

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

TRAVERSE COUNTY
WHEATON, MINNESOTA

YEAR ENDED DECEMBER 31, 2015

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 700 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, 2015



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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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WHEATON, MINNESOTA**

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2015

			<u>Term Expires</u>
Elected			
Commissioners			
Board Member	Todd Johnson	District 1	January 2019
Chair	Kevin Leininger	District 2	January 2017
Board Member	Mark Gail	District 3	January 2019
Vice Chair	David Salberg	District 4	January 2017
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 2017
County Engineer	Larry Haukos		May 2019
Coroner	Stanley Gallagher, D.O.		January 2017
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, 2015, 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, 2015, 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.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2015 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

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 GASB, 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 September 20, 2016, 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Traverse County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 20, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015
(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, 2015. 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 \$40,691,249, of which \$37,784,331 is the net investment in capital assets. Of the governmental activities' net position, \$2,345,382 is restricted to specific purposes/uses by the County, and \$561,536 is unrestricted.
- Business-type activities (Traverse Care Center and Prairieview Place) have a deficit total net position of (\$1,049,830), of which there is a negative net investment in capital assets balance of (\$784,558).
- Traverse County's net position decreased by \$245,596 for the year ended December 31, 2015. Of the decrease, \$96,937 was in the governmental activities' net position, while the business-type activities' net position decreased by \$148,659.
- The net cost of Traverse County's governmental activities for the year ended December 31, 2015, was \$5,103,554. General revenues totaling \$5,006,617 funded the net cost.
- Traverse County's governmental funds' fund balances increased by \$381,144 in 2015. This net increase consisted of a \$331,208 increase in the General Fund, a decrease of \$1,117,429 in the Road and Bridge Special Revenue Fund, a decrease of \$423,486 in the Social Services Special Revenue Fund, and an increase of \$1,590,851 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 accrual basis of accounting, with the difference 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 Level 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 28 through 86 of this report.

Other Information

Other information is provided as supplementary information regarding Traverse County's intergovernmental revenue and federal awards programs.

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 2014 is presented.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Assets						
Current and other assets	\$ 8,635,933	\$ 10,053,645	\$ 955,468	\$ 1,046,998	\$ 9,591,401	\$ 11,100,643
Capital assets	41,253,805	37,742,196	2,884,286	3,108,947	44,138,091	40,851,143
Total Assets	\$ 49,889,738	\$ 47,795,841	\$ 3,839,754	\$ 4,155,945	\$ 53,729,492	\$ 51,951,786
Deferred Outflows of Resources						
Deferred pension outflows	\$ 395,413	\$ -	\$ -	\$ -	\$ 395,413	\$ -
Deferred charges on bond refunding	-	-	81,537	81,537	81,537	81,537
Total Deferred Outflows of Resources	\$ 395,413	\$ -	\$ 81,537	\$ 81,537	\$ 476,950	\$ 81,537
Liabilities						
Long-term liabilities	\$ 8,145,146	\$ 4,088,749	\$ 4,936,897	\$ 5,100,056	\$ 13,082,043	\$ 9,188,805
Other liabilities	1,173,424	819,331	34,224	38,597	1,207,648	857,928
Total Liabilities	\$ 9,318,570	\$ 4,908,080	\$ 4,971,121	\$ 5,138,653	\$ 14,289,691	\$ 10,046,733
Deferred Inflows of Resources						
Deferred pension inflows	\$ 275,332	\$ -	\$ -	\$ -	\$ 275,332	\$ -
Net Position						
Net investment in capital assets	\$ 37,784,331	\$ 35,820,361	\$ (784,558)	\$ (703,599)	\$ 36,999,773	\$ 35,116,762
Restricted	2,345,382	3,113,748	-	-	2,345,382	3,113,748
Unrestricted	561,536	3,953,652	(265,272)	(197,572)	296,264	3,756,080
Total Net Position, as reported	\$ 40,691,249	\$ 42,887,761	\$ (1,049,830)	\$ (901,171)	\$ 39,641,419	\$ 41,986,590
Change in Accounting Principle*		(2,099,575)		-		(2,099,575)
Total Net Position, as restated		\$ 40,788,186		\$ (901,171)		\$ 39,887,015

*This is the first year the County implemented the new pension accounting and financial reporting standards, GASB Statements 68, 71, and 82. The County had to make a prior year change in accounting principles to record the County's net pension liability and related deferred outflows of resources.

Traverse County's total net position as of December 31, 2015, is \$39,641,419. The governmental activities' unrestricted net position totaling \$561,536 is available to finance the day-to-day operations of the governmental activities of the County. The business-related activities of the County face a deficit unrestricted net position of (\$265,272).

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues						
Fees, fines, and charges	\$ 952,047	\$ 1,445,695	\$ 16,869	\$ 16,774	\$ 968,916	\$ 1,462,469
Operating grants and contributions	5,381,502	4,232,496	-	-	5,381,502	4,232,496
Capital grants and contributions	368,893	706,746	-	40,000	368,893	746,746
General revenues						
Property taxes	4,527,863	4,583,503	-	-	4,527,863	4,583,503
Other taxes	2,217	5,081	-	-	2,217	5,081
Grants, gifts, and miscellaneous	476,537	430,798	318,465	349,782	795,002	780,580
Total Revenues	\$ 11,709,059	\$ 11,404,319	\$ 335,334	\$ 406,556	\$ 12,044,393	\$ 11,810,875
Expenses						
General government	\$ 1,751,502	\$ 1,549,969	\$ -	\$ -	\$ 1,751,502	\$ 1,549,969
Public safety	1,833,917	1,926,145	-	-	1,833,917	1,926,145
Highways and streets	5,335,456	3,995,062	-	-	5,335,456	3,995,062
Sanitation	153,867	152,727	-	-	153,867	152,727
Human services	2,135,075	1,752,322	-	-	2,135,075	1,752,322
Health	74,634	74,217	-	-	74,634	74,217
Culture and recreation	70,264	82,490	-	-	70,264	82,490
Conservation of natural resources	355,727	387,287	-	-	355,727	387,287
Economic development	9,571	7,985	-	-	9,571	7,985
Interest	85,983	76,798	-	-	85,983	76,798
Traverse Care Center	-	-	380,876	398,020	380,876	398,020
Prairieview Place	-	-	103,117	113,570	103,117	113,570
Total Expenses	\$ 11,805,996	\$ 10,005,002	\$ 483,993	\$ 511,590	\$ 12,289,989	\$ 10,516,592
Increase (Decrease) in Net Position	\$ (96,937)	\$ 1,399,317	\$ (148,659)	\$ (105,034)	\$ (245,596)	\$ 1,294,283
Net Position - January 1, as restated	40,788,186*	41,488,444	(901,171)	(796,137)	39,887,015*	40,692,307
Net Position - December 31	\$ 40,691,249	\$ 42,887,761	\$ (1,049,830)	\$ (901,171)	\$ 39,641,419	\$ 41,986,590

*Amount includes a change in accounting principles.

The County's activities decreased net position by 0.62 percent (\$39,641,419 for 2015 compared to \$39,887,015 for 2014).

Governmental Activities

The cost of all governmental activities in 2015 was \$11,805,996. 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 \$5,006,617, because some of the cost was paid by those who directly benefited from the programs (\$952,047) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,750,395).

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	
	2015	2014	2015	2014
Highways and streets	\$ 5,335,456	\$ 3,995,062	\$ 1,157,749	\$ (158,050)
Human services	2,135,075	1,752,322	821,776	607,404
Public safety	1,833,917	1,926,145	1,096,660	1,297,956
General government	1,751,502	1,549,969	1,549,028	1,308,706
Conservation of natural resources	355,727	387,287	255,988	292,730
All others	394,319	394,217	222,353	271,319
Total	<u>\$ 11,805,996</u>	<u>\$ 10,005,002</u>	<u>\$ 5,103,554</u>	<u>\$ 3,620,065</u>

Business-Type Activities

Revenues for Traverse County's business-type activities (see Table 2) were \$335,334, and expenses were \$483,993.

The County's Funds

Upon completing the year, Traverse County's governmental funds' fund balance increased by \$381,144. This increase was due to an increase of \$331,208 in the General Fund, a decrease of \$1,117,429 in the Road and Bridge Special Revenue Fund, a decrease of \$423,486 in the Social Services Special Revenue Fund, and an increase of \$1,590,851 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.

Actual revenues exceeded budgeted revenues in the General Fund by \$318,703, primarily due to intergovernmental revenues of \$393,058 over projections. These were primarily offset by charges for services revenue of \$49,985, and special assessments revenue of \$31,320, under the projected totals.

Actual expenditures were more than budgeted expenditures in the General Fund by \$23,427.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2015, Traverse County had \$44,138,091 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 \$3,286,948, or 8.05 percent, from the previous year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Land	\$ 189,281	\$ 182,981	\$ 16,175	\$ 16,175	\$ 205,456	\$ 199,156
Right-of-way	962,548	962,548	-	-	962,548	962,548
Construction in progress	22,094	-	-	-	22,094	-
Buildings	3,020,531	3,110,199	2,826,997	3,042,691	5,847,528	6,152,890
Land improvements	83,406	76,907	452	616	83,858	77,523
Machinery, furniture, and equipment	1,594,835	1,816,067	40,662	49,465	1,635,497	1,865,532
Infrastructure	35,381,110	31,593,494	-	-	35,381,110	31,593,494
Totals	<u>\$ 41,253,805</u>	<u>\$ 37,742,196</u>	<u>\$ 2,884,286</u>	<u>\$ 3,108,947</u>	<u>\$ 44,138,091</u>	<u>\$ 40,851,143</u>

Long-Term Debt

As of December 31, 2015, Traverse County had \$7,770,000 in long-term obligations, compared with \$6,490,000 as of December 31, 2014--an increase of 19.72 percent due to the issuance of General Obligation Crossover Refunding Bonds, Series 2015A--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
General obligation bonds	\$ 3,370,000	\$ 1,885,000	\$ 1,525,000	\$ 1,575,000	\$ 4,895,000	\$ 3,460,000
Revenue bonds	-	-	2,875,000	3,030,000	2,875,000	3,030,000
Totals	<u>\$ 3,370,000</u>	<u>\$ 1,885,000</u>	<u>\$ 4,400,000</u>	<u>\$ 4,605,000</u>	<u>\$ 7,770,000</u>	<u>\$ 6,490,000</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. As a result, Traverse County's property tax levy will be only \$12,979 higher in 2016 than the 2008 levy of \$4,767,529.

Traverse County's Board of Commissioners settled on a final 2016 levy of \$4,780,508, an increase of 4.00 percent from the 2015 levy of \$4,596,816.

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, 2015**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 5,967,773	\$ 216,475	\$ 6,184,248
Cash with escrow agent	1,577,682	738,993	2,316,675
Taxes receivable			
Delinquent	73,845	-	73,845
Accounts receivable	1,969	-	1,969
Due from other governments	884,676	-	884,676
Inventories	45,460	-	45,460
Prepaid items	84,528	-	84,528
Noncurrent assets			
Capital assets			
Non-depreciable	1,173,923	16,175	1,190,098
Depreciable - net of accumulated depreciation	40,079,882	2,868,111	42,947,993
Total Assets	\$ 49,889,738	\$ 3,839,754	\$ 53,729,492
<u>Deferred Outflows of Resources</u>			
Deferred pension outflows	\$ 395,413	\$ -	\$ 395,413
Deferred charges on bond refunding	-	81,537	81,537
Total Deferred Outflows of Resources	\$ 395,413	\$ 81,537	\$ 476,950

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	Governmental Activities	Business-Type Activities	Total
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 249,762	\$ 126	\$ 249,888
Salaries payable	129,351	-	129,351
Due to other governments	183,636	-	183,636
Contracts payable	404,775	-	404,775
Accrued interest payable	33,934	34,098	68,032
Unearned revenue	171,966	-	171,966
Compensated absences payable - current	192,654	-	192,654
General obligation bonds payable - current	115,000	740,000	855,000
Revenue bonds payable - current	-	165,000	165,000
Leases payable - current	8,603	-	8,603
Noncurrent liabilities			
Compensated absences payable	95,779	-	95,779
Other postemployment benefits	2,101,649	492,210	2,593,859
Net pension liability	2,285,590	-	2,285,590
General obligation bonds payable	1,686,769	787,264	2,474,033
General obligation crossover bonds payable	1,637,400	-	1,637,400
Revenue bonds payable	-	2,752,423	2,752,423
Leases payable	21,702	-	21,702
	\$ 9,318,570	\$ 4,971,121	\$ 14,289,691
<u>Deferred Inflows of Resources</u>			
Deferred pension inflows	\$ 275,332	\$ -	\$ 275,332
<u>Net Position</u>			
Net investment in capital assets	\$ 37,784,331	\$ (784,558)	\$ 36,999,773
Restricted for			
Public safety	55,321	-	55,321
Highways and streets	216,933	-	216,933
Sanitation	171,616	-	171,616
Debt service	1,731,858	-	1,731,858
Conservation of natural resources	41,788	-	41,788
Other purposes	127,866	-	127,866
Unrestricted	561,536	(265,272)	296,264
	\$ 40,691,249	\$ (1,049,830)	\$ 39,641,419

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, 2015**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Governmental activities		
General government	\$ 1,751,502	\$ 171,331
Public safety	1,833,917	438,773
Highways and streets	5,335,456	146,884
Sanitation	153,867	56,331
Human services	2,135,075	86,648
Health	74,634	33,803
Culture and recreation	70,264	12,140
Conservation of natural resources	355,727	6,137
Economic development	9,571	-
Interest	85,983	-
Total governmental activities	\$ 11,805,996	\$ 952,047
Business-type activities		
Traverse Care Center	\$ 380,876	\$ 16,869
Prairieview Place	103,117	-
Total business-type activities	\$ 483,993	\$ 16,869
Total	\$ 12,289,989	\$ 968,916

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, as restated
(Note 1.E.)**

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
\$ 31,143	\$ -	\$ (1,549,028)	\$ -	\$ (1,549,028)
298,484	-	(1,096,660)	-	(1,096,660)
3,661,930	368,893	(1,157,749)	-	(1,157,749)
69,692	-	(27,844)	-	(27,844)
1,226,651	-	(821,776)	-	(821,776)
-	-	(40,831)	-	(40,831)
-	-	(58,124)	-	(58,124)
93,602	-	(255,988)	-	(255,988)
-	-	(9,571)	-	(9,571)
-	-	(85,983)	-	(85,983)
\$ 5,381,502	\$ 368,893	\$ (5,103,554)	\$ -	\$ (5,103,554)
\$ -	\$ -	\$ -	\$ (364,007)	\$ (364,007)
-	-	-	(103,117)	(103,117)
\$ -	\$ -	\$ -	\$ (467,124)	\$ (467,124)
\$ 5,381,502	\$ 368,893	\$ (5,103,554)	\$ (467,124)	\$ (5,570,678)
		\$ 4,527,863	\$ -	\$ 4,527,863
		2,217	-	2,217
		316,499	-	316,499
		23,906	-	23,906
		31,969	2,816	34,785
		104,163	315,649	419,812
		\$ 5,006,617	\$ 318,465	\$ 5,325,082
		\$ (96,937)	\$ (148,659)	\$ (245,596)
		40,788,186	(901,171)	39,887,015
		\$ 40,691,249	\$ (1,049,830)	\$ 39,641,419

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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, 2015**

	<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	\$ 3,923,092	\$ 160,017	\$ 1,631,407	\$ 182,770	\$ 5,897,286
Petty cash and change funds	1,400	-	100	-	1,500
Undistributed cash in agency funds	43,025	18,375	4,870	2,717	68,987
Cash with escrow agent	-	-	-	1,577,682	1,577,682
Taxes receivable					
Delinquent	45,288	19,663	6,095	2,799	73,845
Accounts receivable	164	1,772	33	-	1,969
Due from other funds	37,326	7,017	64,968	-	109,311
Due from other governments	128,773	543,625	212,278	-	884,676
Inventories	-	45,460	-	-	45,460
Prepaid items	59,368	-	25,160	-	84,528
Total Assets	<u>\$ 4,238,436</u>	<u>\$ 795,929</u>	<u>\$ 1,944,911</u>	<u>\$ 1,765,968</u>	<u>\$ 8,745,244</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 39,601	\$ 145,695	\$ 64,466	\$ -	\$ 249,762
Salaries payable	66,428	35,785	27,138	-	129,351
Contracts payable	-	404,775	-	-	404,775
Due to other funds	71,880	5,067	32,364	-	109,311
Due to other governments	124,824	16,388	42,424	-	183,636
Unearned revenue	-	118,322	53,644	-	171,966
Total Liabilities	<u>\$ 302,733</u>	<u>\$ 726,032</u>	<u>\$ 220,036</u>	<u>\$ -</u>	<u>\$ 1,248,801</u>
Deferred Inflows of Resources					
Unavailable revenue	<u>\$ 31,577</u>	<u>\$ 479,764</u>	<u>\$ 20,082</u>	<u>\$ 1,818</u>	<u>\$ 533,241</u>

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, 2015**

	<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	\$ -	\$ 45,460	\$ -	\$ -	\$ 45,460
Prepaid items	59,368	-	25,160	-	84,528
Restricted for					
Recorder's equipment	66,450	-	-	-	66,450
Recorder's compliance fund	61,416	-	-	-	61,416
Enhanced 911	55,321	-	-	-	55,321
Invasive species aid	41,788	-	-	-	41,788
Solid waste assessments	171,616	-	-	-	171,616
Debt service	-	-	-	1,764,150	1,764,150
Highway allotments	-	61,867	-	-	61,867
Assigned to					
Capital projects	894,443	-	-	-	894,443
Social services	-	-	1,679,633	-	1,679,633
Unassigned	2,553,724	(517,194)	-	-	2,036,530
Total Fund Balances	\$ 3,904,126	\$ (409,867)	\$ 1,704,793	\$ 1,764,150	\$ 6,963,202
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 4,238,436	\$ 795,929	\$ 1,944,911	\$ 1,765,968	\$ 8,745,244

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015**

Fund balance - total governmental funds (Exhibit 3)	\$	6,963,202
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.		41,253,805
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds.		395,413
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		533,241
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (3,439,169)	
Capital leases	(30,305)	
Compensated absences	(288,433)	
Net pension liability	(2,285,590)	
Accrued interest payable	(33,934)	
Other postemployment benefits	(2,101,649)	(8,179,080)
		<hr/>
Deferred inflows of resources resulting from pension obligations are not due and payable in the current period, and, therefore, are not reported in governmental funds.		(275,332)
		<hr/>
Net Position of Governmental Activities (Exhibit 1)	\$	<u>40,691,249</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Jail/LEC Debt Service</u>	<u>Total</u>
Revenues					
Taxes	\$ 2,747,955	\$ 1,303,440	\$ 342,013	\$ 192,937	\$ 4,586,345
Special assessments	56,331	-	-	-	56,331
Licenses and permits	7,545	-	-	-	7,545
Intergovernmental	729,299	6,126,229	1,228,098	-	8,083,626
Charges for services	527,591	223,532	13,548	-	764,671
Fines and forfeits	189	-	-	-	189
Investment earnings	31,629	-	-	340	31,969
Miscellaneous	227,002	24,412	69,451	-	320,865
Total Revenues	\$ 4,327,541	\$ 7,677,613	\$ 1,653,110	\$ 193,277	\$ 13,851,541
Expenditures					
Current					
General government	\$ 1,586,474	\$ -	\$ -	\$ -	\$ 1,586,474
Public safety	1,782,481	-	-	-	1,782,481
Highways and streets	-	8,532,194	-	-	8,532,194
Sanitation	144,439	-	-	-	144,439
Human services	-	-	2,076,596	-	2,076,596
Health	74,634	-	-	-	74,634
Culture and recreation	69,316	-	-	-	69,316
Conservation of natural resources	351,817	-	-	-	351,817
Economic development	9,571	-	-	-	9,571
Intergovernmental	-	250,645	-	-	250,645
Debt service					
Principal	13,236	-	-	110,000	123,236
Interest	292	-	-	91,324	91,616
Administrative charges	-	-	-	450	450
Bond issuance costs	-	-	-	41,585	41,585
Total Expenditures	\$ 4,032,260	\$ 8,782,839	\$ 2,076,596	\$ 243,359	\$ 15,135,054
Excess of Revenues Over (Under) Expenditures	\$ 295,281	\$ (1,105,226)	\$ (423,486)	\$ (50,082)	\$ (1,283,513)
Other Financing Sources (Uses)					
Bonds issued	\$ -	\$ -	\$ -	\$ 1,595,000	\$ 1,595,000
Premium on bonds issued	-	-	-	45,933	45,933
Capital leases	35,927	-	-	-	35,927
Total Other Financing Sources (Uses)	\$ 35,927	\$ -	\$ -	\$ 1,640,933	\$ 1,676,860

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

***EXHIBIT 5
(Continued)***

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Jail/LEC Debt Service</u>	<u>Total</u>
Net Change in Fund Balance	\$ 331,208	\$ (1,105,226)	\$ (423,486)	\$ 1,590,851	\$ 393,347
Fund Balance - January 1	3,572,918	707,562	2,128,279	173,299	6,582,058
Increase (decrease) in inventories	-	(12,203)	-	-	(12,203)
Fund Balance - December 31	<u>\$ 3,904,126</u>	<u>\$ (409,867)</u>	<u>\$ 1,704,793</u>	<u>\$ 1,764,150</u>	<u>\$ 6,963,202</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, 2015**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 393,347

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.

Deferred inflows of resources - December 31	\$ 533,241	
Deferred inflows of resources - January 1	<u>(2,686,190)</u>	(2,152,949)

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	\$ 4,948,455	
Current year depreciation	<u>(1,436,846)</u>	3,511,609

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	\$ 110,000	
Capital leases	<u>13,236</u>	123,236

New debt issued (see Notes 3.C.7. and 3.C.8. for more information)		(1,676,860)
--	--	-------------

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	16,183	
Change in other postemployment benefits	(239,351)	
Change in net pension liability, as restated	(70,405)	
Change in deferred outflows of resources, as restated	279,803	
Change in deferred inflows of resources	(275,332)	
Change in inventories	<u>(12,203)</u>	<u>(295,320)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ (96,937)

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

PROPRIETARY FUNDS

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2015**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 14,155	\$ 202,320	\$ 216,475
Cash with escrow agent	738,993	-	738,993
Total current assets	\$ 753,148	\$ 202,320	\$ 955,468
Noncurrent assets			
Capital assets			
Nondepreciable	\$ -	\$ 16,175	\$ 16,175
Depreciable - net of accumulated depreciation	560,481	2,307,630	2,868,111
Total noncurrent assets	\$ 560,481	\$ 2,323,805	\$ 2,884,286
Total Assets	\$ 1,313,629	\$ 2,526,125	\$ 3,839,754
<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, 2015**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ -	\$ 126	\$ 126
Accrued interest payable	7,063	27,035	34,098
General obligation bonds payable - current	740,000	-	740,000
Revenue bonds payable - current	-	165,000	165,000
Total current liabilities	\$ 747,063	\$ 192,161	\$ 939,224
Noncurrent liabilities			
Other postemployment benefits	\$ 676	\$ 491,534	\$ 492,210
General obligation bonds payable - long-term	787,264	-	787,264
Revenue bonds payable - long-term	-	2,752,423	2,752,423
Total noncurrent liabilities	\$ 787,940	\$ 3,243,957	\$ 4,031,897
Total Liabilities	\$ 1,535,003	\$ 3,436,118	\$ 4,971,121
<u>Net Position</u>			
Net investment in capital assets	\$ (230,054)	\$ (554,504)	\$ (784,558)
Unrestricted	8,680	(273,952)	(265,272)
Total Net Position	\$ (221,374)	\$ (828,456)	\$ (1,049,830)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Operating Revenues			
Miscellaneous	\$ -	\$ 16,869	\$ 16,869
Operating Expenses			
Employee benefits and payroll taxes	\$ -	\$ 138,645	\$ 138,645
Professional services	3,750	2,059	5,809
Depreciation	45,471	179,190	224,661
Total Operating Expenses	\$ 49,221	\$ 319,894	\$ 369,115
Operating Income (Loss)	\$ (49,221)	\$ (303,025)	\$ (352,246)
Nonoperating Revenues (Expenses)			
Interest income	\$ 2,816	\$ -	\$ 2,816
Lease revenue	94,213	221,436	315,649
Interest expense	(53,896)	(60,982)	(114,878)
Total Nonoperating Revenues (Expenses)	\$ 43,133	\$ 160,454	\$ 203,587
Income (Loss) Before Transfers	\$ (6,088)	\$ (142,571)	\$ (148,659)
Transfers in	84,078	-	84,078
Transfers out	-	(84,078)	(84,078)
Change in Net Position	\$ 77,990	\$ (226,649)	\$ (148,659)
Net Position - January 1	(299,364)	(601,807)	(901,171)
Net Position - December 31	\$ (221,374)	\$ (828,456)	\$ (1,049,830)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015
Increase (Decrease) in Cash and Cash Equivalents**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Cash Flows from Operating Activities			
Receipts from customers and users	\$ -	\$ 16,617	\$ 16,617
Payments to suppliers and employees	(4,600)	(96,951)	(101,551)
Nonoperating revenue received	94,200	221,436	315,636
Net cash provided by (used in) operating activities	\$ 89,600	\$ 141,102	\$ 230,702
Cash Flows from Capital and Related Financing Activities			
Principal paid on long-term debt	\$ (50,000)	\$ (155,000)	\$ (205,000)
Interest paid on long-term debt	(53,613)	(66,435)	(120,048)
Net cash provided by (used in) capital and related financing activities	\$ (103,613)	\$ (221,435)	\$ (325,048)
Cash Flows from Investing Activities			
Interest received	\$ 2,816	\$ -	\$ 2,816
Proceeds received from investment maturities	-	35,000	35,000
Net cash provided by (used in) investing activities	\$ 2,816	\$ 35,000	\$ 37,816
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (11,197)	\$ (45,333)	\$ (56,530)
Cash and Cash Equivalents at January 1	764,345	247,653	1,011,998
Cash and Cash Equivalents at December 31	\$ 753,148	\$ 202,320	\$ 955,468
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating income (loss)	\$ (49,221)	\$ (303,025)	\$ (352,246)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	\$ 45,471	\$ 179,190	\$ 224,661
Nonoperating revenue received	94,213	221,436	315,649
Increase (decrease) in accounts payable	(850)	(898)	(1,748)
Increase (decrease) in other postemployment benefits	(13)	44,399	44,386
Total adjustments	\$ 138,821	\$ 444,127	\$ 582,948
Net Cash Provided by (Used in) Operating Activities	\$ 89,600	\$ 141,102	\$ 230,702

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

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FIDUCIARY FUNDS

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2015**

Assets

Cash and pooled investments	<u>\$ 95,080</u>
-----------------------------	------------------

Liabilities

Due to other governments	<u>\$ 95,080</u>
--------------------------	------------------

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2015. 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, Jointly-Governed Organizations, and Related Organization

The County participates in joint ventures described in Note 6.B. The County also participates in jointly-governed organizations and a related organization described in Note 6.C. and Note 6.D., respectively.

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.E. 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.E. 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 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, short-term investments with original maturities of three months or less from the date of acquisition, and cash with escrow agent.

Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw 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, 2015, based on market prices. 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 2015 were \$31,629.

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 2009 through 2015 and deferred special assessments payable in 2016 and after. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments.

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

The County had no accounts receivable scheduled to be collected beyond one year.

**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, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), 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 estimated fair value at 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 annual 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 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 sick leave balances.

**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 through the General Fund and other governmental funds that have personal services.

**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 and the differences between projected and actual earnings on pension plan investments 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 two types of deferred inflows. The governmental funds report unavailable revenue from delinquent taxes receivable and grant monies receivable, for amounts that are not considered to be available to liquidate liabilities in the current period. Unavailable revenue arises only under a 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 changes in proportionate share and, accordingly, are reported only in the statement of net position.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Unearned/Unavailable 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. Governmental funds report unavailable revenue in connection with the receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

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:

- 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.

**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)

- 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, 2015, 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 and liabilities 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.

E. Change in Accounting Principles

During the year ended December 31, 2015, the County adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, requires governments providing defined benefit pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Change in Accounting Principles (Continued)

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, modifies the measure of payroll that is presented in the required supplementary information schedules.

GASB Statements 68 and 71 require the County to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the County's net pension liability of (\$2,215,185) and related deferred outflows of resources of \$115,610.

	Governmental Activities
Net Position, January 1, 2015, as previously reported	\$ 42,887,761
Change in accounting principles	(2,099,575)
Net Position, January 1, 2015, as restated	\$ 40,788,186

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, 2015:

Expenditures	Final Budget	Excess
\$ 243,359	\$ 197,138	\$ 46,221

B. Deficit Fund Balance

The Road and Bridge Special Revenue Fund had a deficit fund balance of \$409,867 at December 31, 2015. This deficit will be eliminated by future state aid revenue collections.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

2. Stewardship, Compliance, and Accountability (Continued)

C. Deficit Net Position

The following funds had deficit net position as of December 31, 2015:

Prairieview Place Enterprise Fund	\$ 221,374
Traverse Care Center Enterprise Fund	828,456

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	\$ 5,967,773
Cash with escrow agent	1,577,682
Business-type activities	
Cash and pooled investments	216,475
Cash with escrow agent	738,993
Statement of fiduciary net position	
Cash and pooled investments	<u>95,080</u>
Total Cash and Investments	<u>\$ 8,596,003</u>

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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

a. Deposits (Continued)

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, 2015, the County’s deposits were not exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

- (2) mutual funds through shares of registered investment companies provided the mutual fund receives 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 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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

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. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. As of December 31, 2015, 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 (Continued)

The following table presents the County's deposit and investment balances at December 31, 2015, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Negotiable certificates of deposit with brokers					
Union Bank	N/A	N/A	<5%	02/28/2017	\$ 20,000
HSBC Bank	N/A	N/A	<5%	05/01/2017	100,000
GE Capital Retail	N/A	N/A	>5%	06/08/2018	202,202
Comenity Bank	N/A	N/A	<5%	10/21/2019	99,451
Goldman Sachs Bank USA	N/A	N/A	<5%	01/14/2020	100,764
Total negotiable certificates of deposit with brokers					\$ 522,417
Investment pools/mutual funds					
Federated U.S. Government Fund	N/A	N/A	<5%	N/A	\$ 39,939
Money Market	N/A	N/A	>5%	N/A	2,316,675
MAGIC Fund	N/A	N/A	<5%	N/A	6,569
Total investment pools/mutual funds					\$ 2,363,183
Total investments					\$ 2,885,600
Checking					4,334,740
Savings					679,284
Certificates of deposit					694,879
Change funds					1,500
Total Cash and Investments					\$ 8,596,003

N/A - Not Applicable

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

2. Receivables

Receivables as of December 31, 2015, for the County's governmental activities and business-type activities are as follows:

	Governmental Activities	Business-Type Activities
Taxes	\$ 73,845	\$ -
Accounts receivable	1,969	-
Due from other governments	884,676	-
Total Receivables	\$ 960,490	\$ -

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

3. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 182,981	\$ 6,300	\$ -	\$ 189,281
Right-of-way	962,548	-	-	962,548
Construction in progress	-	22,094	-	22,094
Total capital assets not depreciated	\$ 1,145,529	\$ 28,394	\$ -	\$ 1,173,923
Capital assets depreciated				
Buildings	\$ 5,330,120	\$ 30,329	\$ -	\$ 5,360,449
Land improvements	142,670	16,574	-	159,244
Machinery, furniture, and equipment	4,972,867	105,693	34,688	5,043,872
Infrastructure	44,224,955	4,767,465	-	48,992,420
Total capital assets depreciated	\$ 54,670,612	\$ 4,920,061	\$ 34,688	\$ 59,555,985

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

3. Capital Assets

Governmental Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 2,219,921	\$ 119,997	\$ -	\$ 2,339,918
Land improvements	65,763	10,075	-	75,838
Machinery, furniture, and equipment	3,156,800	326,925	34,688	3,449,037
Infrastructure	12,631,461	979,849	-	13,611,310
Total accumulated depreciation	<u>\$ 18,073,945</u>	<u>\$ 1,436,846</u>	<u>\$ 34,688</u>	<u>\$ 19,476,103</u>
Total capital assets depreciated, net	<u>\$ 36,596,667</u>	<u>\$ 3,483,215</u>	<u>\$ -</u>	<u>\$ 40,079,882</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 37,742,196</u></u>	<u><u>\$ 3,511,609</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 41,253,805</u></u>

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	\$ -	\$ -	\$ 6,398,048
Land improvements	43,938	-	-	43,938
Machinery, furniture, and equipment	550,477	-	-	550,477
Total capital assets depreciated	<u>\$ 6,992,463</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,992,463</u>
Less: accumulated depreciation for				
Buildings	\$ 3,355,357	\$ 215,694	\$ -	\$ 3,371,051
Land improvements	43,322	164	-	43,486
Machinery, furniture, and equipment	501,012	8,803	-	509,815
Total accumulated depreciation	<u>\$ 3,899,691</u>	<u>\$ 224,661</u>	<u>\$ -</u>	<u>\$ 4,124,352</u>
Total capital assets depreciated, net	<u>\$ 3,092,772</u>	<u>\$ (224,661)</u>	<u>\$ -</u>	<u>\$ 2,868,111</u>
Business-Type Activities Capital Assets, Net	<u><u>\$ 3,108,947</u></u>	<u><u>\$ (224,661)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,884,286</u></u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

3. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	114,966
Public safety		70,519
Highways and streets, including depreciation of infrastructure assets		1,240,629
Human services		6,358
Sanitation		3,426
Culture and recreation		948
		948
Total Depreciation Expense - Governmental Activities	\$	1,436,846
Business-Type Activities		
Traverse Care Center	\$	179,190
Prairieview Place		45,471
		45,471
Total Depreciation Expense - Business-Type Activities	\$	224,661

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2015, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Special Revenue Fund Social Services Special Revenue Fund	\$ 5,067 32,259
Total General Fund		\$ 37,326
Road and Bridge Special Revenue Fund	General Fund Social Services Special Revenue Fund	\$ 6,912 105
Total Road and Bridge Special Revenue Fund		\$ 7,017
Social Services Special Revenue Fund	General Fund	\$ 64,968
Total Due To/Due From Other Funds		\$ 109,311

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

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. The balances are expected to be liquidated in the subsequent year.

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2015, consisted of the following:

Transfer from Traverse Care Center Enterprise Fund to the Prairieview Place Enterprise Fund	\$	84,078	For payment of debt issued
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C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2015, were as follows:

	Governmental Activities	Business-Type Activities
Accounts payable	\$ 249,762	\$ 126
Salaries payable	129,351	-
Due to other governments	183,636	-
Contracts payable	404,775	-
Accrued interest payable	33,934	34,098
Total Payables	\$ 1,001,458	\$ 34,224

**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

Unearned revenues and deferred inflows of resources consist of taxes, state and federal grants, charge for service revenues, and miscellaneous 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, 2015, are summarized below by fund:

	<u>Taxes</u>	<u>Grants</u>	<u>Other</u>	<u>Total</u>
Governmental funds				
General Fund	\$ 31,577	\$ -	\$ -	\$ 31,577
Special Revenue Funds				
Road and Bridge	13,013	585,073	-	598,086
Social Services	4,321	63,973	5,432	73,726
Jail/LEC Debt Service	1,818	-	-	1,818
Total	<u>\$ 50,729</u>	<u>\$ 649,046</u>	<u>\$ 5,432</u>	<u>\$ 705,207</u>
Liability				
Unearned revenue	\$ -	\$ 171,966	\$ -	\$ 171,966
Deferred inflows of resources				
Unavailable revenue	50,729	477,080	5,432	533,241
Total	<u>\$ 50,729</u>	<u>\$ 649,046</u>	<u>\$ 5,432</u>	<u>\$ 705,207</u>

3. Construction Commitments

The County had no active construction projects as of December 31, 2015. Construction commitments for highway projects are state-funded and, therefore, not obligations of the County.

4. Leases

Capital Leases

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, 2015:

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Leases (Continued)

<u>Leases</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
Governmental Activities					
2010 phone system	2015	Monthly	\$ 1,285	\$ 69,101	\$ -
Recorder - copier	2019	Monthly	1,307	5,604	5,036
2015 GMC Sierra	2020	Monthly	7,581	30,323	<u>25,269</u>
Total Governmental Activities Capital Leases					<u>\$ 30,305</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, 2015, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2016	\$ 8,888
2017	8,887
2018	8,887
2019	3,834
2020	544
Less: amount representing interest	<u>(735)</u>
Net Present Value of Minimum Lease Payments	<u>\$ 30,305</u>

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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

5. Long-Term Debt

Governmental Activities (Continued)

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2015</u>
General obligation bonds					
2006A G.O. Jail Bonds	2027	\$50,000 - \$185,000	4.00 - 4.25	\$ 2,515,000	\$ 1,775,000
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>69,169</u>
Total General Obligation Bonds, Net					<u>\$ 3,439,169</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, 2015
2005A G.O. Governmental Housing Refunding Bonds	2026	\$30,000 - \$85,000	5.00	\$ 1,190,000	\$ 740,000
2013A G.O. Governmental Housing Refunding Bonds	2027	\$65,000 - \$80,000	1.05 - 2.50	785,000	785,000
Add: unamortized premium					5,196
Less: unamortized discount					(2,932)
Total G.O. Bonds, Net					<u>\$ 1,527,264</u>
2012A G.O. Nursing Home Revenue Refunding Bonds	2030	\$160,000 - \$225,000	0.00 - 2.80	\$ 3,350,000	\$ 2,875,000
Add: unamortized premium					42,423
Total Revenue Refunding Bonds, Net					<u>\$ 2,917,423</u>

6. Debt Service Requirements

Debt service requirements at December 31, 2015, 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
2016	\$ 115,000	\$ 70,450	\$ -	\$ 40,763
2017	1,660,000	65,750	-	40,763
2018	-	-	140,000	39,013
2019	-	-	145,000	35,450
2020	-	-	150,000	31,763
2021 - 2025	-	-	805,000	100,125
2026 - 2027	-	-	355,000	9,831
Total	<u>\$ 1,775,000</u>	<u>\$ 136,200</u>	<u>\$ 1,595,000</u>	<u>\$ 297,708</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
2016	\$ 740,000	\$ 52,375	\$ 165,000	\$ 63,235
2017	65,000	13,784	170,000	59,885
2018	70,000	13,075	170,000	56,485
2019	70,000	12,340	175,000	53,035
2020	70,000	11,448	175,000	49,535
2021 - 2025	355,000	36,651	945,000	191,757
2026 - 2030	155,000	3,938	1,075,000	73,450
Total	<u>\$ 1,525,000</u>	<u>\$ 143,611</u>	<u>\$ 2,875,000</u>	<u>\$ 547,382</u>

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
G.O. bonds payable	\$ 1,885,000	\$ 1,595,000	\$ 110,000	\$ 3,370,000	\$ 115,000
Unamortized bond premium	29,221	45,933	5,985	69,169	-
Capital leases	7,614	35,927	13,236	30,305	8,603
Compensated absences	304,616	235,270	251,453	288,433	192,654
Governmental Activities					
Long-Term Liabilities	<u>\$ 2,226,451</u>	<u>\$ 1,912,130</u>	<u>\$ 380,674</u>	<u>\$ 3,757,907</u>	<u>\$ 316,257</u>

Compensated absences are liquidated by General Fund, Road and Bridge Special Revenue Fund, and the Social Services Special Revenue Fund.

**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	\$ 1,575,000	\$ -	\$ 50,000	\$ 1,525,000	\$ 740,000
Revenue bonds	3,030,000	-	155,000	2,875,000	165,000
Premium on bonds	50,447	-	2,828	47,619	-
Discount on bonds	(3,215)	-	(283)	(2,932)	-
Business-Type Activities					
Long-Term Liabilities	<u>\$ 4,652,232</u>	<u>\$ -</u>	<u>\$ 207,545</u>	<u>\$ 4,444,687</u>	<u>\$ 905,000</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 commencing August 1, 2016.

**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 Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), 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.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees 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 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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

2. Benefits Provided

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

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund 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 Fund 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 Fund and Public Employees Correctional Fund members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 55. 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 Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015. Public Employees Police and Fire Fund members were required to contribute 10.80 percent of their annual covered salary in 2015. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary in 2015.

In 2015, the County was required to contribute the following percentages of annual covered salary:

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

The General Employees Retirement Fund Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014. The Public Employees Police and Fire Fund member and employer contribution rates increased 0.60 percent and 0.90 percent, respectively, from 2014.

**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, 2015, to the pension plans were:

General Employees Retirement Fund	\$	162,109
Public Employees Police and Fire Fund		46,325
Public Employees Correctional Fund		35,184

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

4. Pension Costs

General Employees Retirement Fund

At December 31, 2015, the County reported a liability of \$1,886,437 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.0364 percent. It was 0.0392 percent measured as of June 30, 2014. The County recognized pension expense of \$218,159 for its proportionate share of the General Employees Retirement Fund's pension expense.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Fund (Continued)

The County reported its proportionate share of the General Employees Retirement Fund'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	\$ -	\$ 95,108
Difference between projected and actual investment earnings	178,580	-
Changes in proportion	-	98,647
Contributions paid to PERA subsequent to the measurement date	83,555	-
Total	\$ 262,135	\$ 193,755

The \$83,555 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, 2016. 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
2016	\$ (19,940)
2017	(19,940)
2018	(19,940)
2019	44,645

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Police and Fire Fund

At December 31, 2015, the County reported a liability of \$363,595 for its proportionate share of the Public Employees Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.032 percent. It was 0.033 percent measured as of June 30, 2014. The County recognized pension expense of \$61,286 for its proportionate share of the Public Employees Police and Fire Fund'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 Fund. Legislation requires the State of Minnesota to contribute \$9 million to the Public Employees Police and Fire Fund each year, starting in fiscal year 2014, until the plan is 90 percent funded.

The County reported its proportionate share of the Public Employees Police and Fire Fund'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	\$ -	\$ 58,963
Difference between projected and actual investment earnings	63,350	-
Changes in proportion	-	9,000
Contributions paid to PERA subsequent to the measurement date	24,032	-
Total	\$ 87,382	\$ 67,963

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Fund (Continued)

The \$24,032 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, 2016. 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>
2016	\$ 2,245
2017	2,245
2018	2,245
2019	2,245
2020	(13,593)

Public Employees Correctional Fund

At December 31, 2015, the County reported a liability of \$35,558 for its proportionate share of the Public Employees Correctional Fund's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.23 percent. It was 0.23 percent measured as of June 30, 2014. The County recognized pension expense of \$37,633 for its proportionate share of the Public Employees Correctional Fund's pension expense.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Fund (Continued)

The County reported its proportionate share of the Public Employees Correctional Fund'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	\$ -	\$ 13,614
Difference between projected and actual investment earnings	29,640	-
Contributions paid to PERA subsequent to the measurement date	16,256	-
Total	\$ 45,896	\$ 13,614

The \$16,256 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, 2016. 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
2016	\$ 2,872
2017	2,872
2018	2,872
2019	7,410

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2015, was \$317,078.

5. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.75 percent per year
Active member payroll growth	3.50 percent per year
Investment rate of return	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Fund and the Public Employees Police and Fire Fund, cost of living benefit increases for retirees are assumed to be 1.0 percent effective every January 1 through 2035 and 2037, respectively, and 2.5 percent thereafter. Cost of living benefit increases for retirees are assumed to be 2.5 percent for all years for the Public Employees Correctional Fund.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for the Public Employees Police and Fire Fund was for the period July 1 2004, through June 30, 2009. The experience study for the Public Employees Correctional Fund was for the period July 1, 2006, through June 30, 2011.

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.9 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:

<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 7.9 percent. The discount rate did not change since the prior measurement date. 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, each of the pension plan's fiduciary net position 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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

7. 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:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the General Employees Retirement Fund net pension liability	\$ 2,966,149	\$ 1,886,437	\$ 994,760
Public Employees Police and Fire Fund net pension liability	708,650	363,595	78,519
Public Employees Correctional Fund net pension liability	247,632	35,558	(134,187)

8. 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.

B. Defined Contribution Plan

Five 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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

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, 2015, were:

	Employee	Employer
Contribution amount	\$ 2,667	\$ 2,667
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.

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 2015, there were 119 participants in the plan, including 53 retirees.

The OPEB liability is liquidated through the General Fund and other governmental funds that have personal services.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

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		92,406
Adjustment to ARC		(138,048)

Annual OPEB cost (expense)	\$	619,768
Contributions made during the year		(336,031)

Increase in net OPEB obligation	\$	283,737
Net OPEB Obligation - Beginning of Year		2,310,122

Net OPEB Obligation - End of Year	\$	2,593,859

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, 2013, 2014, and 2015, were as follows:

Fiscal Year-End	Annual OPEB Cost	Annual Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2013	\$ 741,476	\$ 388,277	52.4%	\$ 1,999,709
December 31, 2014	627,249	316,836	50.5	2,310,122
December 31, 2015	619,768	336,031	54.2	2,593,859

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

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.

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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

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, 2015, was 23 years.

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, 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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

5. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$490,000 per claim in 2015 and \$500,000 in 2016. 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.

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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

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. In dissolution, the former Stevens Traverse Grant Public Health Service provided \$363,881 to fund the initial operations of Horizon Public Health. Traverse County's contribution for 2015 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

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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Rainbow Rider Transit Board (Continued)

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 2015, Traverse County contributed \$4,878 to Rainbow Rider.

Complete financial information can be obtained from:

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

West Central Area Agency on Aging

The West Central Area Agency on Aging was established June 2, 1992, by a joint powers agreement among Becker, Clay, Douglas, Grant, Otter Tail, Pope, Stevens, Traverse, and Wilkin Counties. In 2005, the Area Agency on Aging became part of a larger planning and service area covering 21 counties. This is a partnership between the Northwest Regional Development Commission, the 5-county service area of Region 2, and the West Central Area Agency on Aging. The combined area on aging, known as the Land of the Dancing Sky Area Agency on Aging, was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the elderly in the 21-county area. Each county may be assessed a proportional share of the 25 percent of the administrative costs incurred in carrying out this agreement. Each county's proportional share of this 25 percent of the administrative costs will be based upon the number of persons age 60 or older living within that county.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

West Central Area Agency on Aging (Continued)

Control is vested in the West Central Board on Aging. The Board consists of one Commissioner from each of the counties. Each member of the Board is appointed by the County Commissioners of the county represented.

Any county may withdraw by providing notice to the chair of the Board 90 days prior to the beginning of the fiscal year. The chair shall forward a copy to each of the counties. Withdrawal shall not act to discharge any liability incurred or chargeable to any county before the effective date of withdrawal.

The West Central Area Agency on Aging dissolved as of December 31, 2015. The Commissioners will remain on the Land of the Dancing Sky Area Agency on Aging governing board. West Central Area Agency on Aging staff became part of the Northwest Regional Development Commission.

Complete financial information can be obtained from:

West Central Area Agency on Aging
P. O. Box 726
Fergus Falls, Minnesota 56537

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. § 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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

PrimeWest Rural Minnesota Health Care Access Initiative (Continued)

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:

PrimeWest Rural Minnesota Health Care Access Initiative
2209 Jefferson Street, Suite 101
Alexandria, Minnesota 56308

Central Minnesota Emergency Services Board

The Central Minnesota Regional Radio Board was established in 2007, under the authority conferred upon the member parties by Minn. Stat. §§ 471.59 and 403.39. As of June 1, 2011, the Central Minnesota Regional Radio Board changed its name to the Central Minnesota Emergency Services Board. Members include the City of St. Cloud and the Counties of Benton, Big Stone, Douglas, Grant, Kandiyohi, Meeker, Mille Lacs, Morrison, Otter Tail, Pope, Sherburne, Stearns, Stevens, Swift, Todd, Traverse, Wadena, Wilkin, and Wright.

The purpose of the Central Minnesota Emergency Services Board is to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) owned and operated by the State of Minnesota.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Central Minnesota Emergency Services Board (Continued)

The Central Minnesota Emergency Services Board is composed of one Commissioner of each county appointed by its respective County Board and one City Council member from each city appointed by its respective City Council, as provided in the Central Minnesota Emergency Services Board's by-laws.

In the event of dissolution of the Central Minnesota Emergency Services Board, all property, assets, and funds of the Board shall be distributed to the parties of the agreement upon termination in direct proportion to their participation and contribution. Any city or county that has withdrawn from the agreement prior to termination of the Board shall share in the distribution of property, assets, and funds of the Board only to the extent it shared in the original expense.

The Central Minnesota Emergency Services Board has no long-term debt. Financing is provided by the appropriations from member parties and by state and federal grants. During 2015, Traverse County did not contribute to the Joint Powers Board.

Complete financial information can be obtained from:

Central Minnesota Emergency Services Board
City of St. Cloud
Office of the Mayor
City Hall
400 Second Street South
St. Cloud, Minnesota 56301

Supporting Hands Nurse Family Partnership Board

The Supporting Hands Nurse Family Partnership Board was established pursuant to Minn. Stat. §§ 145A.17 and 471.59 and a joint powers agreement, effective May 31, 2007. The Board is composed of one representative from each county to the agreement. The counties in the agreement are Big Stone, Chippewa, Douglas, Grant, Lac qui Parle, Lincoln, Lyon, McLeod, Meeker, Murray, Pipestone, Pope, Redwood, Renville, Stevens, Swift, Traverse, and Yellow Medicine. Southwest Health and Human Services represents Lincoln, Lyon, Murray, Pipestone, Redwood, and Rock Counties in this

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Supporting Hands Nurse Family Partnership Board (Continued)

agreement. Horizon Public Health represents Douglas, Grant, Pope, Stevens, and Traverse Counties in this agreement. Countryside Public Health represents Big Stone, Chippewa, Lac qui Parle, Swift, and Yellow Medicine Counties in this agreement. The purpose of this agreement is to organize, govern, plan, and administer a multi-county based Nurse Family Partnership Program specifically within the jurisdictional boundaries of the counties involved.

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2015, Traverse County did not make a contribution to the Partnership, as a contribution was made by Horizon Public Health.

McLeod County acts as fiscal agent for Supporting Hands Nurse Family Partnership Board. A complete financial report of the Supporting Hands Nurse Family Partnership Board can be obtained from McLeod County at:

Supporting Hands Nurse Family Partnership Board
McLeod County
830 - 11th Street East
Glencoe, Minnesota 55336

Land of the Dancing Sky Area Agency on Aging

The Land of the Dancing Sky Area Agency on Aging provides services to a 21-county service area. This is a partnership between the Northwest Regional Development Commission, the 5-county service area of Region 2, and the West Central Area Agency on Aging. This combined area on aging was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the elderly in the 21-county area.

The Land of the Dancing Sky umbrella board meets quarterly to discuss and approve major items such as the area plan and dollar allocations, while the advisory councils and joint powers boards of the two area agencies on aging continue to meet monthly to make decisions affecting their local counties.

**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 Programs, 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 \$41,947 to this organization in 2015.

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 Board is composed of one member and an alternate from each agency involved, except for Prairie Community Services. The 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 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 2015.

Viking Library System

Traverse County, along with 10 cities and 5 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 2015, Traverse County provided \$31,233 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 2015, 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.

Western Area City/County Co-Op

Traverse County and 24 other cities and counties entered into a joint powers agreement to establish the Western Area City/County Co-Op (WACCO) Joint Powers Board, effective September 5, 1995, and empowered under Minn. Stat. § 471.59. The purpose of WACCO is to establish a resource network that identifies common needs of the individual governmental units and reduces the financial burden on each of its members through the cooperative sharing of existing resources. The management and control of WACCO is vested in a Board of Directors composed of a representative appointed by each member city and county. During 2015, Traverse County contributed \$852 to WACCO.

District IV Transportation Planning

Traverse County and 13 other cities and counties entered into a joint powers agreement to establish the District IV Transportation Planning Joint Powers Board, effective December 11, 1996, and empowered under Minn. Stat. § 471.59. The purpose of the Board is to develop a multi-modal transportation plan for the geographical jurisdiction of the member cities and counties. The Board is composed of 14 members, with one member appointed by each member city and county.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

C. Jointly-Governed Organizations

Region Four - West Central Minnesota Homeland Security Emergency Management Organization

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

Minnesota Criminal Justice Data Communications Network

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

Southwest Minnesota Immunization Information Connection

The Southwest Minnesota Immunization Information Connection (SW-MIIC) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. Traverse County did not contribute to the SW-MIIC during 2015.

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Aitkin, Becker, Beltrami, Clay, Clearwater, Cottonwood, Douglas, Grant, Itasca, Kittson, Koochiching, Lake of the Woods, Mahnomen, Marshall, McLeod, Mille Lacs, Morrison, Norman, Otter Tail, Pennington, Polk, Pope, Red Lake, Redwood, Roseau, Stevens, Todd, Traverse, and Wadena Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, which is composed of ten directors, each with an alternate, who are appointed annually by each respective County Board. A county's responsibility does not extend beyond making this appointment.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Minnesota Red River Basin of the North Joint Powers Agreement

The Minnesota Red River Basin of the North Joint Powers Board was established November 29, 1999, by an agreement between Traverse County and 17 other counties. The agreement was made to serve as a focal point for land and water concerns for those counties surrounding the Minnesota Red River Basin. Each county is responsible for its proportionate share of the administrative budget.

Control is vested in a Joint Powers Board comprised of one Commissioner from each member county. Each member of the Board is appointed by the County Commissioners of the county represented.

In the event of termination of the agreement, any unexpended funds and surplus property shall be disposed of equally among the member counties. During 2015, Traverse County contributed \$103 to the Joint Powers Board.

Complete financial statements can be obtained from:

International Coalition for Land - Water
Stewardship in the Red River Basin
119 - 5th Street South
Moorhead, Minnesota 56561

Sentencing to Service

Traverse County, in conjunction with other local governments, participates in the State of Minnesota's Sentencing to Service (STS) program. STS is a project of the State Department of Administration's Strive Toward Excellence in Performance (STEP) program. STEP's goal is a statewide effort to make positive improvements in public services. It gives the courts an alternative to jail or fines for the nonviolent offenders who can work on a variety of community or state projects. Private funding, funds from various foundations and initiative funds, as well as the Minnesota Departments of Corrections and Natural Resources, provide the funds needed to operate the STS program. Traverse County has no operational or financial control over the STS program and does not budget for this program.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

West Central S.W.A.T. Team

The West Central S.W.A.T. Team is comprised of five County Sheriff's Offices and nine Police Departments including Lac qui Parle, Pope, Stevens, Swift, and Traverse Counties, along with the Appleton, Benson, Glenwood, Hancock, Montevideo, Morris, Starbuck, University of Minnesota Morris, and Wheaton Police Departments. The purpose of the team is to create a feasible economical way, by sharing the costs, to protect the citizens of the cities and counties involved. During the year, Traverse County contributed \$1,000 to the Team.

Stevens County is the fiscal host and reports West Central S.W.A.T. Team as an agency fund in their financial statements.

D. Related Organization

Traverse County Housing and Redevelopment Authority (HRA)

The Traverse County 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 2005, the HRA issued \$1,190,000 of General Obligation Governmental Housing Refunding Bonds on behalf of Traverse County, which is responsible for making the payments. The balance of this debt outstanding is \$786,785, net of discount. 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. Proceeds were deposited in an irrevocable trust with an escrow agent to provide partial interest payments on the General Obligation Government Housing Refunding Bonds, Series 2013A, until January 1, 2016, at which time the refunded bonds will be paid off. The principal balance of both the original issue and the refunding issue will be shown on the statement of net position until the call date of the refunded bonds, at which time the 2005 bonds will be paid, and the liability for those bonds will be removed.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

E. 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 November 5, 2013, to extend the lease for an additional three-year term beginning on December 1, 2013. 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.

On December 1, 2010, Traverse County entered into a lease with LSS of Traverse, LLC (LSS), whereby LSS is renting the property of the Care Center and operating it as a skilled nursing facility. The lease was amended on November 5, 2013, to extend the lease for an additional three-year term beginning on December 1, 2013. The lease calls for monthly payments to be made by LSS to Traverse County in amounts equal to the required debt service of the Care Center's debts, approximately \$20,000 per month. Most 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, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,731,041	\$ 2,731,041	\$ 2,747,955	\$ 16,914
Special assessments	87,651	87,651	56,331	(31,320)
Licenses and permits	11,057	11,057	7,545	(3,512)
Intergovernmental	336,241	336,241	729,299	393,058
Charges for services	577,576	577,576	527,591	(49,985)
Fines and forfeits	-	-	189	189
Investment earnings	36,000	36,000	31,629	(4,371)
Miscellaneous	229,272	229,272	227,002	(2,270)
Total Revenues	\$ 4,008,838	\$ 4,008,838	\$ 4,327,541	\$ 318,703
Expenditures				
Current				
General government				
Commissioners	\$ 228,100	\$ 228,100	\$ 187,220	\$ 40,880
Law library	6,000	6,000	4,783	1,217
County coordinator	2,000	2,000	1,462	538
County auditor/treasurer	222,343	222,343	223,932	(1,589)
License bureau	83,380	83,380	73,702	9,678
County assessor	148,857	148,857	145,832	3,025
Elections	4,585	4,585	2,675	1,910
Accounting and auditing	66,000	66,000	55,229	10,771
Data processing	151,750	151,750	113,235	38,515
Attorney	205,965	205,965	188,262	17,703
Recorder	153,875	153,875	201,286	(47,411)
Buildings and plant	155,507	155,507	129,061	26,446
Veterans service officer	68,053	68,053	78,073	(10,020)
Other general government	151,660	151,660	181,722	(30,062)
Total general government	\$ 1,648,075	\$ 1,648,075	\$ 1,586,474	\$ 61,601
Public safety				
Sheriff	\$ 656,220	\$ 656,220	\$ 704,284	\$ (48,064)
Boat and water	3,000	3,000	354	2,646
Coroner	6,000	6,000	9,896	(3,896)
Enhanced 911 system	300,760	300,760	338,734	(37,974)
Jail	354,860	354,860	357,864	(3,004)
Probation officer	275,987	275,987	252,051	23,936
Civil defense	84,448	84,448	119,298	(34,850)
Total public safety	\$ 1,681,275	\$ 1,681,275	\$ 1,782,481	\$ (101,206)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<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	\$ 143,651	\$ 143,651	\$ 144,439	\$ (788)
Health				
Nursing service	\$ 74,054	\$ 74,054	\$ 74,634	\$ (580)
Culture and recreation				
County fair	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Parks	16,228	16,228	15,293	935
Regional library	44,723	44,723	44,023	700
Total culture and recreation	\$ 70,951	\$ 70,951	\$ 69,316	\$ 1,635
Conservation of natural resources				
County extension	\$ 136,101	\$ 136,101	\$ 118,206	\$ 17,895
Soil and water conservation	195,499	195,499	184,759	10,740
Weed control	51,227	51,227	48,852	2,375
Total conservation of natural resources	\$ 382,827	\$ 382,827	\$ 351,817	\$ 31,010
Economic development				
Community development	\$ 8,000	\$ 8,000	\$ 9,571	\$ (1,571)
Debt service				
Principal	\$ -	\$ -	\$ 13,236	\$ (13,236)
Interest	-	-	292	(292)
Total debt service	\$ -	\$ -	\$ 13,528	\$ (13,528)
Total Expenditures	\$ 4,008,833	\$ 4,008,833	\$ 4,032,260	\$ (23,427)
Excess of Revenues Over (Under) Expenditures	\$ 5	\$ 5	\$ 295,281	\$ 295,276
Other Financing Sources (Uses)				
Capital leases	-	-	35,927	35,927
Net Change in Fund Balance	\$ 5	\$ 5	\$ 331,208	\$ 331,203
Fund Balance - January 1	3,572,918	3,572,918	3,572,918	-
Fund Balance - December 31	\$ 3,572,923	\$ 3,572,923	\$ 3,904,126	\$ 331,203

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,367,900	\$ 1,367,900	\$ 1,303,440	\$ (64,460)
Intergovernmental	4,627,000	4,627,000	6,126,229	1,499,229
Charges for services	140,000	140,000	223,532	83,532
Miscellaneous	85,000	85,000	24,412	(60,588)
Total Revenues	\$ 6,219,900	\$ 6,219,900	\$ 7,677,613	\$ 1,457,713
Expenditures				
Current				
Highways and streets				
Administration	\$ -	\$ -	\$ 363,034	\$ (363,034)
Authorized work	75,000	25,000	1,517	23,483
Engineering	-	-	149,062	(149,062)
Construction	3,682,000	3,682,000	4,669,708	(987,708)
Maintenance	2,635,380	2,685,380	2,669,422	15,958
Equipment maintenance and shops	42,000	42,000	532,973	(490,973)
Material and services for resale	-	-	146,478	(146,478)
Total highways and streets	\$ 6,434,380	\$ 6,434,380	\$ 8,532,194	\$ (2,097,814)
Intergovernmental				
Highways and streets	-	-	250,645	(250,645)
Total Expenditures	\$ 6,434,380	\$ 6,434,380	\$ 8,782,839	\$ (2,348,459)
Net Change in Fund Balance	\$ (214,480)	\$ (214,480)	\$ (1,105,226)	\$ (890,746)
Fund Balance - January 1	707,562	707,562	707,562	-
Increase (decrease) in inventories	-	-	(12,203)	(12,203)
Fund Balance - December 31	\$ 493,082	\$ 493,082	\$ (409,867)	\$ (902,949)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 342,399	\$ 342,399	\$ 342,013	\$ (386)
Intergovernmental	842,236	842,236	1,228,098	385,862
Charges for services	20,943	20,943	13,548	(7,395)
Miscellaneous	53,369	53,369	69,451	16,082
Total Revenues	\$ 1,258,947	\$ 1,258,947	\$ 1,653,110	\$ 394,163
Expenditures				
Current				
Human services				
Income maintenance	\$ 619,079	\$ 619,079	\$ 681,643	\$ (62,564)
Social services	789,868	789,868	1,394,953	(605,085)
Total Expenditures	\$ 1,408,947	\$ 1,408,947	\$ 2,076,596	\$ (667,649)
Net Change in Fund Balance	\$ (150,000)	\$ (150,000)	\$ (423,486)	\$ (273,486)
Fund Balance - January 1	2,128,279	2,128,279	2,128,279	-
Fund Balance - December 31	\$ 1,978,279	\$ 1,978,279	\$ 1,704,793	\$ (273,486)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2015**

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 FUND
DECEMBER 31, 2015**

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
2015	0.0364%	\$ 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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-6

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

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)
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 FUND
DECEMBER 31, 2015**

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
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 FUND
DECEMBER 31, 2015**

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)
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 FUND
DECEMBER 31, 2015**

<u>Measurement Date</u>	<u>Employer's Proportion of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</u>	<u>Covered Payroll (b)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
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 FUND
DECEMBER 31, 2015**

<u>Year Ending</u>	<u>Statutorily Required Contributions (a)</u>	<u>Actual Contributions in Relation to Statutorily Required Contributions (b)</u>	<u>Contribution (Deficiency) Excess (b-a)</u>	<u>Covered Payroll (c)</u>	<u>Actual Contributions as a Percentage of Covered Payroll (b/c)</u>
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, 2015

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund and all special revenue funds. 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 or any of the special revenue funds.

4. Excess of Expenditures Over Budget

The following individual funds had expenditures in excess of final budget for the year ended December 31, 2015:

	Expenditures	Final Budget	Excess
General Fund	\$ 4,032,260	\$ 4,008,833	\$ 23,427
Road and Bridge Special Revenue Fund	8,782,839	6,434,380	2,348,459
Social Services Special Revenue Fund	2,076,596	1,408,947	667,649

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

Plan Provisions

- Surviving spouses are no longer eligible for the postretirement 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 County Care Center and Prairieview Place employees are no longer included in the GASB 45 valuation for Traverse County except for eligible “grandfathered” retirees.

2014

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).
- 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.

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, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 197,138	\$ 197,138	\$ 192,937	\$ (4,201)
Investment earnings	-	-	340	340
Total Revenues	\$ 197,138	\$ 197,138	\$ 193,277	\$ (3,861)
Expenditures				
Debt service				
Principal	\$ 115,000	\$ 115,000	\$ 110,000	\$ 5,000
Interest	82,138	82,138	91,324	(9,186)
Administrative charges	-	-	450	(450)
Bond issuance costs	-	-	41,585	(41,585)
Total Expenditures	\$ 197,138	\$ 197,138	\$ 243,359	\$ (46,221)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (50,082)	\$ (50,082)
Other Financing Sources (Uses)				
Bonds issued	-	-	1,595,000	1,595,000
Premium on bonds issued	-	-	45,933	45,933
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 1,640,933	\$ 1,640,933
Net Change in Fund Balance	\$ -	\$ -	\$ 1,590,851	\$ 1,590,851
Fund Balance - January 1	173,299	173,299	173,299	-
Fund Balance - December 31	\$ 173,299	\$ 173,299	\$ 1,764,150	\$ 1,590,851

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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, 2015**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,254,193	\$ 1,254,193	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,254,193	\$ 1,254,193	\$ -
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 18,823	\$ 530,773	\$ 544,216	\$ 5,380
<u>Liabilities</u>				
Due to other governments	\$ 18,823	\$ 530,773	\$ 544,216	\$ 5,380
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 71,201	\$ 8,779,347	\$ 8,791,288	\$ 59,260
<u>Liabilities</u>				
Due to other governments	\$ 71,201	\$ 8,779,347	\$ 8,791,288	\$ 59,260

**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, 2015**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 1,380</u>	<u>\$ 2,601,862</u>	<u>\$ 2,607,810</u>	<u>\$ (4,568)</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 1,380</u>	<u>\$ 2,601,862</u>	<u>\$ 2,607,810</u>	<u>\$ (4,568)</u>
 <u>TRAVERSE COUNTY CONNECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 23,124</u>	<u>\$ 9,957</u>	<u>\$ 16,453</u>	<u>\$ 16,628</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 23,124</u>	<u>\$ 9,957</u>	<u>\$ 16,453</u>	<u>\$ 16,628</u>
 <u>EMPLOYEE FLEX</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 6,000</u>	<u>\$ 47,418</u>	<u>\$ 46,701</u>	<u>\$ 6,717</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 6,000</u>	<u>\$ 47,418</u>	<u>\$ 46,701</u>	<u>\$ 6,717</u>

**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, 2015**

	Balance January 1	Additions	Deductions	Balance December 31
<u>COMMUNITIES UNITED IN PARTNERSHIP</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 11,663	\$ -	\$ -	\$ 11,663
<u>Liabilities</u>				
Due to other governments	\$ 11,663	\$ -	\$ -	\$ 11,663
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 132,191	\$ 13,223,550	\$ 13,260,661	\$ 95,080
<u>Liabilities</u>				
Due to other governments	\$ 132,191	\$ 13,223,550	\$ 13,260,661	\$ 95,080

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OTHER SCHEDULES

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Appropriations and Shared Revenue

State

Highway users tax	\$	5,133,551
Market value credit		128,248
PERA rate reimbursement		16,482
Disparity reduction aid		18,576
Police aid		39,878
County program aid		121,494
Enhanced 911		72,903
Select Committee on Recycling and the Environment (SCORE)		69,692
Aquatic invasive species aid		28,819

Total appropriations and shared revenue **\$ 5,629,643**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	129,253
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Local

City of Wheaton		344,891
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Total reimbursement for services **\$ 474,144**

Payments

Local

Local contributions	\$	40,506
Payments in lieu of taxes		23,906

Total payments **\$ 64,412**

Grants

State

Minnesota Department of Corrections	\$	18,682
Public Safety		76,827
Transportation		341,266
Natural Resources		2,144
Human Services		371,473
Veterans Affairs		7,500
Water and Soil Resources Board		93,602

Total state **\$ 911,494**

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT D-1
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Grants (Continued)

Federal

Department of	
Agriculture	\$ 91,269
Commerce	645
Education	196,716
Health and Human Services	401,378
Homeland Security	313,925
	<hr/>
Total federal	\$ 1,003,933
	<hr/>
Total state and federal grants	\$ 1,915,427
	<hr/>
Total Intergovernmental Revenue	\$ 8,083,626
	<hr/> <hr/>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16162MN10152520	\$ 91,269	\$ -
U.S. Department of Commerce				
Passed Through City of St. Cloud State and Local Implementation Grant Program	11.549	SLIGP-2013- CRRB-0001	\$ 645	\$ -
U.S. Department of Education				
Passed Through Minnesota Department of Education Twenty-First Century Community Learning Centers	84.287	81716	\$ 201,098	\$ 31,289
U.S. Department of Health and Human Services				
Passed Through Minnesota Department of Human Services				
Promoting Safe and Stable Families	93.556	1401MNFPS	\$ 2,070	\$ -
Temporary Assistance for Needy Families	93.558	1502MNTANF	50,507	-
Child Support Enforcement	93.563	1504MN4005	24,557	-
Refugee and Entrant Assistance - State-Administered Programs	93.566	1501MNRCMA	135	-
Child Care and Development Block Grant	93.575	G1501MNCCDF	234	-
Community-Based Child Abuse Prevention Grants	93.590	1302MNFPRG	3,358	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1401MNCWSS	1,551	-
Foster Care - Title IV-E	93.658	1501MNFOS	64,249	-
Social Services Block Grant	93.667	1501MNSOSR	48,044	-
Chafee Foster Care Independence Program	93.674	1401MN1420	1,145	-
Children's Health Insurance Program	93.767	1401MN5021	44	-
Medical Assistance Program	93.778	1505MN5ADM	207,284	-
Total U.S. Department of Health and Human Services			\$ 403,178	\$ -

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

*EXHIBIT D-2
(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Homeland Security				
Passed Through Minnesota Department of Natural Resources				
Boating Safety Financial Assistance	97.012	Traverse FBE - 121814	\$ 7,400	\$ -
Passed Through Minnesota Department of Public Safety				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4131DRMNP0000001	126,064	-
Hazard Mitigation Grant	97.039	1982-DR-MN	12,653	-
Hazard Mitigation Grant	97.039	1941-DR-MN	92,658	-
(Total Hazard Mitigation Grant CFDA 97.039 \$105,311)				
Emergency Management Performance Grants	97.042	F-EMPG-2014- TRAVERCO-0695	29,848	-
Emergency Management Performance Grants	97.042	F-EMPG-2015- TRAVERCO-1175	20,940	-
(Total Emergency Management Performance Grants CFDA 94.042 \$50,788)				
Total U.S. Department of Homeland Security			\$ 289,563	\$ -
Total Federal Awards			\$ 985,753	\$ 31,289

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Traverse County under programs of the federal government for the year ended December 31, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Traverse County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Traverse County.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 1,003,933
Grants received more than 60 days after year-end, considered unavailable revenue in 2015	
Twenty-First Century Community Learning Centers (CFDA #84.287)	4,382
Child Support Enforcement (CFDA #93.563)	1,800
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)	14,112
Unavailable revenue in 2014, recognized as revenue in 2015	
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)	(38,474)
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 985,753

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

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

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for major federal programs: **Qualified for each major program.**

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

The major federal programs are:

Twenty-First Century Community Learning Centers	CFDA No. 84.287
Medical Assistance Program	CFDA No. 93.778

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 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.

Client's Response:

Traverse County management is aware of the segregation of duties issues that arise as 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.

Finding 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: During our audit, we identified material adjustments 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 found in the audit; however independent external auditors cannot be considered part of the County's internal control.

Effect: The following audit adjustments were necessary:

Governmental Activities

- decreased revenue (primarily for property taxes, charges for services, and state and federal grants) by \$2,686,190 for revenues that were deferred inflows of resources - unavailable revenue as of December 31, 2014, on the modified accrual fund level statements but earned in the prior year on the full accrual basis, and
- increased revenue (primarily for property taxes, charges for services, and state and federal grants) by \$533,241 for receivables that were deferred inflows of resources - unavailable revenue as of December 31, 2015, on the modified accrual fund level statements but earned on the full accrual basis during the current year.

The adjustments were reviewed and approved by the appropriate County staff and are reflected in the financial statements.

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

Recommendation: We recommend County staff review the financial statement closing procedures and the 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.

Client's Response:

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

Finding 2012-001

Accounting Policies and Procedures Manual

Criteria: County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. All governments should document their accounting policies and procedures. Although other methods may suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures that make up the County's internal control system. These policies and procedures should be designed to help detect and deter fraud, and include monitoring procedures.

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.

Context: County management is in the early stages of documenting the significant internal controls in its accounting system; however, a draft version has not yet been presented to the County Board for approval.

Effect: In lieu of formal written accounting policies and procedures, informal practices and procedures can become unwritten standards that can have unintended consequences. Without a concisely written, comprehensive policies and procedures manual clearly identifying County policies and procedures required to be followed, potential misunderstandings or abusive practices may occur.

Cause: Formal action has not been taken to provide County personnel with procedures to perform consistent treatment of accounting transactions.

Recommendation: We recommend the County Auditor/Treasurer establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

Client's Response:

Traverse County is in the process of putting together an accounting policies and procedures manual.

PREVIOUSLY REPORTED ITEM RESOLVED

Itemized Receipts for Credit Card Purchases (2011-002)

During the 2014 audit, we reviewed internal controls over credit card purchases by testing five credit card claims paid by Traverse County. Two of the credit card claims tested did not have an itemized vendor receipt to support all charges on the monthly billing.

Resolution

For the 2015 audit, all credit card claims reviewed had itemized vendor receipts to support all charges on the monthly billing.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

Finding 2015-001

Subrecipient Monitoring

Program: U.S. Department of Education's Twenty-First Century Community Learning Centers (CFDA No. 84.287), Award #81716, 2013

Pass-Through Agency: Minnesota Department of Education

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. In addition, Traverse County was required to comply with the provisions for Subrecipient Monitoring in Part 3 of the 2015 OMB *Compliance Supplement*, including monitoring the activities to provide reasonable assurance that the subrecipient administers the federal award in compliance with federal requirements.

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.

Questioned Costs: None.

Context: The County passed \$31,289 of federal awards to the Browns Valley and Wheaton School Districts.

Effect: The County is not meeting federal requirements pertaining to subrecipient monitoring. Also, without performing monitoring procedures, the County cannot be assured that its subrecipients are in compliance with federal regulations over federal awards.

Cause: The County had not considered the need for policies and procedures related to subrecipient monitoring, and did not understand the full extent of the subrecipient compliance requirements.

Recommendation: We recommend the County develop and implement subrecipient monitoring policies and procedures, including an assessment of risk in accordance with OMB Circular A-133 for grants awarded before December 26, 2014, or with Title 2 U.S. Code of Federal Regulations §§ 200.303 and 200.331 for grants awarded after December 26, 2014.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Marg Schmitz

Corrective Action Planned:

Traverse County has established a related policy and will monitor all subrecipient transactions, including attaching required information to those vendor warrants.

Anticipated Completion Date:

Completed.

Finding 2015-002

Reporting

Program: U.S. Department of Education's Twenty-First Century Community Learning Centers (CFDA No. 84.287), Award #81716, 2013

Pass-Through Agency: Minnesota Department of Education

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: 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.

Questioned Costs: None.

Context: The July 2015 financial reporting form was required to be submitted by August 31, 2015, but submission was not made until September 2, 2015. The May 2015 financial reporting form included expenditures from February 2015 through May 2015.

Effect: Internal controls over the administration of the grant are ineffective, and the County did not comply with reporting requirements.

Cause: The County does not have procedures in place to ensure that reports are submitted timely, and with the proper months' expenditures as required.

Recommendation: We recommend that the County implement procedures to ensure that reports are submitted timely with proper expenditures in accordance with the deadlines in the official grant award notification.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Marg Schmitz

Corrective Action Planned:

Traverse County staff implemented controls to make sure reporting will be completed in a timely manner.

Anticipated Completion Date:

Completed.

Finding 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 #1505MNADM, 2015

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 40 representative charges, split between 13 claims and 27 payroll, submitted to the Minnesota Department of Human Services (DHS) for reimbursement. We identified 4 claims totaling \$38,900 that provided benefit to all functions of the County but were not allocated across the benefitting County functions. An additional 3 claims totaling \$26,974 were reviewed and were found to have the identical issue. These claims were submitted in aggregate for reimbursement to DHS on the County's DHS-2550 and DHS-2556 quarterly reports. In addition, we noted one claim submitted to DHS for reimbursement on the County's DHS-2550 and DHS-2556 quarterly reports that had already been reported in a previous period.

At the direction of DHS, we performed an analysis and spread the unallowable claims over several of the other DHS programs and using its guidance, arrived at an estimate of the unallowable costs for the Medical Assistance Program.

The sample size was based on guidance from Chapter 21 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Questioned Costs: \$12,563.

Context: Total unallowable claims of \$65,874 were submitted to DHS for reimbursement on the County's DHS-2550 and DHS-2556 quarterly reports, resulting in \$12,563 of estimated questioned costs for the program. Questioned costs for the Medical Assistance Program exceed six percent of total program expenditures reported on the Schedule of Expenditures of Federal Awards (SEFA).

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 the Minnesota Department of Human Services are complete and accurate.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Marg Schmitz

Corrective Action Planned:

DHS has been reimbursed for these costs. The 2550 and 2556 quarterly reports will be revised. Traverse County Social Services staff will make sure they don't allocate bills entirely to specific programs that actually benefit the entire county going forward.

Anticipated Completion Date:

Completed.

PREVIOUSLY REPORTED ITEM RESOLVED

Procurement, Suspension, and Debarment (CFDA No. 20.205) (2014-001)

The County entered into a contract with a vendor for a project that was federally funded. The contract did not include the suspension or debarment language, nor was documentation maintained of a verification performed to determine that the vendor was not suspended or debarred at the time the contract was awarded.

Resolution

The County ensured that all proper language was included in federal contracts and followed up with documentation of verification of suspension and debarment.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 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, 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.

Context: As of December 31, 2015, the Prairieview Place Enterprise Fund had deficit net position of \$221,374, which is an increase in net position from the \$299,364 deficit reported in the prior year. As of December 31, 2015, the Traverse Care Center Enterprise Fund had deficit net position of \$828,456, which is a decrease in net position from the \$601,807 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 \$77,990 in 2015; nonoperating revenue of \$97,029 and a transfer in from the Traverse Care Center Enterprise Fund of \$84,078 was offset by operating expenses of \$49,221 and interest expense on debt of \$53,896. The County's Traverse Care Center Enterprise Fund's net position balance decreased by \$226,649 in 2015; operating revenue of \$16,869 and nonoperating revenue of \$221,436 were offset by operating expenses of \$319,894, nonoperating expenses of \$60,982, and a transfer out to the Prairieview Place Enterprise Fund of \$84,078.

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.

Client's Response:

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.



REBECCA OTTO
STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
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, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 20, 2016.

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 Questioned Costs, 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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2006-003 to be a material weakness.

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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 1996-003 and 2012-001 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*. 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 Questioned Costs is a management practices comment. We believe this recommendation to be of benefit to the County, and it is reported for that purpose.

Traverse County's Response to Findings

Traverse County's responses to the internal control and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. 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

September 20, 2016

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
Traverse County
Wheaton, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Traverse County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2015. Traverse County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinions on Twenty-First Century Community Learning Centers (CFDA No. 84.287) and Medical Assistance Program (CFDA No. 93.778)

As described in the accompanying Schedule of Findings and Questioned Costs, Traverse County did not comply with requirements regarding CFDA No. 84.287 Twenty-First Century Community Learning Centers as described in finding number 2015-001 for Subrecipient Monitoring and did not comply with requirements regarding CFDA No. 93.778 Medical Assistance Program as described in finding number 2015-003 for Activities Allowed and Unallowed, Allowable Costs/Cost Principles, and Reporting. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to those programs.

Qualified Opinions on Twenty-First Century Community Learning Centers (CFDA No. 84.287) and Medical Assistance Program (CFDA No. 93.778)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions paragraph, Traverse County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Twenty-First Century Community Learning Centers and Medical Assistance Program for the year ended December 31, 2015.

Other Matters

The results of our auditing procedures disclosed an other instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2015-002. Our opinion on each major federal program is not modified with respect to this matter.

Traverse County's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. Traverse County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2015-001 and 2015-003 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2015-002 to be a significant deficiency.

Traverse County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. Traverse County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 20, 2016

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR