MARTIN COUNTY
FAIRMONT, MINNESOTA

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2016

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INTRODUCTORY SECTION

MARTIN COUNTY
FAIRMONT, MINNESOTA
ORGANIZATION
DECEMBER 31, 2016

ORGANIZATION

Office	Name	Term Expires
Commissioners		
1st District	Elliot Belgard*	January 2021
2nd District	Tom Mahoney	January 2019
3rd District	Kathy Smith	January 2021
4th District	Dan Schmidtke**	January 2019
5th District	Steven Flohrs	January 2021
Officers		
Elected		
Attorney	Terry Viesselman	January 2019
Auditor/Treasurer	James Forshee	January 2019
Judge	Michael D. Trushenski	January 2019
County Recorder	Kay Wrucke	March 2017
Sheriff	Jeff Markquart	January 2019
Surveyor	Ben Madsen	January 2019
Appointed		
Assessor	Danial Whitman	December 2020
Highway Engineer	Kevin Peyman	April 2018
Medical Examiner	Dr. Dennis Gremel	Indefinite
Veterans Service Officer	Douglas Landsteiner	Indefinite
Librarian	Jennifer Trushenski	Indefinite
County Coordinator	Scott Higgins	Indefinite

* Chair
**Co-Chair

FINANCIAL SECTION

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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525 PARK STREET
SAINT PAUL, MN 55103-2139

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Martin County
Fairmont, Minnesota

Report on the Financial Statements

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

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

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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, each major fund, and the aggregate remaining fund information of Martin County as of December 31, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2017, on our consideration of Martin 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 Martin County's internal control over financial reporting and compliance.

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

October 19, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Martin County's (the County) Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the year ended December 31, 2016. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements (beginning on page 15). Certain comparative information between the current year, 2016, and the prior year, 2015, is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2016 include the following:

- Governmental activities' total net position is $84,293,924 of which $67,429,986 is the net investment in capital assets, and $8,334,485 is restricted for specific purposes.
- Martin County's net position increased by $1,719,388.
- The net cost of governmental activities was $13,650,808 for the current fiscal year. The net cost was funded by general revenues and other items totaling $15,814,290.
- Governmental funds' fund balances increased by $6,284,552.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. Martin County's basic financial statements consist of three parts: Government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

There are two government-wide statements. The Statement of Net Position and the Statement of Activities (pages 15-17) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start on page 18. These statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the County's operation in more detail than the government-wide statements by providing information about the County's most significant funds. 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.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements - The Statement of Net Position and the Statement of Activities

Our analysis of the County as a whole begins on page 15. The Statement of Net Position and the Statement of Activities report information about the County as a whole and about its activities in a way that helps the reader to determine whether the County's financial condition has improved or declined as a result of the year's activities. These statements include all assets, liabilities, and deferred inflows/outflows of resources using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two financial statements report the County's net position and changes in it. You can think of the County's net position—the difference between the assets and deferred outflows and the liabilities and deferred inflows – as one way to measure the County's financial health or financial position. Over time, increases or decreases in the County's net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the County's property tax base and the condition of the County roads, to assess the overall health of the County.

In the Statement of Net Position and the Statement of Activities:

Governmental Activities—The County's basic services are reported here, including general government, highways and streets, human services, public safety, economic development, sanitation, culture and recreation, conservation of natural resources, and interest. Property taxes and state and federal grants finance most of these activities.

Fund Financial Statements

Our analysis of the County's major funds begins on page 18. The 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 and by bond covenants. However, the County Board establishes some funds to help it 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. The County's two kinds of funds--governmental and fiduciary--use different accounting methods.

- Governmental Funds—The County's basic services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or difference) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation in a statement following each governmental fund financial statement.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

- Fiduciary Funds—The County is the trustee, or fiduciary, over assets which can be used only for the trust beneficiaries based on the trust arrangement. All of the County's fiduciary activities are reported in a separate Combining Statement of Changes in Assets and Liabilities (page 86). We excluded these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Position

The County's net position was $84,293,924, on December 31, 2016 (see Table A-1).

Table A-1
The County's Net Position

	Governmental Activities		
	2016	2015	Change
Current and Other Assets	$ 35,175,366	$ 28,630,587	22.9 %
Capital Assets	69,123,258	68,266,245	1.3
Total Assets	104,298,624	96,896,832	7.6
Deferred Outflows of Resources	5,908,468	841,728	601.9
Current Liabilities	1,483,996	1,423,931	4.2
Long-Term Liabilities	23,289,643	13,126,234	77.4
Total Liabilities	24,773,639	14,550,165	70.3
Deferred Inflows of Resources	1,139,529	613,859	85.6
Net Position			
Net Investment in Capital Assets	67,429,986	66,442,240	1.5
Restricted	8,334,485	6,878,667	21.2
Unrestricted	8,529,453	9,253,629	(7.8)
Total Net Position	$ 84,293,924	$ 82,574,536	2.1

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)

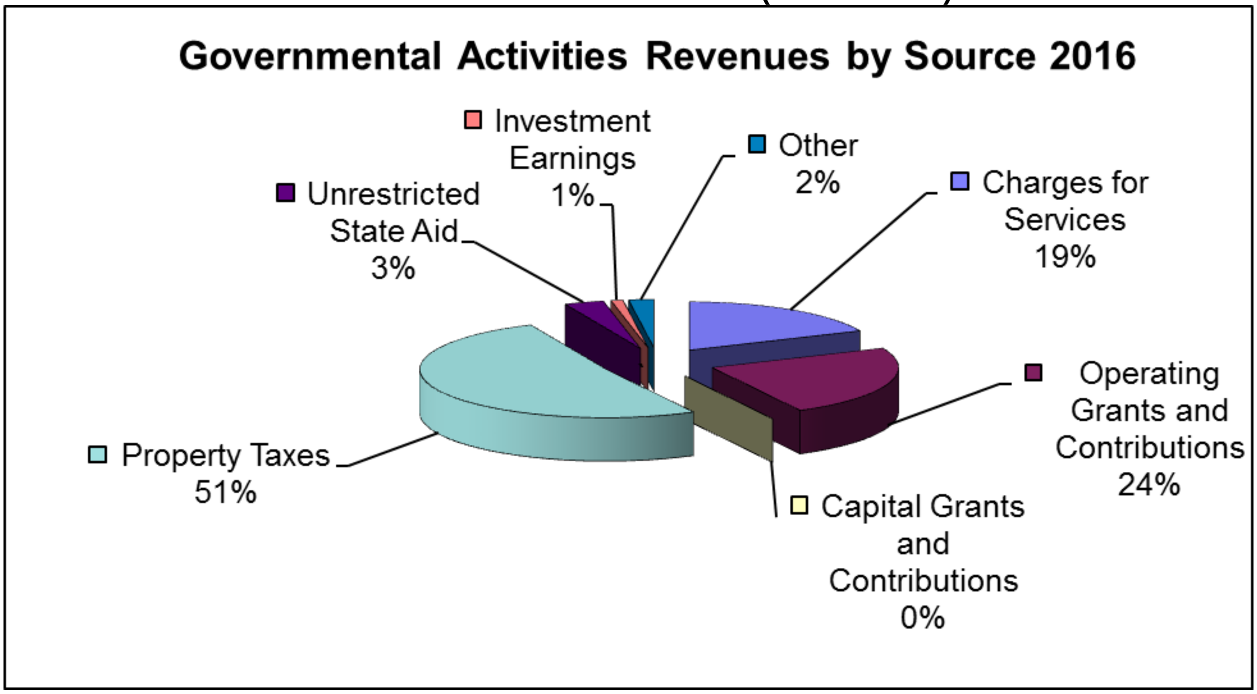
Changes in Net Position

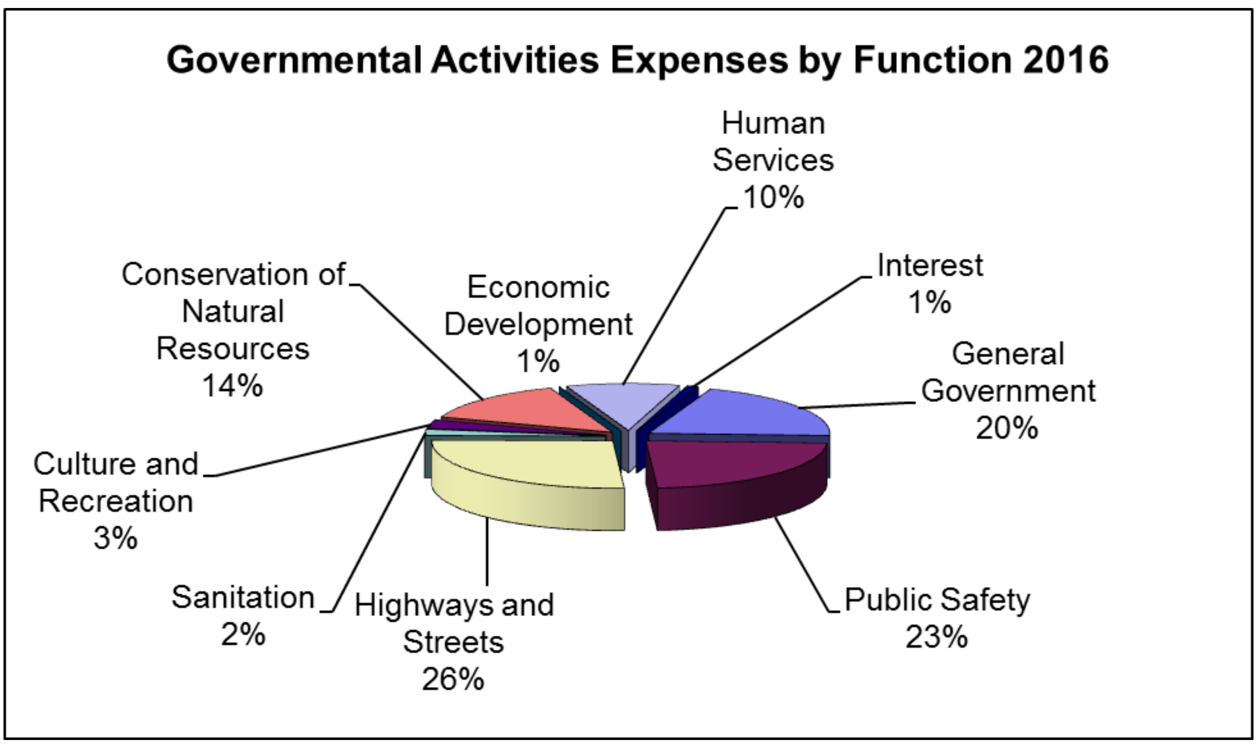
The County-wide total revenues were $27,370,373 for the year ended December 31, 2016. Property taxes, grants and contributions, and unrestricted state aid accounted for 79 percent of total revenues for the year (see Table A-2).

Table A-2
Change in Net Position

	Governmental Activities		
	2016	2015	Total % Change
REVENUES			
Program Revenues			
Fees, Charges, Fines, and Other	$ 5,044,399	$ 4,460,895	13.1 %
Operating Grants and Contributions	6,511,684	7,014,138	(7.2)
Capital Grants and Contributions	-	1,477,164	(100.0)
General Revenues			
Property Taxes	14,002,722	13,050,872	7.3
Unrestricted State Aid	935,700	927,146	0.9
Investment Earnings	279,127	217,104	28.6
Other	596,741	586,640	1.7
Total Revenues	27,370,373	27,733,959	(1.3)
EXPENSES			
General Government	4,997,174	5,363,164	(6.8)
Public Safety	5,860,203	4,876,845	20.2
Highways and Streets	6,656,888	5,624,978	18.3
Sanitation	477,974	563,726	(15.2)
Culture and Recreation	663,160	928,660	(28.6)
Conservation of Natural Resources	3,471,307	3,064,095	13.3
Economic Development	80,261	62,542	28.3
Human Services	2,645,045	2,632,236	0.5
Interest	354,879	266,459	33.2
Total Expenses	25,206,891	23,382,705	7.8
CHANGE IN NET POSITION BEFORE SPECIAL ITEM	2,163,482	4,351,254	(50.3)
SPECIAL ITEM - TRANSFER OF OPERATIONS	(444,094)	-	100.0
CHANGE IN NET POSITION	1,719,388	4,351,254	(60.5)
Net Position - Beginning of Year	82,574,536	78,223,282	5.6
NET POSITION - END OF YEAR	$ 84,293,924	$ 82,574,536	2.1

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)





FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)

The County-wide cost of all governmental activities this year was $25,206,891.

- Some of the cost was paid by the users of the County's Programs ($5,044,399).
- The Federal and state governments subsidized certain programs with grants and contributions ($6,511,684).
- The remainder of the County's costs ($13,650,808), however, was paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with the $14,002,722 in property taxes, $935,700 of state aid, and $279,127 with investment earnings and other general revenues of $596,741.

Table A-3 presents the cost of each of the County's 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 A-3
Expenses and Net (Revenue) Cost of Services

	Total Cost of Services		Percentage	Net Revenue (Cost) of Services		Percentage
	2016	2015	Change	2016	2015*	Change
GOVERNMENTAL ACTIVITIES						
General Government	$ 4,997,174	$ 5,363,164	(6.8)%	$ (3,449,195)	$ (3,162,862)	9.1 %
Public Safety	5,860,203	4,876,845	20.2	(5,155,022)	(4,189,850)	23.0
Highways and Streets	6,656,888	5,624,978	18.3	(506,386)	1,657,311	(130.6)
Sanitation	477,974	563,726	(15.2)	248,041	173,299	43.1
Culture and Recreation	663,160	928,660	(28.6)	(512,194)	(811,540)	(36.9)
Conservation of Natural Resources	3,471,307	3,064,095	13.3	(1,204,922)	(1,151,658)	4.6
Economic Development	80,261	62,542	28.3	(79,298)	(58,385)	35.8
Human Services	2,645,045	2,632,236	0.5	(2,636,953)	(2,620,364)	0.6
Interest	354,879	266,459	33.2	(354,879)	(266,459)	33.2
Total	$ 25,206,891	$ 23,382,705	7.8	$ (13,650,808)	$ (10,430,508)	30.9

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL

The financial performance of the County as a whole is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported a combined fund balance of $25,007,811. Revenues for the County's governmental funds were $26,156,706, while total expenditures were $27,317,066. During 2016, the County also sold capital assets for $24,512 which is included in other financing sources and uses. The County issued additional general obligation drainage ditch bonds in 2016, of $7,270,000, which included a premium of $157,034 that are also included in other financing sources and uses. In 2016, the County also transferred the fund balance of transit operations to the Faribault-Martin County Transit Board in the amount of $121,307, which is reported as a special item after other financial sources and uses.

The General Fund includes the primary operations of the County in providing services to citizens and some capital outlay projects. Fund balance increased by $677,945 during 2016. This was primarily due to the collections of delinquent property taxes, and reimbursement of social security contributions from 2012 to 2016.

The Road and Bridge Fund's fund balance increased by $1,164,679 in 2016. This was primarily due to the increase in state and federal aid for highway projects, and some costs in maintenance being less than anticipated.

The Human Services Fund's fund balance increase of $523,016 is primarily due to an increase in tax revenue as a result of an increase in tax levy, and expenses being less than budgeted.

The Ditch Fund's fund balance increased by $5,180,988, this is primarily due to the issuance of bonds in 2016 for repair and improvements on ditch systems in the County.

GENERAL FUND

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

Table A-4 presents a summary of General Fund revenues.

Table A-4
General Fund Revenues

Fund	Year Ended December 31, 2016	Year Ended December 31, 2015	Change Increase (Decrease)	Change Percent
Taxes	$ 8,444,537	$ 7,767,084	$ 677,453	8.7 %
Licenses and Permits	78,108	57,725	20,383	35.3
Intergovernmental	1,593,746	2,100,538	(506,792)	(24.1)
Charges for Services	423,900	681,340	(257,440)	(37.8)
Investment Earnings	183,379	127,295	56,084	44.1
Miscellaneous and Other	1,081,876	753,520	328,356	43.6
Total General Fund Revenues	$ 11,805,546	$ 11,487,502	$ 318,044	2.8

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund Expenditures:

Table A-5
General Fund Expenditures

	Year Ended		Change	
	December 31, 2016	December 31, 2015	Increase (Decrease)	Percent
General Government	$ 4,657,292	$ 5,091,788	$ (434,496)	(8.5)%
Public Safety	5,009,992	4,768,974	241,018	5.1
Culture and Recreation	1,127,228	905,873	221,355	24.4
Conservation of Natural Resources	121,476	112,744	8,732	7.7
Economic Development	65,401	49,790	15,611	31.4
Principal	25,519	32,076	(6,557)	(20.4)
Interest and Fiscal Charges	1,465	2,039	(574)	(28.2)
Total Expenditures	$ 11,008,373	$ 10,963,284	$ 45,089	0.4

For the year ended December 31, 2016, the County allocated all expenditures.

General Fund Budgetary Highlights

- Actual revenues were $917,120 more than expected. This is due primarily to taxes and special assessments collected, intergovernmental payments and charges for services being higher than expected. There was also a large refund of social security contributions received in 2016 for prior years.
- The actual expenditures were $105,728 more than budgeted. This variance is mainly due to jail and parks costs being higher than expected.
- The County also transferred cash and fund balance in the amount of $121,307 to the Faribault-Martin County Transit Board as a transfer of operations in 2016 that wasn't budgeted for.
- The County does not typically amend its budget after it is approved by the County Board; however, budget amendments were made in 2016 to account for the County Attorney's becoming full-time employees, and other small adjustments that had no effect on the levy.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

By the end of 2016, the County had invested $108,186,562 in a broad range of capital assets including land, buildings, machinery, vehicles, furniture, equipment, and infrastructure (see Table A-6). (More detailed information about capital assets can be found in Note 3.A.3 to the financial statements.) Total depreciation expense for the year was $2,281,348.

Table A-6
The County's Capital Assets

	Governmental Activities 2016	Governmental Activities 2015	Percent Change
Land and Right-of-Way	$ 1,190,311	$ 1,190,311	- %
Construction in Progress	224,497	371,468	(39.6)
Buildings and Improvements	9,042,015	8,438,724	7.1
Machinery, Equipment, and Vehicles	6,768,787	7,197,369	(6.0)
Infrastructure	90,960,952	88,304,701	3.0
Less: Accumulated Depreciation	(39,063,304)	(37,236,328)	4.9
Total	$69,123,258	$ 68,266,245	1.3

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

DEBT ADMINISTRATION

At year-end, the County had outstanding long-term debt of $11,811,278 versus $6,382,573 in the previous year for an 85.1 percent increase as shown in Table A-7.

Table A-7
The County's Long-Term Debt

	2016	2015	Unavailable Change
GOVERNMENTAL ACTIVITIES			
General Obligation Bonds, Net of Discount and Premiums	$11,811,278	$ 6,382,573	85.1 %

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County is dependent on the State of Minnesota for a significant portion of its revenue. Recent experience demonstrates that the legislature may decrease revenues again.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Auditor / Treasurer, James Forshee, at (507) 238-3266.

BASIC FINANCIAL STATEMENTS

MARTIN COUNTY
FAIRMONT, MINNESOTA
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2016

	Governmental Activities
ASSETS	
Cash and Pooled Investments	$ 25,089,740
Petty Cash and Change Funds	1,337
Taxes Receivable - Delinquent	176,072
Special Assessments Receivable - Delinquent	80,366
Special Assessments Receivable - Unavailable	4,770,761
Accounts Receivable	6,992
Accrued Interest Receivable	15,518
Due from Other Governments	3,773,099
Loans Receivable	300,149
Inventories	961,332
Capital Assets - Non Depreciable	
Land and Right of Way	1,190,311
Construction in Progress	224,497
Depreciable Capital Assets - Net of Depreciation	
Buildings and Improvements	3,915,799
Land Improvements	40,992
Machinery, Vehicles, Furniture and Equipment	2,032,565
Infrastructure	61,719,094
Total Assets	$ 104,298,624

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

	Governmental Activities
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Pension Outflows	$ 5,908,468
LIABILITIES	
Accounts Payable	490,510
Salaries Payable	145,215
Contracts Payable	279,432
Due to Other Governments	382,275
Accrued Interest Payable	75,277
Unearned Revenue	111,287
Compensated Absences Payable - Due Within One Year	517,165
General Obligation Bonds Payable - Due Within One Year	509,000
Loans Payable - Due Within One Year	22,963
Compensated Absences Payable - Due in More Than One Year	102,028
General Obligation Bonds Payable - Due in More Than One Year	11,302,278
Loans Payable - Due in More Than One Year	32,766
Net Pension Liability	10,401,396
Net Other Postemployment Benefit Obligation	402,047
Total Liabilities	24,773,639
DEFERRED INFLOWS OF RESOURCES	
Deferred Pension Inflows	1,139,529
NET POSITION	
Net Investment in Capital Assets	67,429,986
Restricted for	
General Government	591,549
Public Safety	591,049
Debt Service	712,357
Culture and Recreation	3,721
Economic Development	212,742
Highways and Streets	3,422,531
Conservation	1,110,645
Sanitation	1,689,891
Unrestricted	8,529,453
Total Net Position	$ 84,293,924

MARTIN COUNTY
FAIRMONT, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
FUNCTIONS/PROGRAMS					
PRIMARY GOVERNMENT					
GOVERNMENTAL ACTIVITIES					
General Government	$ 4,997,174	$ 1,290,523	$ 257,456	$ -	$ (3,449,195)
Public Safety	5,860,203	222,738	482,443	-	(5,155,022)
Highways and Streets	6,656,888	388,796	5,761,706	-	(506,386)
Sanitation	477,974	726,015	-	-	248,041
Culture and Recreation	663,160	148,979	1,987	-	(512,194)
Conservation of Natural Resources	3,471,307	2,266,385	-	-	(1,204,922)
Economic Development	80,261	963	-	-	(79,298)
Human Services	2,645,045	-	8,092	-	(2,636,953)
Interest	354,879	-	-	-	(354,879)
Total Governmental Activities	$ 25,206,891	$ 5,044,399	$ 6,511,684	$ -	(13,650,808)

GENERAL REVENUES	
Property Taxes	14,002,722
Mortgage Registry and Deed Tax	39,132
Wind Power Production Tax	315,598
Wheelage Tax	217,499
Grants and Contributions not Restricted for a Particular Purpose	935,700
Investment Earnings	279,127
Gain on Sale of Capital Assets	24,512
Total General Revenues	15,814,290
CHANGE IN NET POSITION BEFORE SPECIAL ITEM	2,163,482
Special item - Transfer of Operations	(444,094)
CHANGE IN NET POSITION	1,719,388
Net Position - Beginning of Year	82,574,536
NET POSITION - END OF YEAR	$ 84,293,924

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

MARTIN COUNTY
FAIRMONT, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	General	Road and Bridge	Human Services	Ditch
ASSETS				
Cash and Pooled Investments	$ 8,920,829	$ 7,127,734	$ 468,206	$ 4,007,535
Petty Cash and Change Funds	1,287	50	-	-
Taxes Receivable - Delinquent	98,184	33,760	39,699	-
Special Assessments Receivable				
Delinquent	19,058	-	-	6,759
Unavailable	417,562	-	-	4,353,199
Accounts Receivable	6,992	-	-	-
Interest Receivable	15,518	-	-	-
Loans Receivable	-	-	-	-
Due from Other Funds	10,698	3,359	-	-
Due from Other Governments	87,996	3,437,301	160,666	72,698
Inventories	-	961,332	-	-
Total Assets	$ 9,578,124	$ 11,563,536	$ 668,571	$ 8,440,191
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	$ 199,211	$ 159,788	$ -	$ 110,036
Salaries Payable	114,942	30,273	-	-
Contracts Payable	-	-	-	279,432
Due to Other Funds	3,359	4	-	10,694
Due to Other Governments	312,842	4,084	-	50,344
Unearned Revenue	111,287	-	-	-
Total Liabilities	741,641	194,149	-	450,506
DEFERRED INFLOWS OF RESOURCES (NOTE 3.D)				
Unavailable Revenue	$ 543,761	$ 3,456,291	$ 39,699	$ 4,359,958
FUND BALANCES (NOTE 3.E)				
Nonspendable	$ -	$ 961,332	$ -	$ -
Restricted	1,186,319	-	-	5,442,389
Committed	-	-	628,872	-
Assigned	106,854	6,951,764	-	-
Unassigned	6,999,549	-	-	(1,812,662)
Total Fund Balances	8,292,722	7,913,096	628,872	3,629,727
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 9,578,124	$ 11,563,536	$ 668,571	$ 8,440,191

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

Nonmajor Funds	Total Governmental Funds
$ 4,565,436	$ 25,089,740
-	1,337
4,429	176,072
54,549	80,366
-	4,770,761
-	6,992
-	15,518
300,149	300,149
-	14,057
14,438	3,773,099
-	961,332
$ 4,939,001	$ 35,189,423
$ 21,475	$ 490,510
-	145,215
-	279,432
-	14,057
15,005	382,275
-	111,287
36,480	1,422,776
$ 359,127	$ 8,758,836
$ -	$ 961,332
2,486,405	9,115,113
-	628,872
2,056,989	9,115,607
-	5,186,887
4,543,394	25,007,811
$ 4,939,001	$ 35,189,423

MARTIN COUNTY
FAIRMONT, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2016

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		$ 25,007,811
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.		69,123,258
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds.		5,908,468
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.		8,758,836
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General Obligation Bonds	(11,811,278)	
Loans Payable	(55,729)	
Net Other Postemployment Benefit Obligation	(402,047)	
Compensated Absences	(619,193)	
Net Pension Liability	(10,401,396)	
Accrued Interest Payable	(75,277)	(23,364,920)
Deferred inflows resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(1,139,529)
NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 84,293,924

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

MARTIN COUNTY
FAIRMONT, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2016

	General	Road and Bridge	Human Services	Ditch
REVENUES				
Taxes	$ 8,444,537	$ 2,702,161	$ 3,086,104	$ -
Special Assessments	149,685	-	-	1,353,467
Licenses and Permits	78,108	-	-	-
Intergovernmental	1,593,746	5,327,599	81,957	-
Charges for Services	423,900	16,125	-	-
Fines and Forfeits	32,314	-	-	-
Investment Earnings	183,379	-	-	90,759
Miscellaneous	899,877	372,671	-	45,775
Total Revenues	11,805,546	8,418,556	3,168,061	1,490,001
EXPENDITURES				
CURRENT				
General Government	4,657,292	-	-	-
Public Safety	5,009,992	-	-	-
Highways and Streets	-	6,957,833	-	-
Sanitation	-	-	-	-
Culture and Recreation	1,127,228	-	-	-
Conservation of Natural Resources	121,476	-	-	3,238,257
Economic Development	65,401	-	-	-
INTERGOVERNMENTAL				
Human Services	-	-	2,645,045	-
Highways and Streets	-	433,150	-	-
CAPITAL OUTLAY				
General Government	-	-	-	-
DEBT SERVICE				
Principal	25,519	-	-	200,697
Interest and Fiscal Charges	1,465	-	-	167,696
Bond Issue Costs	-	-	-	129,397
Total Expenditures	11,008,373	7,390,983	2,645,045	3,736,047
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	797,173	1,027,573	523,016	(2,246,046)
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Assets	2,079	22,433	-	-
Bonds Issued	-	-	-	7,270,000
Premium on Bonds Issued	-	-	-	157,034
Total Other Financing Sources (Uses)	2,079	22,433	-	7,427,034
SPECIAL ITEM				
Transfer of Transit Operations to Transit Board	(121,307)	-	-	-
NET CHANGE IN FUND BALANCES	677,945	1,050,006	523,016	5,180,988
Fund Balance - Beginning of Year	7,614,777	6,748,417	105,856	(1,551,261)
INCREASE (DECREASE) IN INVENTORIES	-	114,673	-	-
FUND BALANCE (DEFICIT) - END OF YEAR	$ 8,292,722	$ 7,913,096	$ 628,872	$ 3,629,727

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

Nonmajor Funds	Total Governmental Funds
$ 343,831	$ 14,576,633
635,491	2,138,643
-	78,108
77,794	7,081,096
670	440,695
-	32,314
3,757	277,895
212,999	1,531,322
1,274,542	26,156,706
98,511	4,755,803
-	5,009,992
-	6,957,833
477,974	477,974
-	1,127,228
-	3,359,733
14,860	80,261
-	2,645,045
-	433,150
53,833	53,833
1,820,000	2,046,216
71,440	240,601
-	129,397
2,536,618	27,317,066
(1,262,076)	(1,160,360)
-	24,512
-	7,270,000
-	157,034
-	7,451,546
-	(121,307)
(1,262,076)	6,169,879
5,805,470	18,723,259
-	114,673
$ 4,543,394	$ 25,007,811

MARTIN COUNTY
FAIRMONT, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		$ 6,169,879
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported depreciation expense.		
Expenditures for General Capital Assets, Infrastructure, and Other Related Capital Assets Adjustments	$ 3,461,148	
Current Year Depreciation	(2,281,348)	
Book value of assets transferred to Transit Board	(322,787)	857,013
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes Receivable	(1,682)	
Special Assessments Receivable	796,763	
Grants Receivable	382,941	
Loans Receivable	(10,637)	
Interest Receivable	1,232	
Due From Other Governments	(25,084)	1,143,533
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net position.		
General Obligation Bond Proceeds	(7,270,000)	
General Obligation Bonds Payable	2,019,000	
Loans Payable	27,216	
Amortization of Discounts on Bonds	(26,573)	
Amortization of Premium on Bonds	(151,132)	(5,401,489)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in Accrued Interest Payable	(35,139)	
Change in Net Other Postemployment Benefit Obligation	(6,717)	
Change in Accrued Compensated Absences	(18,000)	
Change in net pension liability	(5,645,435)	
Change in deferred pension outflows	5,066,740	
Change in deferred pension inflows	(525,670)	
Change in Inventories	114,673	(1,049,548)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 1,719,388

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

MARTIN COUNTY
FAIRMONT, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2016

ASSETS	
Cash and Pooled Investments	$ 448,407
LIABILITIES	
Due to Other Governments	$ 448,407

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

Martin County was established May 23, 1857, and has the powers, duties, and privileges granted counties by Minnesota Statutes ch. 373. Martin County is governed by a five-member Board of Commissioners elected from districts within the County and administrative officers elected on a County-wide basis. The Board is organized with a chair and a vice chair elected at the annual meeting in January of each year. The County Coordinator serves as the Clerk of the Board of Commissioners, but does not vote in its decisions.

For financial reporting purposes, Martin County has included all funds, organizations, account groups, agencies, boards, commissions, and authorities and has considered all potential component units for which the County is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause Martin County's financial statements to be misleading or incomplete.

Other Organizations
The County participates in the joint ventures and jointly-governed organizations identified in Note 10.

Component Units

Blended component units are legally separate organizations so intertwined with the County that they are, in substance, the same as the County, and, therefore, are reported as if they were part of the County.

Component Unit	Component Unit Included in Reporting Entity Because	Separate Financial Statements
The Martin County Economic Development Authority (EDA) provides for development within the County pursuant to Minn. Stat.§ 469.1082	The County appoints the EDA Board members and provides services almost entirely to the County. The County has operational responsibility.	Separate financial statements are not prepared.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the Primary Government. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

In the government-wide statement of net position, the governmental activities column: (a) is presented on a consolidated basis; and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net position is reported in three parts: (1) 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 are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

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

The County reports the following major 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 is used to account 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

The Human Services Special Revenue Fund accounts for property tax revenues and the transfer of the County's share of the costs of operating the joint County Human Services Program with Faribault County.

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

Additionally, the County reports the following fund types:

Other Nonmajor Funds – Special Revenue Funds are used to account for the activities of the Solid Waste and Area Development Special Revenue Funds.

Other Nonmajor Fund – Debt Service Fund is used to account for the accumulation of assets for the repayment of the County's general obligation bonds.

Other Nonmajor Fund - Capital Projects Fund is used to account for assigned property tax revenues and rental income to pay the cost of constructing and maintaining County buildings.

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Martin County considers all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, then unrestricted resources as they are needed.

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2016. A market approach is used to value all investments. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund.

Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2016 were $183,379.

2. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds".

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

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

Significant portions of special assessments receivable are not expected to be collected within one year therefore are shown as unavailable at the fund level.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3. Loans Receivable

Loans receivable represents the unpaid principal portions of loans made by the County through its Area Development Fund.

Principal and interest received by the County on these loans are recognized, at the fund level, in the period in which they are collected; accordingly, the unpaid principal portions are also reflected in unavailable revenue.

4. Inventories

All inventories are valued at cost using the first-in, first-out (FIFO) method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the County 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 one accounting period. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value. In the case of the initial capitalization of general infrastructure reported in governmental activities, the County chose to include all such items regardless of their acquisition date or amount.

The County was able to estimate the historical cost for their initial reporting of these assets through backtrending (estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the costs to the acquisition year or estimated acquisition year).

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

5. Capital Assets (Continued)

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

Buildings and Improvements	20-40
Land Improvements	20-30
Infrastructure	50-75
Machinery, Vehicles, Furniture, and Equipment	2-12

6. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The current portion is 100 percent of the Paid Time Off, and Compensated Time Off accruals at the end of 2016.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the 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 fund types recognize bond premiums and discounts during the current period.

The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

8. Deferred Outflows/Inflows of Resources and Unearned Revenue

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

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

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

9. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, 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. Investments are reported at fair value.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

10. Classification of Net Position

Net position in the government-wide 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.

11. Classification of Fund Balance

The County's fund balance policy establishes a minimum unassigned fund balance equal to 50% of the total General Fund expenditures.

In the event the unassigned fund balance drops below the established minimum level, the County Board will develop a plan to replenish the fund balance to the established level.

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

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

Restricted – fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

11. Classification of Fund Balances (Continued)

Committed – the committed fund balance classification includes 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 these amounts.

Assigned – the assigned fund balance classification includes 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 that is not restricted or committed.

In the General Fund, assigned amounts represent intended uses established by the County Coordinator or the County Auditor/Treasurer who have been delegated that authority by Board resolution.

Unassigned – unassigned fund balance is 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.

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

12. Use of Estimates

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

13. Special Item

Martin and Faribault Counties have transferred transit operations to form Faribault-Martin County Transit Board, effective January 1, 2015. In the approved agreement, Martin County agreed to transfer the operations in 2016 as follows:

Assets (Cash)	$ 121,307
Fund Balance	$ 121,307
Assets (Capital Assets)	$ 322,787
Net Position	$ 444,094

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Expenditures in Excess of Budget

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

	Budget	Actual	Difference
General Fund			
General Government			
Courts	$ 48,000	$ 75,477	$ 27,477
County Administration	779,270	849,613	70,343
Forfeited Land	-	2,987	2,987
Transit System	40,000	45,085	5,085
Public Safety			
Sheriff	4,547,664	4,756,811	209,147
Culture and Recreation			
Parks	121,273	407,738	286,465
Economic Development			
Economic Development	59,052	60,095	1,043

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

Expenditures in Excess of Budget (Continued)

Road and Bridge Fund			
Highways and Streets			
Administration	415,710	434,604	18,894
Engineering and Construction	2,947,747	3,087,062	139,315
Miscellaneous	-	4,036	4,036
Intergovernmental			
Highways and Streets	420,000	433,150	13,150
Debt Service Fund - Nonmajor			
Debt Service			
Principal	200,000	1,820,000	1,620,000
Interest and Fiscal Charges	54,005	71,440	17,435

Expenditures in excess of budget were funded by revenues in excess of budget or existing fund balance.

Deficit Fund Equity

The Ditch Special Revenue Fund has a positive fund balance of $3,629,727 as of December 31, 2016; however, 49 ditches had deficit balances. The deficits will be eliminated with future special assessment levies against the benefited properties. The following is a summary of the individual ditch systems

130 ditches with positive fund balances	$ 5,442,389
49 ditches with deficit fund balances	(1,812,662)
Total	$ 3,629,727

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, County deposits may not be returned to it. The County's policy regarding custodial credit risk for deposits is to obtain collateral or bond to cover any uninsured portion of the County's deposits and to comply with state law. As of December 31, 2016, Martin County's deposits were not exposed to custodial credit risk.

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

b. Investments

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

(a) Securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minnesota Statutes §118A.04, Subd. 6;

(b) Mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

(c) General obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

(d) Time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers' acceptances of United States banks;

(e) Commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

(f) With certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

b. Investments (Continued)

As of December 31, 2016, the County had the following investments:

	Interest Rate Risk		Credit Risk		Concentration Risk
Investment Type	**Maturity Date**	**Fair Value**	**Credit Rating**	**Rating Agency**	**Over 5 Percent of Portfolio**
U.S. Government Agency Securities					
Federal Farm Credit Bank	6/23/2021	$ 250,000	Aaa	Moody's	5.2%
Federal Home Loan Mtg Corp	6/30/2021	$ 198,400	Aaa	Moody's	
Federal Home Loan Mtg Corp	8/16/2021	248,100	Aaa	Moody's	
Subtotal Federal Home Loan Mtg Corp		$ 446,500			9.2%
Total U.S. Government Agency Securities		$ 696,500			
Negotiable Certificates of Deposit					
Ally Bk Midvale Utah	3/6/2017	$ 116,075	NR	NR	<5%
American Express Centurion Bk	11/13/2017	200,394	NR	NR	<5%
BankUnited Natl Assn	2/20/2018	199,788	NR	NR	<5%
BMO Harris Bank NA	3/2/2018	199,638	NR	NR	<5%
Goldman Sachs Bk USA NY	3/5/2018	117,287	NR	NR	<5%
Wells Fargo Bank NA	3/9/2018	244,527	NR	NR	5.1%
JP Morgan Chase Bank NA	3/22/2018	199,348	NR	NR	<5%
Mercantil Commrcbk NA	9/21/2018	199,180	NR	NR	<5%
Direct Fed Cr Un Needham Mass	9/24/2018	249,553	NR	NR	5.2%
Sallie Mae Bank	11/26/2018	201,416	NR	NR	<5%
American Exp Cent Bank	12/4/2018	248,717	NR	NR	5.1%
Goldman Sachs Bk USA NY	3/4/2019	117,639	NR	NR	<5%
Barclay Bank Delaware	7/16/2019	201,396	NR	NR	<5%
BMW Bank of N America	9/26/2019	246,862	NR	NR	5.1%
Discover Bank	9/30/2019	150,809	NR	NR	<5%
Worlds Foremost Bank	4/15/2020	200,000	NR	NR	<5%
Comenity Bank	6/24/2020	200,336	NR	NR	<5%
Capital One Bank USA NA	8/12/2020	201,844	NR	NR	<5%
Capital One NA	9/16/2020	201,122	NR	NR	<5%
Goldman Sachs Bank USA	11/4/2020	200,962	NR	NR	<5%
HSBC Bank USA NA	10/7/2021	241,989	NR	NR	5.0%
Total Negotiable Certificates of Deposit		$ 4,138,882			
Total Investments		$ 4,835,382			
Deposits		20,702,765			
Petty Cash & Change Funds		1,337			
Total Cash and Investments		$ 25,539,484			

NR - Not Rated
<5% - Concentration by individual issuer is less than 5% of investments

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

b. Investments (Continued)

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

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

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

		Fair Value Measurements Using		
	December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt Securities				
U.S. Agencies	$ 696,500	$ -	$ 696,500	$ -
Negotiable certificates of deposit	4,138,882	-	4,138,882	-
Total debt securities	$ 4,835,382	$ -	$ 4,835,382	$ -
Total investments included in the Fair value hierarchy	$ 4,835,382	$ -	$ 4,835,382	$ -

Debt securities classified in Level 2 are valued using the following approaches:

- U.S. Agencies: a market approach by utilizing quoted prices for identical securities in markets that are not active;
- Negotiable Certificates of Deposit: matrix pricing based on the securities' relationship to benchmark quoted prices.

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

b. Investments (Continued)

Interest Rate Risk

The County's investment policy requires the County to structure its investment portfolio so that securities meet the cash requirements for ongoing operations. It also requires the County to invest their operation funds in primarily shorter-term securities, liquid asset funds, money market mutual funds, or other similar investment pools. At December 31, 2016, the County minimizes exposure to interest rate risk by investing in negotiable certificates of deposit, and U.S. Government Agencies Securities.

Credit Risk

Minnesota Statutes restrict the types of investments that the County may invest in. The County's investment policy does not further limit its investment choices. As of December 31, 2016, the County's investments were rated Aaa by Moody's.

Concentration Credit Risk

The County's investment policy places a limit of no more than 20% of their securities may be invested with any one issuer, with the exception of U.S. Government Securities and U.S. Government Agencies securities.

Custodial Credit Risk

For an investment, this is the risk that, in the event of failure by the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County's investment policy further limits their investments by limiting the amount of investments to any one broker to the amount SIPC and excess SIPC coverage available. As of December 31, 2016, the County's investments were not exposed to custodial credit risk.

As of December 31, 2016, the County's investments consisted of $696,000 in government bonds and $4,138,882 in negotiable certificates of deposit.

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2016, for the County are as follows:

	County Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes	$ 176,072	$ -
Special Assessments	4,851,127	3,991,928
Accounts Receivable	6,992	-
Loans Receivable	300,149	300,149
Interest	15,518	-
Due from Other Governments	3,773,099	-
Total	$ 9,122,957	$ 4,292,077

Loans Receivable arise from the Martin County Area Redevelopment Authority loans in 1989 and 1990. These loans are only collectible when the homeowner transfers ownership, or the property loses homestead status, therefore no loans are expected to be collected during the next subsequent year.

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets

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

Government-Type Activities – Primary Government

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Being Depreciated				
Land and Right of Way	$ 1,190,311	$ -	$ -	$ 1,190,311
Construction in Progress	371,468	2,982,190	3,129,161	224,497
Total Capital Assets, Not Being Depreciated	1,561,779	2,982,190	3,129,161	1,414,808
Capital Assets, Being Depreciated				
Buildings and Improvements	8,371,458	603,291	-	8,974,749
Land Improvements	67,266	-	-	67,266
Machinery, Furniture, and Equipment	4,941,788	99,143	88,458	4,952,473
Infrastructure	88,304,701	2,656,251	-	90,960,952
Vehicles	2,255,581	249,434	688,701	1,816,314
Total Capital Assets, Being Depreciated	103,940,794	3,608,119	777,159	106,771,754
Less Accumulated Depreciation for				
Buildings and Improvements	4,903,112	155,838	-	5,058,950
Land Improvements	23,063	3,211	-	26,274
Machinery, Furniture, and Equipment	3,723,264	200,113	88,458	3,834,919
Infrastructure	27,493,479	1,748,379	-	29,241,858
Vehicles	1,093,410	173,807	365,914	901,303
Total Accumulated Depreciation	37,236,328	2,281,348	454,372	39,063,304
Total Capital Assets, Being Depreciated, Net	66,704,466	1,326,771	322,787	67,708,450
Governmental Activities Capital Assets, Net	$ 68,266,245	$ 4,308,961	$ 3,451,948	$ 69,123,258

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets (Continued)

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

Government-Type Activities

General Government	$	106,562
Public Safety		48,974
Highways and Streets, Including Depreciation of Infrastructure Assets		2,084,557
Culture and Recreation		20,455
Conservation of Natural Resources		20,800
Total Depreciation Expense - Governmental Activities	$	2,281,348

B. Interfund Receivables and Payables

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

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	Reason
General	Road and Bridge	$ 4	Postage
	Ditch	10,694	Loan, Postage
Total Due to General Fund		10,698	
Road and Bridge	General	3,359	Fuel
Total Due to Road and Bridge Fund		3,359	
Total To/From Other Funds		$ 14,057	

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

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities

1. Long-Term Debt

General Obligation Bonds

The County issued General Obligation Construction Bonds during 2006 to fund road improvements within the County. The County issued general obligation MPFA bonds during 2009 to fund ditch improvements within the County's drainage system. The County issued General Obligation Drainage Ditch Bonds during 2014 to fund ditch repairs and improvements within the County. The County issued General Obligation Crossover Refunding Bonds in 2014 to refund the 2006 General Obligation Construction Bonds. The County issued General Obligation Drainage Ditch Bonds during 2016 to fund ditch repairs and improvements within the County.

Loans Payable

The County has entered into several agreements with the State of Minnesota to provide revolving loans to County residents for improvements to failing septic systems. These revolving loans are secured by special assessments placed on the individual parcels requesting the repair of a failing septic system.

Debt Summary

Types of Indebtedness	Maturity	Amounts	Rates (%)	Original Amount	Outstanding Balance 2016
General Obligation Bonds					
Drainage Ditch Bonds, 2014A	2035	$70,000 - $180,000	2.00 - 4.00	$ 2,515,000	$ 2,240,000
Crossover Refunding Bonds, 2014B	2023	$225,000 - $255,000	2.00 - 2.20	$ 1,670,000	$ 1,670,000
Drainage Ditch Bonds, 2016A	2037	$75,000 - $410,000	2.00 - 2.75	$ 7,270,000	$ 7,270,000
MPFA Obligations	2029	$29,000 - $33,000	1.00	$ 628,307	$ 402,000
			Subtotal		11,582,000
			Plus: Unamortized Premiums		229,278
			Total General Obligation Bonds		11,811,278
Loans Payable	2019	$1,655 - $11,031	2.00	$ 201,056	$ 55,729
			Total Long-Term Debt		$ 11,867,007

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

2. Debt Service Requirements

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

Year Ending	General Obligation		Loans Payable		Total	
December 31	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 509,000	$ 310,654	$ 22,963	$ 1,451	$ 531,963	$ 312,105
2018	729,000	247,354	21,736	547	750,736	247,901
2019	745,000	232,964	11,030	110	756,030	233,074
2020	760,000	218,314	-	-	760,000	218,314
2021	780,000	203,264	-	-	780,000	203,264
2022-2026	3,122,000	798,966	-	-	3,122,000	798,966
2027-2031	2,327,000	513,819	-	-	2,327,000	513,819
2032-2036	2,270,000	234,813	-	-	2,270,000	234,813
2037	340,000	9,350	-	-	340,000	9,350
Total	$ 11,582,000	$ 2,769,498	$ 55,729	$ 2,108	$ 11,637,729	$ 2,771,606

Debt Refunding

On December 1, 2014, the County issued $1,670,000 of General Obligation Crossover Refunding Bonds, Series 2014B, with an average interest rate of 2.06 percent to refund $1,620,000 of the General Obligation Construction Bonds, Series 2006A with an average interest rate of 4.12 percent. The refunding of the Series 2006A bonds was conducted by means of a crossover refunding mechanism. The County continued to make principal and interest payment on the Series 2006A bonds through the call date of March 1, 2016. The County refunded the bonds to reduce its total debt service payments by $89,641 and to obtain an economic gain (difference between the present values of the debt service payment on the old and new debt) of $82,894.

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

3. Changes in Long-Term Liabilities

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

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation					
Construction	$ 1,820,000	$ -	$ 1,820,000	$ -	$ -
Less: Discount	(26,573)	-	(26,573)	-	-
Drainage Ditch	2,410,000	-	170,000	2,240,000	180,000
Plus: Premium	51,550	-	2,578	48,972	2,578
Crossover Refunding	1,670,000	-	-	1,670,000	225,000
Plus: Premium	26,596	-	3,324	23,272	3,324
Drainage Ditch	-	7,270,000	-	7,270,000	75,000
Plus: Premium	-	157,034	-	157,034	7,478
MPFA Obligations	431,000	-	29,000	402,000	29,000
Total General Obligations	6,382,573	7,427,034	1,998,329	11,811,278	522,380
Loans Payable	82,945	-	27,216	55,729	22,963
Advance from Other Governments	908,232	-	908,232	-	-
Compensated Absences	601,193	595,708	577,708	619,193	517,165
Governmental Activity Long-Term Liabilities	$ 7,974,943	$ 8,022,742	$ 3,511,485	$ 12,486,200	$ 1,062,508

Compensated absences, other post-employment benefit obligation, and the net pension liability are generally liquidated by the General Fund and the Road and Bridge Special Revenue Fund.

D. Unearned Revenue/Deferred Inflows of Resources

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

	Unearned Revenue	Deferred Inflows of Resources - Unavailable
Taxes and special assessments, delinquent and unavailable	$ -	$ 5,027,199
Highway allotments that do not provide current financial resources	-	3,422,531
Loans receivable	-	300,149
Grants and interest receivable	111,287	8,957
Total Governmental Funds	$ 111,287	$ 8,758,836

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Fund Balance

The detail of Martin County's fund balance classifications are as follows:

	General	Road and Bridge	Human Services	Ditch
FUND BALANCES				
Nonspendable				
Inventories	$ -	$ 961,332	$ -	$ -
Restricted				
Law Library	42,629	-	-	-
Sheriff's Contingency	5,000	-	-	-
E-911 System	396,094	-	-	-
Recorder's Equipment Purchases	318,277	-	-	-
Debt Service	-	-	-	200,466
Endowments	3,721	-	-	-
Victim Assistance	28,323	-	-	-
Supervision Fees	15,239	-	-	-
Veteran's Van	3,763	-	-	-
Inmate Commissary	5,002	-	-	-
Conceal & Carry	131,862	-	-	-
Communications Truck	9,529	-	-	-
DEA Forfeiture Funds	35,948	-	-	-
Aquatic Invasive Species Aid	190,932	-	-	-
Economic Development	-	-	-	-
Solid Waste	-	-	-	-
Ditch Maintenance & Repair	-	-	-	2,314,673
Ditch Improvement & Repairs; Unspent Bond Proceeds	-	-	-	2,927,250
Committed				
Human Services	-	-	628,872	-
Assigned				
Building Projects	-	-	-	-
Forfeited Land	106,854	-	-	-
Road & Bridge	-	6,951,764	-	-
Unassigned	6,999,549	-	-	(1,812,662)
Total Fund Balances	$ 8,292,722	$ 7,913,096	$ 628,872	$ 3,629,727

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Fund Balance (Continued)

	Nonmajor Funds	Total Governmental Funds
FUND BALANCES		
Nonspendable		
Inventories	$ -	$ 961,332
Restricted		
Law Library	-	42,629
Sheriff's Contingency	-	5,000
E-911 System	-	396,094
Recorder's Equipment Purchases	-	318,277
Debt Service	583,772	784,238
Endowments	-	3,721
Victim Assistance	-	28,323
Supervision Fees	-	15,239
Veteran's Van	-	3,763
Inmate Commissary	-	5,002
Conceal & Carry	-	131,862
Communications Truck	-	9,529
DEA Forfeiture Funds	-	35,948
Aquatic Invasive Species Aid	-	190,932
Economic Development	212,742	212,742
Solid Waste	1,689,891	1,689,891
Ditch Maintenance & Repair	-	2,314,673
Ditch Improvement & Repairs; Unspent Bond Proceeds	-	2,927,250
Committed		
Human Services	-	628,872
Assigned		
Building Projects	2,056,989	2,056,989
Forfeited Land	-	106,854
Road & Bridge	-	6,951,764
Unassigned	-	5,186,887
Total Fund Balances	$ 4,543,394	$ 25,007,811

NOTE 4 OPERATING LEASE

At the end of 2016, the County maintained eleven operating leases for squad cars. In 2016, expenditures under these agreements totaled $45,901. Future minimum lease payments are as follows:

Year Ended	Amount
2017	$ 34,712
2018	30,151
2019	22,589
2020	6,830
Total	$ 94,282

NOTE 5 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

A. Defined Benefit Plan

1. Plan Description

All full-time and certain part-time employees of Martin 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 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.

NOTE 5 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

A. Defined Benefit Plan (Continued)

1. Plan Description (Continued)

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.

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.

NOTE 5 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

A. Defined Benefit Plan (Continued)

2. Benefits Provided (Continued)

For General Employees Retirement Fund (GERF) 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 (PEPFF) and Public Employees Correctional Fund (PECF) 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 2016. Public Employees Police and Fire Fund members were required to contribute 10.80 percent of their annual covered salary in 2016. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary in 2016.

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

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

General Employees Retirement Fund	$	342,010
Public Employees Police and Fire Fund		148,453
Public Employees Correctional Fund		61,453

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

NOTE 5 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

A. Defined Benefit Plan (Continued)

4. Pension Costs

General Employees Retirement Fund

At December 31, 2016, the County reported a liability of $5,634,936 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was .069 percent. It was .072 percent measured as of June 30, 2015. The County recognized pension expense of $712,396 for its proportionate share of the General Employees Retirement Fund's pension expense. In addition, the County recognized an additional $21,942 as revenue for its proportionate share of the State of Minnesota's contribution of $6 million to the General Employees Fund.

County's proportionate share of the net pension liability	$ 5,634,936
State of Minnesota's proportionate share of the net pension liability associated with the County	$ 73,588
Total	$ 5,708,524

The County reported it proportionate share of the GERF'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	$ -	$ 462,284
Difference between projected and actual investment earnings	1,079,101	-
Changes in actuarial assumptions	1,103,325	-
Changes in proportion	-	265,472
Contributions paid to PERA subsequent to the measurement date	178,855	-
Total	$ 2,361,281	$ 727,756

NOTE 5 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

A. Defined Benefit Plan (Continued)

4. Pension Costs (Continued)

General Employees Retirement Fund (Continued)

A total of $178,855 reported as deferred outflows of resources related to pensions resulting from the County's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	Pension Expense Amount	
2017	$	368,737
2018		368,737
2019		513,653
2020		203,543

Public Employees Police and Fire Fund

At December 31, 2016, the County reported a liability of $3,451,330 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for the employer payroll paid dates from July 1, 2015 through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was .086 percent. It was .085 percent measured as of June 30, 2015. The County recognized pension expense of $603,434 for its proportionate share of the Public Employees Police and Fire Fund's pension expense.

The County also recognized $7,740 as revenue, which results in a reduction of the net pension liability, for it 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.

NOTE 5 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

A. Defined Benefit Plan (Continued)

4. Pension Costs (Continued)

Public Employees Police and Fire Fund (Continued)

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	$ -	$ 394,459
Difference between projected and actual investment earnings	525,212	-
Changes in actuarial assumptions	1,899,418	
Changes in proportion	23,870	-
Contributions paid to PERA subsequent to the measurement date	78,490	-
Total	$ 2,526,990	$ 394,459

A total of $78,490 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	Pension Expense Amount
2017	$ 442,041
2018	442,041
2019	442,041
2020	399,973
2021	327,945

Public Employees Correctional Fund

At December 31, 2016, the County reported a liability of $1,315,130 for its proportionate share of the Public Employees Correctional Fund's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for the employer payroll paid dates from July 1, 2015 through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers.

NOTE 5 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

A. Defined Benefit Plan (Continued)

4. Pension Costs (Continued)

Public Employees Correctional Fund (Continued)

At June 30, 2016, the County's proportion was .36 percent. It was .38 percent measured as of June 30, 2015. The County recognized pension expense of $370,133 for its proportionate share of the Public Employees Correctional Fund's pension expense.

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	$ 1,030	$ 14,995
Changes in actuarial assumptions	837,896	-
Difference between projected and actual investment earnings	149,692	-
Changes in proportion	-	2,319
Contributions paid to PERA subsequent to the measurement date	31,579	-
Total	$ 1,020,197	$ 17,314

A total of $31,579 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	Pension Expense Amount
2017	$ 311,855
2018	311,855
2019	319,353
2020	28,241

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2016, was $1,685,963.

NOTE 5 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

A. Defined Benefit Plan (Continued)

5. Actuarial Assumptions

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan and Correctional Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years for the General Employees Plan and Police and Fire Plan, and 2.5 percent for all years for the Correctional Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2008, through June 30, 2015. 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 Plan was for the period 2006 through 2011.

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

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

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

NOTE 5 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

A. Defined Benefit Plan (Continued)

6. Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent, a reduction of the 7.9 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Police and Fire Fund and the Correctional Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056, and June 30, 2058, respectively. Beginning in fiscal years ended June 30, 2057 for the Police and Fire Fund and June 30, 2059 for the Correctional Fund, when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.6 percent for the Police and Fire Fund, and 5.31 percent for the Correctional Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.5 percent applied to all years of projected benefits through the point of asset depletion and 2.85 percent after.

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2016:

<u>General Employees Retirement Plan</u>

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

NOTE 5 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

A. Defined Benefit Plan (Continued)

7. Changes in Actuarial Assumptions (Continued)

Public Employees Police and Fire Plan

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

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.

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

Public Employees Correctional Plan

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.

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

8. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
County's proportionate share of the GERF net pension liability	$ 8,003,279	$ 5,634,936	$ 3,684,066
County's proportionate share of the PEPFF net pension liability	4,831,403	3,451,330	2,323,705
County's proportionate share of the PECF net pension liability	1,980,180	1,315,130	795,931

NOTE 5 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

A. Defined Benefit Plan (Continued)

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

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and .25 percent of the assets in each member account annually.

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

	Employee	Employer
Contribution amount	$ 4,301	$ 4,301
Percentage of covered payroll	5%	5%

NOTE 6 OTHER POSTEMPLOYMENT BENEFIT PLAN

The County provides postemployment health insurance for elected and non-elected employees, (except those employees whose positions are included in a collective bargaining unit) who retire with 20 or more years of County employment. The monthly payments are the single premium for the plan selected by the employee prior to retirement. Specifics of an employee's benefit vary with individual conditions and requirements such as hired date; full-time employment at date of retirement; years of continuous, uninterrupted service; age; and the Public Employees Retirement Association eligibility. All benefits cease at age 65. As of December 31, 2016, five retirees were receiving the continued health insurance benefit. The County's contributions for the year were $35,587.

The County provides health insurance benefits for certain retired employees under a single-employer fully-insured plan. The County provides benefits for retirees as required by state statutes. Active employees, who retire from the County when eligible to receive a retirement benefit from the Public Employees Retirement Association of Minnesota (PERA) (or similar plan), and do not participate in any other coverage with respect to both themselves and their eligible dependent(s) are eligible under the County's health benefits program. Pursuant to the provisions of the plan, retirees are required to pay varying percentages of the total premium cost.

As of January 1, 2016, there was one retiree receiving health benefits from the County's health plan, who is also entitled to full health insurance benefits for life due to not being eligible for Medicare. The implicit rate subsidy amount was determined by an actuarial study to be $15,242 for 2016.

A. Annual OPEB Cost and Net OPEB Obligation

The County's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial 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 2016, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

Annual Required Contribution (ARC)	$ 57,727
Interest on Net OPEB Obligation	16,591
Adjustment to ARC	(16,772)
Annual OPEB Cost	57,546
Contributions During the Year	(50,829)
Increase in Net OPEB Obligation	6,717
NET OPEB - Beginning of Year	395,330
NET OPEB - End of the Year	$ 402,047

NOTE 6 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

A. Annual OPEB Cost and Net OPEB Obligation (Continued)

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

Year Ended December 31,	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
2016	$ 57,546	$ 50,829	88.3 %	$ 402,047
2015	56,799	45,759	80.6 %	395,330
2014	55,948	16,023	28.6 %	384,290

B. Funding Status

The County currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero. As of January 1, 2014, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial liability for benefits was $554,442 and that actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $554,442. The covered payroll (annual payroll of active employees covered by the plan) was $6,004,677, and the ratio of the UAAL to the covered payroll was 9.2 percent.

C. Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends.

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.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations. The UAAL is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at December 31, 2016 was 21 years.

NOTE 6 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

C. Actuarial Methods and Assumptions (Continued)

In the January 1, 2014 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0% discount rate, which is based on the estimated long-term investment yield on the general assets of the County using an underlying long-term inflation assumption of 4.0%. The annual healthcare cost trend rate is 8.0% initially, reduced incrementally to an ultimate rate of 5.0% over seven years.

The unfunded actuarial accrued liability is being amortized as a percentage of payroll over 30-year closed amortization period.

NOTE 7 RISK MANAGEMENT

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

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

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

NOTE 8 CONDUIT DEBT

On May 1, 2012, the County issued the $7,000,000 Housing Facilities Revenue Note (Goldfinch Estates-Vista Prairie Communities Project), Series 2012A. This note was issued to finance the cost of expansion to Goldfinch Estates in Fairmont, Minnesota. The note has an interest rate of 4.375 percent and matures in amounts of $16,745 to $5,607,576 in the years 2017 to 2022.

NOTE 8 CONDUIT DEBT (CONTINUED)

Martin County has no obligation for this debt, which was provided to Goldfinch Estates-Vista Prairie Communities for the capital improvement. Accordingly, the note will not be reported as a liability in the financial statements. The aggregate amount of all outstanding conduit debt obligations at December 31, 2016 was $6,848,801.

NOTE 9 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS

A. Contingent Liabilities

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

B. Subsequent Events

In November of 2017, the County plans to sell $4,900,000 of General Obligation Drainage Ditch Bonds. The intent of the planned issue is to finance several ditch repairs and improvements within the County.

NOTE 10 OTHER ORGANIZATIONS

<u>Joint Ventures</u>

<u>Faribault – Martin County Human Services Board</u>
Martin County entered into a joint powers agreement with Faribault County (Minnesota Statutes §471.59) to provide welfare and health services to county residents (Minnesota Statutes §§ 402.01-.10). The Faribault – Martin – Watonwan Human Services Board was established on June 30, 1975. As of January 1, 1991, Watonwan County withdrew from the Human Services Board. Martin and Faribault Counties are continuing with the joint powers agreement. The Board has 12 members, six from each county. Each county collects its share of local tax revenues and transfers these funds to the Board to fulfill its ongoing financial responsibility. Complete financial statements for the Human Services Board can be obtained at 115 West First Street, Fairmont, Minnesota 56031.

<u>Faribault – Martin County Transit Board</u>
Martin County entered into a joint powers agreement with Faribault County (Minnesota Statutes §471.59) in 2015 to provide a coordinated service delivery and funding source for public transportation.

<u>Minnesota River Valley Drug Task Force</u>
The primary responsibility of the task force is to detect, investigate, gather evidence and apprehend drug traffickers, as well as assist in violent crimes and gang related investigation within the geographic boundaries of the communities that comprise the task force.

NOTE 10 OTHER ORGANIZATIONS (CONTINUED)

Joint Ventures (Continued)

Prairieland Solid Waste Board
Martin County entered into a joint powers agreement with Faribault County in 1990 to build and operate a solid waste composting plant, the Prairieland Solid Waste Board. Prairieland continues to place a special assessment on homeowners to offset net losses, equipment, depreciation, and future plans.

Fees not sent to Prairieland will be kept in the Solid Waste Fund of the County and are restricted for Solid Waste programs approved by the County Board.

Prairieland Solid Waste Board reported a change in net position of $6,422 in 2016. The full-faith and credit and taxing power of Faribault and Martin Counties is pledged to the payment of each County's proportional share of the principal and interest when due. Complete financial statements for the Prairieland Solid Waste Board can be obtained at 801 East Fifth Street North, P.O. Box 100, Truman, Minnesota 56088.

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

The Red Rock Rural Water System is governed by a nine-member board appointed for terms of three years by the District Court. Each County is responsible for levying and collecting the special assessments from the benefited properties within the County. The bond issue and notes payable are shown as long-term debt in the financial statements of the Red Rock Rural Water System. Complete financial statements of the Red Rock Rural Water System can be obtained from the main office in Jeffers, Minnesota 56145.

Rural Minnesota Energy Board
The Rural Minnesota Energy Board was established in 2005 under the authority of Minnesota Statutes §471.59. The Board includes Blue Earth, Cottonwood, Faribault, Jackson, Lincoln, Lyon, Martin, Mower, Murray, Nobles, Pipestone, Redwood, Renville, Rock, Sibley, Watonwan, and Yellow Medicine Counties. The purpose of the Board is to provide policy guidance on issues surrounding energy development in rural Minnesota and to foster the diversification of the economic climate in rural Minnesota.

The focus of the board includes, but is not limited to, renewable energy, wind energy, energy transmission lines, hydrogen energy technology, and bio-diesel and ethanol use.

The governing body is composed of one voting member and one alternate member from each participating county's Board of Commissioners. The Board shall remain in existence as long as two or more counties remain parties to the agreement.

NOTE 10 OTHER ORGANIZATIONS (CONTINUED)

Joint Ventures (Continued)

Rural Minnesota Energy Board (Continued)

Should the Board cease to exist assets shall be liquidated, after payment of liabilities, based upon the ratios set out under the equal and proportionate share articles of the agreement. During 2016, Martin County paid $1,000 to the Board.

South Central Minnesota Emergency Communications Board
The South Central Regional Emergency Communications Board was established pursuant to Minnesota Statutes §§471.59 and 403.39 and a joint powers agreement effective May 27, 2008.

The Board consists of one County Commissioner from each county included in the agreement, one City Council member from each city included in the agreement, a member of the South Central Minnesota Regional Advisory Committee, a member of the South Central Minnesota Regional Radio System User Committee, and a member of the Owners and Operators Committee. The primary function of the joint venture is to provide regional administration of enhancements to the Statewide Public Safety Radio and Communication System for the Allied Radio Matrix for Emergency Response (ARMER) owned and operated by the State of Minnesota and to enhance and improve interoperable public safety communications.

South Central Workforce Council
The South Central Workforce Council Joint Powers Board is comprised of one representative from each of the participating County Boards. The Board is the local governmental body that appoints the Workforce Council members and is a full partner with them in overseeing area employment and training programs. The County did not provide any funding to the Council during 2016.

Jointly Governed Organizations

Intelligent Transit Consortium
The Intelligent Transit System (ITS) Transit Consortium was established to implement and maintain the ITS among its members, which include the counties of Meeker, Pipestone, Sherburne, Wright, Brown, and Martin. Initial transit software and services were funded by an American Recovery and Reinvestment Act grant. Each individual consortium member is responsible for future mapping support and upgrade costs. It is expected that there will be upgrades every three years. During 2016, the County did not contribute any funding to the Transit Consortium.

Minnesota Counties Computer Cooperative (MCCC)
Under Minnesota Joint Powers Law, Minn. Stat. § 471.59, Minnesota counties have created MCCC to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During the year, the County expended $7,300.

NOTE 10 OTHER ORGANIZATIONS (CONTINUED)

Jointly Governed Organizations (Continued)

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, the County expended $1,560 to the joint powers.

Region Five – Southwest Minnesota Homeland Security Emergency Management Organization

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

Sentence to Service

Martin County, in conjunction with other local governments, participates in the State of Minnesota's Sentence 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 Departments of Corrections and Natural Resources, provide the funds needed to operate the STS program. Although Martin County has no operational or financial control over the STS program, Martin County budgets for a percentage of this program.

South Central Emergency Medical Services

The South Central Emergency Medical Services (SEMS) provides various emergency medical services to several counties. The County did not provide any funding to SEMS during 2016.

South Central Minnesota County Comprehensive Water Planning Project

The South Central Minnesota County Comprehensive Water Planning Project was established to provide regional water quality to Minnesota River Basin member counties. The project involves Blue Earth, Brown, Cottonwood, Faribault, Freeborn, Jackson, Le Sueur, Martin, Nicollet, Sibley, Steele, Waseca, and Watonwan Counties. During the year, the County made no payments to the project.

Greater Blue Earth River Basin Alliance

The Greater Blue Earth River Basin Alliance provides the preparation to comprehensive water plans for the participating counties. During 2016, the County paid $7,789 to the Alliance.

NOTE 10 OTHER ORGANIZATIONS (CONTINUED)

Jointly Governed Organizations (Continued)

South Central Community Based Initiative
The purpose of the Joint Powers Board is to facilitate agreement between the Minnesota Department of Human Services (DHS) and county mental health authorities in 10 South Central Minnesota counties to redesign and implement new community-based mental health services for adults with serious and persistent mental illness. The County did not provide any funding to the organization during 2016.

South Central Services Cooperative
Based in North Mankato, MN the South Central Service Cooperative (SCSC) programs and services are member driven to utilize resources in the most efficient and effective manner possible. SCSC is one of nine regional agencies called service cooperatives, established in 1976 by Minnesota legislation (M.S. 123A.21). The Minnesota Service Cooperatives perform planning on a regional basis and assist in meeting specific needs of clients in participating governmental units which could be better provided by a Service Cooperative than by members themselves. SCSC specializes in providing insurance services. Health insurance pools are formed by groups who band together to leverage economies of scale to lower costs and achieve claim cost stability. The SCSC manages the pools, manages premium collection, conducts carrier proposal every four years and negotiates stop loss and administrative costs which are approximately 20% lower than the commercial market. These pools are governed by state law and an elected board of directors and consist of public employers who maintain a Joint Powers Agreement with the Service Cooperative. During 2016, the County did not provide any funding to the Cooperative.

NOTE 11 AGRICULTURAL BEST MANAGEMENT LOAN PROGRAM

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point sources water pollution. While the County is not liable for the repayment of the loans in any manner, it does have certain responsibilities under the agreement. Management believes the County has met those responsibilities for 2016.

NOTE 12 SPECIAL BENEFIT TAX LEVY

In 1993, the South Central Minnesota Multi-County Housing Authority (the Authority) issued $20,315,000 of revenue bonds to construct housing units in Martin County and four surrounding counties. The Authority defaulted on these bonds. In 2000, the counties entered into a settlement agreement where each of the counties will approve a special benefit tax levy on behalf of the Authority from 2001 through 2024 to cover the operating deficits based on each county's proportionate share of housing units constructed. Martin County's proportionate share of the operating deficit for 2016 is $86,088.

The proportionate shares on the counties may change for the years 2017 through 2024 if there are changes in the taxable market value over the 2001 taxable market value.

NOTE 13 HUMAN SERVICES BOARD OPERATING LEASE

Martin County (lessor) has an operating lease with the Human Services Board of Faribault and Martin Counties (lessee) that runs from January 1 through December 31. This lease is automatically renewed on an annual basis unless either party decides to terminate the lease at least 90 days before the end of the term. The total annual rent is $173,256 payable in 12 monthly installments of $14,438 on the first day of each month.

NOTE 14 CONTRACT COMMITMENTS

The County has active projects as of December 31, 2016. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Ditch Projects	$ 3,321,333	$ 1,755,145

REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MD&A

MARTIN COUNTY
FAIRMONT, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts			Variance
	Original	Final	Actual Amounts	with Final Budget
REVENUES				
Taxes	$ 8,174,642	$ 8,174,642	$ 8,444,537	$ 269,895
Special Assessments	134,618	134,618	149,685	15,067
Licenses and Permits	51,000	51,000	78,108	27,108
Intergovernmental	1,406,530	1,406,530	1,593,746	187,216
Charges for Services	360,250	360,250	423,900	63,650
Fines and Forfeits	31,000	31,000	32,314	1,314
Investment Earnings	200,000	200,000	183,379	(16,621)
Miscellaneous	538,386	530,386	899,877	369,491
Total Revenues	10,896,426	10,888,426	11,805,546	917,120
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Commissioners	248,541	248,541	222,166	26,375
Courts	48,000	48,000	75,477	(27,477)
County Administration	794,125	779,270	849,613	(70,343)
Forfeited Land	-	-	2,987	(2,987)
County Coordinator	230,867	230,867	218,728	12,139
County Auditor/Treasurer	624,666	624,666	603,625	21,041
County Assessor	568,008	568,008	540,105	27,903
Drainage Administrator	163,688	163,688	139,637	24,051
Elections	86,000	86,000	64,449	21,551
Data Processing	283,015	283,015	245,175	37,840
Attorney	494,435	494,435	451,909	42,526
Recorder	357,782	357,782	335,582	22,200
Buildings and Plant	414,572	414,572	377,958	36,614
Transit System	40,000	40,000	45,085	(5,085)
Planning and Zoning	446,336	446,336	321,613	124,723
Veterans Service Officer	169,877	169,877	163,183	6,694
Total General Government	4,969,912	4,955,057	4,657,292	297,765
PUBLIC SAFETY				
Sheriff	4,547,664	4,547,664	4,756,811	(209,147)
Coroner	15,000	15,000	10,638	4,362
Civil Defense	102,439	102,439	97,448	4,991
Victim/Witness	147,918	147,918	145,095	2,823
Total Public Safety	4,813,021	4,813,021	5,009,992	(196,971)
CULTURE AND RECREATION				
Administration	38,500	38,500	23,537	14,963
Library	736,305	736,305	695,953	40,352
Parks	121,273	121,273	407,738	(286,465)
Total Culture and Recreation	896,078	896,078	1,127,228	(231,150)

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

MARTIN COUNTY
FAIRMONT, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget
EXPENDITURES (CONTINUED)				
CURRENT (CONTINUED)				
CONSERVATION OF NATURAL RESOURCES				
County Extension	$ 146,441	$ 146,441	$ 121,476	$ 24,965
ECONOMIC DEVELOPMENT				
Administration	6,012	6,012	5,306	706
Economic Development	59,052	59,052	60,095	(1,043)
Total Economic Development	65,064	65,064	65,401	(337)
DEBT SERVICE				
Principal	25,519	25,519	25,519	-
Interest and Fiscal Charges	1,465	1,465	1,465	-
Total Debt Service	26,984	26,984	26,984	-
Total Expenditures	10,917,500	10,902,645	11,008,373	(105,728)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(21,074)	(14,219)	797,173	811,392
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Assets	-	-	2,079	2,079
SPECIAL ITEM				
Transfer of Transit Operations to Transit Board	-	-	(121,307)	(121,307)
NET CHANGE IN FUND BALANCE	$ (21,074)	$ (14,219)	677,945	$ 692,164
Fund Balance - Beginning of Year			7,614,777	
FUND BALANCE - END OF YEAR			$ 8,292,722	

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

MARTIN COUNTY
FAIRMONT, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Variance with Final
	Original	Final	Amounts	Budget
REVENUES				
Taxes	$ 2,660,243	$ 2,660,243	$ 2,702,161	$ 41,918
Intergovernmental	4,904,401	4,904,401	5,327,599	423,198
Charges for Services	10,000	10,000	16,125	6,125
Miscellaneous	200,000	200,000	372,671	172,671
Total Revenues	7,774,644	7,774,644	8,418,556	643,912
EXPENDITURES				
CURRENT				
HIGHWAYS AND STREETS				
Administration	415,710	415,710	434,604	(18,894)
Engineering and Construction	2,947,747	2,947,747	3,087,062	(139,315)
Maintenance	2,370,715	2,370,715	2,212,483	158,232
Equipment and Maintenance Shops	1,645,472	1,645,472	1,219,648	425,824
Miscellaneous	-	-	4,036	(4,036)
Total Highways and Streets	7,379,644	7,379,644	6,957,833	421,811
INTERGOVERNMENTAL				
Highways and Streets	420,000	420,000	433,150	(13,150)
Total Expenditures	7,799,644	7,799,644	7,390,983	408,661
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(25,000)	(25,000)	1,027,573	1,052,573
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Assets	25,000	25,000	22,433	(2,567)
NET CHANGE IN FUND BALANCE	$ -	$ -	1,050,006	$ 1,050,006
Fund Balance - Beginning of Year			6,748,417	
Increase (Decrease) in Inventories			114,673	
FUND BALANCE - END OF YEAR			$ 7,913,096	

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

MARTIN COUNTY
FAIRMONT, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Variance with Final
	Original	Final	Amounts	Budget
REVENUES				
Taxes	$ 3,096,463	$ 3,096,463	$ 3,086,104	$ (10,359)
Intergovernmental	73,865	73,865	81,957	8,092
Total Revenues	3,170,328	3,170,328	3,168,061	(2,267)
EXPENDITURES				
INTERGOVERNMENTAL				
Human Services	3,111,069	3,111,069	2,645,045	466,024
NET CHANGE IN FUND BALANCE	$ 59,259	$ 59,259	523,016	$ 463,757
Fund Balance - Beginning of Year			105,856	
FUND BALANCE - END OF YEAR			$ 628,872	

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

MARTIN COUNTY
FAIRMONT, MINNESOTA
SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFIT PLAN
DECEMBER 31, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2008	$ -	$ 1,176,935	$ 1,176,935	- %	$ 4,441,845	26.5%
1/1/2011	-	926,164	926,164	-	5,338,136	17.3
1/1/2014	-	554,442	554,442	-	6,004,677	9.2

See Note 6, Other Postemployment Benefit Plan, for more information.

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

MARTIN COUNTY
FAIRMONT, MINNESOTA
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated With Martin County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2016	0.069%	$ 5,634,936	$ 73,588	$ 5,708,524	$ 4,307,337	130.82%	68.91%
June 30, 2015	0.072	3,731,414	N/A	3,731,414	4,230,434	88.20	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.

MARTIN COUNTY
FAIRMONT, MINNESOTA
SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
December 31, 2016	$ 342,010	$ 342,010	$ -	$ 4,560,120	7.50%
December 31, 2015	321,516	321,516	-	4,286,873	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.

The notes to the required supplementary information are an integral part of these schedules.

MARTIN COUNTY
FAIRMONT, MINNESOTA
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2016

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2016	0.086%	$ 3,451,330	$ 830,547	415.55%	63.88%
June 30, 2015	0.085	965,799	779,811	123.85	88.61

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.

MARTIN COUNTY
FAIRMONT, MINNESOTA
SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2016

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
December 31, 2016	$ 148,453	$ 148,453	$ -	$ 916,379	16.20%
December 31, 2015	130,256	130,256	-	804,054	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.

The notes to the required supplementary information are an integral part of these schedules.

MARTIN COUNTY
FAIRMONT, MINNESOTA
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2016

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2016	0.360%	$ 1,315,130	$ 670,375	196.18%	58.16%
June 30, 2015	0.380	58,748	683,419	8.60	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.

MARTIN COUNTY
FAIRMONT, MINNESOTA
SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2016

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
December 31, 2016	$ 61,453	$ 61,453	$ -	$ 702,335	8.75%
December 31, 2015	58,190	58,190	-	665,030	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

The notes to the required supplementary information are an integral part of these schedules.

I. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds, except the Ditch Fund. All annual appropriations lapse at fiscal year-end. The appropriated budget is prepared by fund, function, and department. The County's department heads may make transfers of appropriations within the department. Transfers of appropriations between departments require approval of the Board of Commissioners. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is the department level. The Board of Commissioners amended the General Fund's revenue and expenditure budgets during 2016.

II. Excess of Expenditures Over Appropriations

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

	Budget	Actual	Difference
General Fund			
General Government			
Courts	$ 48,000	$ 75,477	$ 27,477
County Administration	779,270	849,613	70,343
Forfeited Land	-	2,987	2,987
Transit System	40,000	45,085	5,085
Public Safety			
Sheriff	4,547,664	4,756,811	209,147
Culture and Recreation			
Parks	121,273	407,738	286,465
Economic Development			
Economic Development	59,052	60,095	1,043
Road and Bridge Fund			
Highways and Streets			
Administration	415,710	434,604	18,894
Engineering and Construction	2,947,747	3,087,062	139,315
Miscellaneous	-	4,036	4,036
Intergovernmental			
Highways and Streets	420,000	433,150	13,150

Expenditures in excess of budget were funded by revenues in excess of budget or existing fund balance.

III. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

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

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed form 1.00 percent per year through 2035 and 2.5 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Police and Fire Plan

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

Public Employees Correctional Plan

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

SUPPLEMENTARY INFORMATION

MARTIN COUNTY
FAIRMONT, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016

Solid Waste Special Revenue Fund is used to account for revenues and expenditures of the recycling and solid waste program. Revenues are derived from fees collected, special assessments, and various intergovernmental revenues.

Area Development Special Revenue Fund is used to account for the revenues and expenditures of the Area Redevelopment Authority established by the Martin County Board of Commissioners to make loans for redevelopment within the county.

Building Capital Projects Fund is used to account for the maintenance and costs of running the County's buildings.

Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligations debt of the County.

MARTIN COUNTY
FAIRMONT, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2016

	Special Revenue Funds		Total Special Revenue Funds	Capital Projects Fund
	Solid Waste	Area Development		Building
ASSETS				
Cash and Pooled Investments	$ 1,705,291	$ 212,742	$ 1,918,033	$ 2,063,631
Taxes Receivable - Delinquent	-	-	-	1,033
Special Assessments Receivable				
Delinquent	54,549	-	54,549	-
Loans Receivable	-	300,149	300,149	-
Due from Other Governments	-	-	-	14,438
Total Assets	$ 1,759,840	$ 512,891	$ 2,272,731	$ 2,079,102
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	$ 3,540	$ -	$ 3,540	$ 17,935
Due to Other Governments	11,860	-	11,860	3,145
Total Liabilities	15,400	-	15,400	21,080
DEFERRED INFLOWS OF RESOURCES (Note 3.D)				
Unavailable Revenue	54,549	300,149	354,698	1,033
FUND BALANCES (NOTE 3.E)				
Restricted	1,689,891	212,742	1,902,633	-
Assigned	-	-	-	2,056,989
Total Fund Balances	1,689,891	212,742	1,902,633	2,056,989
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 1,759,840	$ 512,891	$ 2,272,731	$ 2,079,102

Debt Service Fund Debt Service	Total Nonmajor Funds
$ 583,772	$ 4,565,436
3,396	4,429
-	54,549
-	300,149
-	14,438
$ 587,168	$ 4,939,001
$ -	$ 21,475
-	15,005
-	36,480
3,396	359,127
583,772	2,486,405
-	2,056,989
583,772	4,543,394
$ 587,168	$ 4,939,001

MARTIN COUNTY
FAIRMONT, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2016

	Special Revenue Funds		Total Special Revenue Funds	Capital Projects Fund
	Solid Waste	Area Development		Building
REVENUES				
Taxes	$ -	$ -	$ -	$ 96,876
Special Assessments	635,491	-	635,491	-
Intergovernmental	68,710	-	68,710	2,584
Charges for Services	670	-	670	-
Investment Earnings	-	-	-	-
Miscellaneous	25,204	10,637	35,841	177,158
Total Revenues	730,075	10,637	740,712	276,618
EXPENDITURES				
CURRENT				
General Government	-	-	-	98,511
Sanitation	477,974	-	477,974	-
Economic Development	-	14,860	14,860	-
CAPITAL OUTLAY				
General Government	-	-	-	53,833
DEBT SERVICE				
Principal	-	-	-	-
Interest and Fiscal Charges	-	-	-	-
Total Expenditures	477,974	14,860	492,834	152,344
NET CHANGE IN FUND BALANCES	252,101	(4,223)	247,878	124,274
Fund Balance - Beginning of Year	1,437,790	216,965	1,654,755	1,932,715
FUND BALANCE - END OF YEAR	$ 1,689,891	$ 212,742	$ 1,902,633	$ 2,056,989

Debt Service Fund Debt Service	Total Nonmajor Funds
$ 246,955	$ 343,831
-	635,491
6,500	77,794
-	670
3,757	3,757
-	212,999
257,212	1,274,542
-	98,511
-	477,974
-	14,860
-	53,833
1,820,000	1,820,000
71,440	71,440
1,891,440	2,536,618
(1,634,228)	(1,262,076)
2,218,000	5,805,470
$ 583,772	$ 4,543,394

MARTIN COUNTY
FAIRMONT, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
SOLID WASTE NONMAJOR SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts			Variance
	Original	Final	Actual Amounts	with Final Budget
REVENUES				
Special Assessments	$ 644,590	$ 644,590	$ 635,491	$ (9,099)
Intergovernmental	71,654	71,654	68,710	(2,944)
Charges for Services	250	250	670	420
Miscellaneous	4,000	4,000	25,204	21,204
Total Revenues	720,494	720,494	730,075	9,581
EXPENDITURES				
CURRENT				
SANITATION				
Solid Waste Management	656,666	656,666	477,974	178,692
NET CHANGE IN FUND BALANCE	$ 63,828	$ 63,828	252,101	$ 188,273
Fund Balance - Beginning of Year			1,437,790	
FUND BALANCE - END OF YEAR			$ 1,689,891	

MARTIN COUNTY
FAIRMONT, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
BUILDING CAPITAL PROJECTS FUND
YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget
REVENUES				
Taxes	$ 97,671	$ 97,671	$ 96,876	$ (795)
Intergovernmental	2,329	2,329	2,584	255
Miscellaneous	173,233	173,233	177,158	3,925
Total Revenues	273,233	273,233	276,618	3,385
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Building Operations	259,617	259,617	98,511	161,106
CAPITAL OUTLAY				
General Government	65,000	65,000	53,833	11,167
Total Expenditures	324,617	324,617	152,344	172,273
NET CHANGE IN FUND BALANCE	$ (51,384)	$ (51,384)	124,274	$ 175,658
Fund Balance - Beginning of Year			1,932,715	
FUND BALANCE - END OF YEAR			$ 2,056,989	

MARTIN COUNTY
FAIRMONT, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
NONMAJOR DEBT SERVICE FUND
YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts			Variance
	Original	Final	Actual Amounts	with Final Budget
REVENUES				
Taxes	$ 248,153	$ 248,153	$ 246,955	$ (1,198)
Intergovernmental	5,852	5,852	6,500	648
Investment Earnings	-	-	3,757	3,757
Total Revenues	254,005	254,005	257,212	3,207
EXPENDITURES				
CURRENT				
DEBT SERVICE				
Principal	200,000	200,000	1,820,000	(1,620,000)
Interest and Fiscal Charges	54,005	54,005	71,440	(17,435)
Total Expenditures	254,005	254,005	1,891,440	(1,637,435)
NET CHANGE IN FUND BALANCE	$ -	$ -	(1,634,228)	(1,634,228)
Fund Balance - Beginning of Year			2,218,000	
FUND BALANCE - END OF YEAR			$ 583,772	

MARTIN COUNTY
FAIRMONT, MINNESOTA
AGENCY FUNDS

Agency funds account for assets held in a custodial capacity for others.

State Agency Fund – to account for the collection and distribution of funds for the State of Minnesota.

Mortgage Registry Tax Fund – to account for collection and payment of mortgage registry tax to the County and State of Minnesota.

Deed Tax Fund – to account for collection and payment of deed tax to the County and the State of Minnesota.

Taxes and Penalties Fund – to account for the collection of taxes and penalties and their payments to the various taxing districts.

MARTIN COUNTY
FAIRMONT, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2016

	Balance January 1	Additions	Deductions	Balance December 31
STATE AGENCY				
ASSETS				
Cash and Pooled Investments	$ 9,448	$ 409,291	$ 406,372	$ 12,367
LIABILITIES				
Due to Other Governments	$ 9,448	$ 409,291	$ 406,372	$ 12,367
MORTGAGE REGISTRY TAX				
ASSETS				
Cash and Pooled Investments	$ 35,864	$ 210,389	$ 237,384	$ 8,869
LIABILITIES				
Due to Other Governments	$ 35,864	$ 210,389	$ 237,384	$ 8,869
DEED TAX				
ASSETS				
Cash and Pooled Investments	$ 49,622	$ 304,353	$ 314,451	$ 39,524
LIABILITIES				
Due to Other Governments	$ 49,622	$ 304,353	$ 314,451	$ 39,524
TAXES AND PENALTIES				
ASSETS				
Cash and Pooled Investments	$ 401,729	$ 37,428,842	$ 37,442,924	$ 387,647
LIABILITIES				
Due to Other Governments	$ 401,729	$ 37,428,842	$ 37,442,924	$ 387,647
TOTAL ALL AGENCY FUNDS				
ASSETS				
Cash and Pooled Investments	$ 496,663	$ 38,352,875	$ 38,401,131	$ 448,407
LIABILITIES				
Due to Other Governments	$ 496,663	$ 38,352,875	$ 38,401,131	$ 448,407

OTHER SUPPLEMENTARY INFORMATION

MARTIN COUNTY
FAIRMONT, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUES
YEAR ENDED DECEMBER 31, 2016

	Total All Funds
APPROPRIATIONS AND SHARED REVENUE	
STATE	
Highway Users Tax	$ 5,255,323
County Program Aid	444,364
Aquatic Invasive Species Aid	99,805
Market Value Credit	325,784
Disparity Reduction Aid	35,697
PERA Rate Increase Aid	36,967
State Police Aid	90,957
Enhanced 911	95,164
SCORE	68,710
Total Appropriations and Shared Revenue	6,452,771
STATE GRANTS	
MINNESOTA DEPARTMENT OF	
Corrections	81,815
Natural Resources	78,370
Transportation	54,427
Veteran's Affairs	20,000
Pollution Control Agency	54,118
Public Safety	32,922
Water and Soil Resources	70,438
Total State Grants	392,090
FEDERAL GRANTS	
FEDERAL DEPARTMENT OF	
Commerce	341
Justice	121,040
Transportation	82,927
Homeland Security	31,927
Total Federal Grants	236,235
Total State and Federal Grants	628,325
Total Intergovernmental Revenues	$ 7,081,096