.00%	\$ 2,117,166	379.93%
January 1, 2011	-	7,669,790	7,669,790	0.00	2,541,642	301.77
January 1, 2014	-	6,487,794	6,487,794	0.00	2,892,233	224.32

Business-Type Activities

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2009	\$ -	\$ 3,049,073	\$ 3,049,073	0.00%	\$ 1,278,309	238.52%
January 1, 2011	-	2,441,583	2,441,583	0.00	-	N/A
January 1, 2014	-	1,937,688	1,937,688	0.00	-	N/A

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-5

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Traverse County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.0370%	\$ 3,004,216	\$ 39,254	\$ 3,043,470	\$ 2,285,768	131.43%	68.91%
2015	0.0364	1,886,437	N/A	1,886,437	2,141,011	88.11	78.19

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-6

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 186,551	\$ 186,551	\$ -	\$ 2,487,346	7.50%
2015	162,109	162,109	-	2,161,449	7.50

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-7

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.032%	\$ 1,284,216	\$ 300,196	427.79%	63.88%
2015	0.032	363,595	296,162	122.77	86.61

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-8

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 54,138	\$ 54,138	\$ -	\$ 334,185	16.20%
2015	46,325	46,325	-	285,958	16.20

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-9

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.23%	\$ 840,222	\$ 430,324	195.25%	58.16%
2015	0.23	35,558	405,161	8.78	96.95

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-10

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 40,380	\$ 40,380	\$ -	\$ 461,489	8.75%
2015	35,184	35,184	-	402,101	8.75

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund, special revenue funds, and the Jail/LEC Debt Service Fund. The expenditure budget is approved at the fund level.

The budgets may be amended or modified at any time by the County Board. Expenditures may not legally exceed budgeted appropriations. Comparisons of final budgeted revenues and expenditures to actual are presented in the required supplementary information for the General Fund and special revenue funds.

2. Budget Basis of Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles.

3. Budget Amendments

The County did not amend the budgets for the General Fund, any of the special revenue funds, or the Jail/LEC Debt Service Fund.

4. Excess of Expenditures Over Budget

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

	Expenditures	Final Budget	Excess
General Fund	\$ 4,297,735	\$ 4,112,010	\$ 185,725
Social Services Special Revenue Fund	2,006,491	1,815,902	190,589

5. Other Postemployment Benefits - Funded Status

Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets to pay the actuarial accrued liability for postemployment benefits is zero.

See Note 4.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Other Postemployment Benefits - Significant Plan Provisions and Actuarial Assumption Changes

2011

The County obtained an actuarial valuation as of January 1, 2011. Since the actuarial valuation as of January 1, 2009, the following plan provisions have changed:

Plan Provisions

- Surviving spouses are no longer eligible for the post-retirement medical subsidy after the participant deceases. The surviving spouse can remain on the medical plan, if they pay the full blended/group rate premium.
- A retiree previously valued with a post-65 implicit rate subsidy and direct subsidized medical benefit is now valued with a direct subsidized medical benefit only, as the retiree is now on a Medicare Senior Gold Supplement Plan.
- Traverse Care Center and Prairieview Place employees are no longer included in the GASB 45 valuation for Traverse County except for eligible “grandfathered” retirees.

2014

The County obtained an actuarial valuation as of January 1, 2014. Since the actuarial valuation as of January 1, 2011, the following plan provisions and actuarial assumptions have changed:

Plan Provisions

- The County no longer contributes to a Health Reimbursement Account (HRA) for active or retired employees.

Actuarial Assumptions

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality table was updated from RP 2000 rates (with Blue Collar adjustment for Police and Fire Personnel) to the RP 2000 Combined Healthy Table projected to 2014 with Scale BB (with Blue Collar adjustment for Police and Fire Personnel).

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Other Postemployment Benefits - Significant Plan Provisions and Actuarial Assumption Changes

2014

Actuarial Assumptions (Continued)

- The discount rate was changed from 4.50 to 4.00 percent.
- Claim costs were developed by age adjusting the premium information from Traverse County. As of January 1, 2011, actual claims and enrollment experience was used.

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

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

General Employees Retirement Plan

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

Public Employees Police and Fire Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

Public Employees Police and Fire Plan (Continued)

- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Correctional Plan

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

SUPPLEMENTARY INFORMATION

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
JAIL/LEC DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 172,558	\$ 172,558	\$ 168,814	\$ (3,744)
Investment earnings	-	-	13,809	13,809
Total Revenues	<u>\$ 172,558</u>	<u>\$ 172,558</u>	<u>\$ 182,623</u>	<u>\$ 10,065</u>
Expenditures				
Debt service				
Principal	\$ 120,000	\$ 120,000	\$ 115,000	\$ 5,000
Interest	77,558	77,558	111,213	(33,655)
Administrative charges	-	-	1,083	(1,083)
Total Expenditures	<u>\$ 197,558</u>	<u>\$ 197,558</u>	<u>\$ 227,296</u>	<u>\$ (29,738)</u>
Net Change in Fund Balance	<u>\$ (25,000)</u>	<u>\$ (25,000)</u>	<u>\$ (44,673)</u>	<u>\$ (19,673)</u>
Fund Balance - January 1	<u>1,764,150</u>	<u>1,764,150</u>	<u>1,764,150</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 1,739,150</u></u>	<u><u>\$ 1,739,150</u></u>	<u><u>\$ 1,719,477</u></u>	<u><u>\$ (19,673)</u></u>

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

AGENCY FUNDS

School Districts - to account for the collection and payment of funds due to school districts.

State Revenue - to account for the state's share of collections and their payment to the state.

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

Towns and Cities - to account for the collection and payment of funds due to towns and cities and special taxing districts.

Traverse County Connections - to account for the receipt and payment of federal, state, and local grants and membership contributions for the Children's Mental Health and Family Services Collaborative.

Employee Flex - to account for the collection and payment of the employees flex benefit account.

Communities United in Partnership - to account for the receipt of a grant from the Blandin Foundation for projects in the Cities of Browns Valley, Dumont, Tintah, and Wheaton.

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT C-1

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,517,051	\$ 1,517,051	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,517,051	\$ 1,517,051	\$ -
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 5,380	\$ 548,246	\$ 636,858	\$ (83,232)
Prepaid taxes	-	84,740	-	84,740
Total Assets	\$ 5,380	\$ 632,986	\$ 636,858	\$ 1,508
<u>Liabilities</u>				
Due to other governments	\$ 5,380	\$ 632,986	\$ 636,858	\$ 1,508
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 59,260	\$ 9,707,363	\$ 9,627,221	\$ 139,402
<u>Liabilities</u>				
Due to other governments	\$ 59,260	\$ 9,707,363	\$ 9,627,221	\$ 139,402

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT C-1
(Continued)**

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ (4,568)	\$ 2,993,518	\$ 2,993,501	\$ (4,551)
<u>Liabilities</u>				
Due to other governments	\$ (4,568)	\$ 2,993,518	\$ 2,993,501	\$ (4,551)
 <u>TRAVERSE COUNTY CONNECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 16,628	\$ 16,423	\$ 29,825	\$ 3,226
<u>Liabilities</u>				
Due to other governments	\$ 16,628	\$ 16,423	\$ 29,825	\$ 3,226
 <u>EMPLOYEE FLEX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 6,717	\$ 50,302	\$ 53,316	\$ 3,703
<u>Liabilities</u>				
Due to other governments	\$ 6,717	\$ 50,302	\$ 53,316	\$ 3,703

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT C-1
(Continued)**

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>COMMUNITIES UNITED IN PARTNERSHIP</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 11,663</u>	<u>\$ -</u>	<u>\$ 11,663</u>	<u>\$ -</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 11,663</u>	<u>\$ -</u>	<u>\$ 11,663</u>	<u>\$ -</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 95,080	\$ 14,832,903	\$ 14,869,435	\$ 58,548
Prepaid taxes	<u>-</u>	<u>84,740</u>	<u>-</u>	<u>84,740</u>
Total Assets	<u><u>\$ 95,080</u></u>	<u><u>\$ 14,917,643</u></u>	<u><u>\$ 14,869,435</u></u>	<u><u>\$ 143,288</u></u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 95,080</u>	<u>\$ 14,917,643</u>	<u>\$ 14,869,435</u>	<u>\$ 143,288</u>

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OTHER SCHEDULE

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT D-1

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

Appropriations and Shared Revenue

State

Highway users tax	\$	3,298,967
Market value credit		117,616
PERA rate reimbursement		16,482
Disparity reduction aid		18,519
Police aid		41,906
County program aid		119,381
Enhanced 911		78,978
Select Committee on Recycling and the Environment (SCORE)		68,710
Aquatic invasive species aid		28,704
		28,704

Total appropriations and shared revenue **\$ 3,789,263**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	109,256
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Local

City of Wheaton		73,309
		73,309

Total reimbursement for services **\$ 182,565**

Payments

Local

Local contributions	\$	85,196
Payments in lieu of taxes		23,701
		23,701

Total payments **\$ 108,897**

Grants

State

Minnesota Department of Corrections	\$	11,145
Public Safety		25,086
Transportation		331,972
Natural Resources		1,754
Human Services		344,954
Veterans Affairs		7,500
Water and Soil Resources Board		87,090
		87,090

Total state **\$ 809,501**

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT D-1
(Continued)**

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

Grants (Continued)

Federal

Department of

Agriculture

\$ 59,314

Education

210,570

Health and Human Services

384,927

Homeland Security

80,015

Total federal

\$ 734,826

Total state and federal grants

\$ 1,544,327

Total Intergovernmental Revenue

\$ 5,625,052

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
Traverse County
Wheaton, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Traverse County, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 23, 2017.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other items that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 2006-003 to be a material weakness and items 1996-003 and 2016-001 to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that Traverse County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*, except as described in the Schedule of Findings and Recommendations as item 2016-002. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

Included in the Schedule of Findings and Recommendations is a management practices comment. We believe this recommendation to be of benefit to the County, and it is reported for that purpose. Also included in the Schedule of Findings and Recommendations is an unresolved other matter described as item 2015-003.

Traverse County's Response to Findings

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

October 23, 2017

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 1996-003

Segregation of Duties

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

Condition: Several of the County's departments that collect fees lack proper segregation of duties. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Context: Due to the limited number of office personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Traverse County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

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

Cause: The County indicated that because of the small size of staff and because of unexpected staff absences, it is difficult to properly segregate duties.

Recommendation: We recommend that the County's elected officials and management be aware of the lack of segregation of duties of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are implemented by staff to the extent possible.

View of Responsible Official: Acknowledged

Finding Number 2006-003

Audit Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: Material adjustments were identified by auditors that resulted in significant changes to the County's financial statements.

Context: The inability to make all necessary accrual adjustments or to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. These adjustments were identified during the audit process; however, independent external auditors cannot be considered part of the County's internal control.

Effect: The following audit adjustments were reviewed and approved by management and are reflected in the financial statements:

Road and Bridge Special Revenue Fund

- Increased due from other governments and related deferred inflows of resources--unavailable revenue to eliminate \$245,081 reductions in each account's balances.
- Increased deferred inflows of resources--advance from other governments and decreased shared intergovernmental revenue--highway users tax by \$245,081.

Prairieview Place Enterprise Fund

- Reclassified debt principal payments of \$65,000 from an expense to a reduction of the 2013A general obligation bonds payable liability.
- Decreased accrued interest payable and interest expense by \$7,063 for accrued interest due in January 2017 but paid in December 2016 on the 2013A general obligation bonds.

Cause: Procedures were not in place to consider the full extent of all entries needed for financial reporting.

Recommendation: We recommend County staff review their financial statement closing procedures and trial balances and journal entries in detail to ensure that all significant adjustments have been made that are considered necessary to fairly present the County's financial statements in accordance with generally accepted accounting principles.

View of Responsible Official: Acknowledged

ITEM ARISING THIS YEAR

Finding Number 2016-001

Bank Reconciliations and Reconciliations of Treasury Cash and Investment Balances to IFS Balances

Criteria: Reconciliations are control activities designed to provide reasonable assurance that material errors will be prevented and detected in a timely manner and involve the comparison of records or balances from different sources. Effective reconciliations properly account for any differences between the records or balances. This includes investigating why the differences exist and resolving them in a timely manner. Documentation resolving any differences should be retained.

Condition: While testing the County's bank reconciliations for May and December of 2016, we identified five accounts in May and two accounts in December that did not reconcile to the ending Treasury balance recorded at the end of the each month. In addition, the total Treasury cash and pooled investment balance did not reconcile to cash and pooled investments in the general ledger, or Integrated Financial System (IFS), for both months tested.

Context: Performing bank reconciliations and reconciling the total month-end Treasury balances to the IFS system balances are tools to help ensure bank account and the cash and pooled investment records are complete and accurate, and are controls designed to detect and allow for correction of, errors or irregularities on a timely basis.

Effect: When accounting records are not reconciled properly, there is an increased risk that errors or irregularities will not be detected in a timely manner.

Cause: The County uses Quickbooks to manage its Treasury cash balances. Certain reconciling transactions were backdated in Quickbooks, in effect changing book balances previously reconciled to. No new bank reconciliations or month-end reconciliations between Quickbooks and IFS were performed.

Recommendation: We recommend that bank reconciliations for all accounts be performed timely. If the ending cash balance changes, a new reconciliation should be performed. We further recommend the County timely reconcile Treasury cash and pooled

investment balances in Quickbooks to the IFS system total cash and pooled investment balance. Adjustments for differences should be made as necessary so that reconciled amounts agree.

View of Responsible Official: Concur

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding Number 2016-002

Monitoring Financial Health - Road and Bridge Special Revenue Fund

Criteria: Minn. Stat. § 385.04, requires that the payment of expenditures be made only if money is available in the fund for that purpose. Minn. Stat. § 385.32 permits temporary fund transfers but only with the approval of the Board and Auditor/Treasurer. Minn. Stat. § 385.31 permits temporary transfer without Board approval but requires the funds be transferred back as soon as they become available. Only the Board is authorized to make a permanent fund transfer under Minn. Stat. § 375.18, subd. 7.

Regarding fund balances, the Minnesota Office of the State Auditor recommends that at year-end, local governments maintain an unrestricted fund balance in their General Fund and special revenue funds of approximately 35 to 50 percent of fund operating revenues, or no less than five months of operating expenditures. The adequacy of unrestricted fund balance should be assessed based on an individual local government's own circumstances. If the local government's unrestricted fund balance is less than or greater than the recommended level, the local government should be able to explain the reason for the difference.

Condition: The Road and Bridge Special Revenue Fund had a deficit cash balance at the end of the following months during 2016:

- January (\$78,113),
- April (\$96,367),
- August (\$72,469),
- September (\$335,014),

- October (\$16,982), and
- November (\$439).

Additionally, the Road and Bridge Special Revenue Fund's unrestricted fund balance were deficits of \$400,089 and \$517,194 as of December 31, 2016 and 2015, respectively. Expenditures were \$5,371,735 and \$8,782,839 for the years ended December 31, 2016 and 2015, respectively.

Context: The Road and Bridge Special Revenue Fund is used to account for tax revenue levied, intergovernmental state and federal grants, and operating costs for the road and bridge function of Traverse County.

Effect: The Road and Bridge Special Revenue Fund is not in compliance with Minn. Stat. §§ 385.04, 385.32, and 385.31. By allowing a deficit balance, cash is essentially being used from other funds for purposes that were not budgeted or otherwise approved by the County Board for those funds.

Cause: In recent years, taxes levied for the Road and Bridge Special Revenue Fund have not been sufficient to cover program function costs, and the County has experienced timing differences when state aid reimbursements are received for eligible project costs.

Recommendation: We recommend Traverse County maintain a positive cash balance in the Road and Bridge Special Revenue Fund. If costs incurred exceed available cash, the County should approve a temporary or permanent transfer of cash from another fund. The County may want to consider whether improvements need to be made to more accurately budget and/or project cash flows for the Road and Bridge Special Revenue Fund.

View of Responsible Official: Acknowledged

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 1997-005

Prairieview Place and Traverse Care Center Deficit Net Position

Criteria: Assets and deferred outflows of resources should exceed liabilities in order for the County to meet its obligations and maintain a positive net position.

Condition: As of December 31, 2016, the assets and deferred outflows of resources in the County's Prairieview Place Enterprise Fund and Traverse Care Center Enterprise Fund did not exceed liabilities, resulting in deficit net position.

Context: As of December 31, 2016, the Prairieview Place Enterprise Fund had a deficit net position of \$180,286, which is an increase in net position from the \$221,374 deficit reported in the prior year. As of December 31, 2016, the Traverse Care Center Enterprise Fund had a deficit net position of \$959,728, which is a decrease in net position from the \$828,456 deficit reported in the prior year.

Effect: A fund with a deficit net position does not have sufficient assets to meet its financial obligations or liabilities.

Cause: The net position in the County's Prairieview Place Enterprise Fund increased by \$41,088 in 2016; nonoperating revenues of \$97,122 were offset by operating expenses of \$47,136 and interest expense on debt of \$8,898. The County's Traverse Care Center Enterprise Fund's net position balance decreased by \$131,272 in 2016; operating revenues of \$17,673 and nonoperating revenues of \$229,619 were offset by operating expenses of \$319,532 and nonoperating expenses of \$59,032.

Recommendation: We recommend that the County monitor fund net position and eliminate the deficit net position by increasing revenues or appropriating sufficient funds to cover expenses.

View of Responsible Official: Acknowledged

C. OTHER MATTER

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2015-003

Activities Allowed and Unallowed, Allowable Costs/Cost Principles, and Reporting

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award No. 05-1605MNADM, 2016

Pass-Through Agency: Minnesota Department of Human Services

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: During our audit, we reviewed ten representative charges and the allocation of the County Coordinator's payroll expenditures submitted to the Minnesota Department of Human Services (DHS) for reimbursement. We identified five claims totaling \$2,446 and payroll expenditures of \$5,366 that provided benefit to all functions of the County but were not allocated across the benefitting County functions. These claims were submitted in aggregate for reimbursement to DHS on the County's DHS-2550 and DHS-2556 quarterly reports.

We performed an analysis and spread the unallowable claims over several of the other DHS programs and arrived at an estimate of the unallowable costs for the Medical Assistance Program in a manner identical to the method used during the 2015 audit.

Questioned Costs: \$1,075.

Context: Total unallowable claims of \$7,812 were submitted to DHS for reimbursement on the County's DHS-2550 and DHS-2556 quarterly reports, resulting in \$1,075 of estimated questioned costs for the program.

Effect: The County received reimbursement for unallowable costs.

Cause: County staff was unaware that claims related to benefitting functions of the County other than Human Services were unallowable.

Recommendation: We recommend that claims for County-wide activities be allocated to benefitting functions, or be included in the County's cost allocation plan, to ensure that the DHS-2550 and DHS-2556 quarterly reports submitted to DHS are complete and accurate.

View of Responsible Official: Acknowledged

III. PREVIOUSLY REPORTED ITEMS RESOLVED

2012-001 Accounting Policies and Procedures Manual
2015-001 Subrecipient Monitoring (CFDA No. 84.287)
2015-002 Reporting (CFDA No. 84.287)

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**REPRESENTATION OF TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

Finding Number: 1996-003

Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action:

Kit Johnson, County Auditor/Treasurer

Corrective Action Planned:

Traverse County management is aware of the segregation of duties issues that arise as a result of our small department staff sizes. Traverse County will continually assess these areas and implement internal controls when possible to help alleviate this issue.

Anticipated Completion Date:

Ongoing

Finding Number: 2006-003

Finding Title: Audit Adjustments

Name of Contact Person Responsible for Corrective Action:

Kit Johnson, County Auditor/Treasurer

Corrective Action Planned:

Traverse County staff will work to ensure that financial statements are prepared in accordance with generally accepted accounting principles.

Anticipated Completion Date:

For financial statements to be completed as of December 31, 2017

Finding Number: 2016-001

Finding Title: Bank Reconciliations and Reconciliations of Treasury Cash and Investment Balances to IFS Balances

Name of Contact Person Responsible for Corrective Action:

Kit Johnson, County Auditor/Treasurer

Corrective Action Planned:

Traverse County has a relatively new staff member in place that performs this function. She is aware of the serious nature of how corrections affect year-end (as well as regular monthly) bank reconciliations and will make sure these adjustments do not affect already reconciled statements. We are also looking at a different system for reconciling our statements.

Anticipated Completion Date:

Starting around August 2017

Finding Number: 2016-002

Finding Title: Monitoring Financial Health - Road and Bridge Special Revenue Fund

Name of Contact Person Responsible for Corrective Action:

Kit Johnson, County Auditor/Treasurer

Corrective Action Planned:

Traverse County will make transfers/loans from other funds to make sure Road and Bridge does not run into a negative balance.

Anticipated Completion Date:

October 2017

Finding Number: 1997-005

Finding Title: Prairieview Place and Traverse Care Center Deficit Net Position

Name of Contact Person Responsible for Corrective Action:

Kit Johnson, County Auditor/Treasurer

Corrective Action Planned:

Traverse County management is fully aware of the financial condition of Prairieview Place and the Traverse Care Center. Traverse County is currently leasing both facilities and hopes that the relationship with the tenant will continue to work well for both parties and the residents of Traverse County, eventually lowering the debt and solving this issue.

Anticipated Completion Date:

2030

Finding Number: 2015-003

Finding Title: Activities Allowed and Unallowed, Allowable Costs/Cost Principles, and Reporting

Program: Medical Assistance Program (CFDA No. 93.778)

Name of Contact Persons Responsible for Corrective Action:

Kit Johnson, County Auditor/Treasurer; Marg Schmitz, Financial Assistance Supervisor

Corrective Action Planned:

Agency has already corrected the Director/Coordinator split in question and all quarterly reports have been resubmitted to DHS and agency received a check from the County Auditor/Treasurer's office on June 19, 2017, for \$5,366. For the \$2,446 in claims, agency received a check from the County Auditor/Treasurer's office on June 9, 2017, for reimbursement of these expenses, and quarterly reports were completed and submitted to DHS on June 16, 2017.

Anticipated Completion Date:

Completed

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**REPRESENTATION OF TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

Finding Number: 1996-003

Finding Title: Segregation of Duties

Summary of Condition: Several of the County's departments that collect fees lack proper segregation of duties. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Summary of Corrective Action Previously Reported: Traverse County management is aware of the segregation of duties issues that arise as a result of our small department staff sizes. Traverse County will continually assess these areas and implement internal controls when possible to help alleviate this issue.

Status: Not Corrected. Please see Corrective Action Plan for explanation.

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

Yes _____ No X

Finding Number: 2006-003

Finding Title: Audit Adjustments

Summary of Condition: Material audit adjustments were identified that resulted in significant changes to the County's financial statements.

Summary of Corrective Action Previously Reported: Traverse County staff will work to ensure that financial statements are prepared in accordance with generally accepted accounting principles.

Status: Not Corrected. Please see Corrective Action Plan for explanation.

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

Yes _____ No X

Finding Number: 2012-001

Finding Title: Accounting Policies and Procedures Manual

Summary of Condition: The County does not have approved guidelines or instructions to follow in the form of a current and comprehensive accounting policies and procedures manual.

Summary of Corrective Action Previously Reported: Traverse County is in the process of putting together an accounting policies and procedures manual.

Status: Fully Corrected. Corrective action was taken.

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

Yes _____ No X

Finding Number: 2015-001

Finding Title: Subrecipient Monitoring

Program: Twenty-First Century Community Learning Centers (CFDA No. 84.287)

Summary of Condition: The County passed federal funding for the Twenty-First Century Community Learning Centers to subrecipients, including the Browns Valley and Wheaton School Districts. The County does not have subrecipient monitoring policies and procedures in place.

Summary of Corrective Action Previously Reported: Traverse County will establish a related policy and will monitor all subrecipient transactions, including attaching required information to those vendor warrants.

Status: Fully Corrected. Corrective action was taken.

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

Yes _____ No X

Finding Number: 2015-002

Finding Title: Reporting

Program: Twenty-First Century Community Learning Centers (CFDA No. 84.287)

Summary of Condition: The official grant award notification identifies the deadline for submitting required financial reporting forms. In addition, reimbursement requests may be made no more frequently than once per month and must be made no less frequently than quarterly. The County submitted one financial reporting form after the required deadline and submitted one financial reporting form requesting reimbursement for four of the previous months' expenditures. Nine financial reporting forms related to the audit period were examined.

Summary of Corrective Action Previously Reported: Traverse County staff will implement controls to make sure reporting will be completed in a timely manner.

Status: Fully Corrected. Corrective action was taken.

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

Yes _____ No X

Finding Number: 2015-003

Finding Title: Activities Allowed and Unallowed, Allowable Costs/Cost Principles, and Reporting

Program: Medical Assistance Program (CFDA No. 93.778)

Summary of Condition: A number of charges for claims and payroll submitted to the Minnesota Department of Human Services (DHS) for reimbursement provided benefit to all functions of the County but were not allocated across the benefitting County functions. Additionally, one claim submitted to DHS for reimbursement on the County's DHS-2550 and DHS-2556 quarterly reports had already been reported in a previous period. Unallowable costs (questioned costs) charged to the Medical Assistance Program were estimated to be \$12,563.

Summary of Corrective Action Previously Reported: DHS will be reimbursed for these costs. The 2550 and 2556 quarterly reports will be revised. Traverse County Social Services staff will make sure they do not allocate bills entirely to specific programs that actually benefit the entire County going forward.

Status: Not Corrected. Please see Corrective Action Plan for explanation.

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

Yes _____ No X

Finding Number: 1997-005

Finding Title: Prairieview Place and Traverse Care Center Deficit Net Position

Summary of Condition: As of December 31, 2015, the assets and deferred outflows of resources in the County's Prairieview Place Enterprise Fund and Traverse Care Center Enterprise Fund did not exceed liabilities, resulting in deficit net position.

Summary of Corrective Action Previously Reported: Traverse County management is fully aware of the financial condition of Prairieview Place and the Traverse Care Center. Traverse County is currently leasing both facilities and hopes that the relationship with the tenant will continue to work well for both parties and the residents of Traverse County, eventually lowering the debt and solving this issue.

Status: Not Corrected. Please see Corrective Action Plan for explanation.

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

Yes _____ No X