

STATE OF MINNESOTA

Office of the State Auditor



Julie Blaha
State Auditor

TRAVERSE COUNTY
WHEATON, MINNESOTA

YEAR ENDED DECEMBER 31, 2018

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 100 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension – monitors investment, financial, and actuarial reporting for approximately 600 public pension funds; and

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

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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Year Ended December 31, 2018



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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2018

		<u>Term Expires</u>
Elected		
Commissioners		
Board Member	Todd Johnson	District 1 January 2019
Chair	Kevin Leininger	District 2 January 2021
Board Member	Mark Gail	District 3 January 2019
Vice Chair	David Salberg	District 4 January 2021
Board Member	Thomas Monson, Jr.	District 5 January 2019
Attorney	Matthew Franzese	January 2019
Auditor/Treasurer	Kit Johnson	January 2019
County Recorder	LeAnn Peyton	January 2019
Registrar of Titles	LeAnn Peyton	January 2019
County Sheriff	Trevor Wright	January 2019
Appointed		
County Coordinator	Lisa Zahl	Indefinite
Assessor	Dianne Reinart	January 2021
County Engineer	Chad Gillespie	May 2023
Coroner	Stanley Gallagher, D.O.	January 2019
Examiner of Titles	Matthew Franzese	Indefinite
Social Services Director	Rhonda Antrim	Indefinite
Veterans Service Officer	Dustin Kindelberger	April 2023

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JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Traverse County
Wheaton, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Traverse County, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Traverse County as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1.E. to the financial statements, in 2018, the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Traverse County's basic financial statements. The Supplementary Information as listed in the table of contents is presented for purposes of additional analysis and is

not a required part of the basic financial statements. The Supplementary Information as listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary 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 28, 2019, on our consideration of Traverse County’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of Traverse County’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Traverse County’s internal control over financial reporting and compliance.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

October 28, 2019

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018
(Unaudited)**

INTRODUCTION

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of Traverse County's financial activities for the fiscal year ended December 31, 2018. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$38,403,770, of which \$42,428,102 is the net investment in capital assets. Of the governmental activities' net position, \$2,210,219 is restricted to specific purposes/uses by the County, and unrestricted is a deficit (\$6,234,551).
- Business-type activities (Traverse Care Center and Prairieview Place) have a deficit total net position of (\$2,326,256), of which there is a negative net investment in capital assets balance of (\$607,687).
- Traverse County's net position increased by \$1,875,482 for the year ended December 31, 2018. Of the increase, \$1,758,862 was in the governmental activities' net position, while the business-type activities' net position increased by \$116,620.
- The net cost of Traverse County's governmental activities for the year ended December 31, 2018, was \$4,106,157. General revenues totaling \$5,865,019 funded the net cost.
- Traverse County's governmental funds' fund balances increased by \$496,939 in 2018. This net increase consisted of a \$304,822 decrease in the General Fund, an increase of \$776,253 in the Road and Bridge Special Revenue Fund, an increase of \$32,022 in the Social Services Special Revenue Fund, and a decrease of \$6,514 in the Jail/LEC Debt Service Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-Wide Financial Statements

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

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

The Statement of Activities presents the County's governmental activities. Most of the basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities. The County has Traverse Care Center and Prairieview Place reported under business-type activities.

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

Fund Financial Statements

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

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

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

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

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

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

Fiduciary funds are used to account for resources held for the benefit of parties outside of the County. Fiduciary funds are not reflected in the government-wide statements because the resources of these funds are not available to support the County's own programs or activities. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All fiduciary activities are reported in a separate Statement of Fiduciary Net Position on Exhibit 10.

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30 through 88 of this report.

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analysis focuses on net position (Table 1) and changes in net position (Table 2) of the County's governmental and business-type activities. Comparative data with 2017 is presented.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets						
Current and other assets	\$ 7,538,504	\$ 6,521,099	\$ (89,266)	\$ (19,324)	\$ 7,449,238	\$ 6,501,775
Capital assets	44,224,926	43,881,352	2,312,659	2,516,229	46,537,585	46,397,581
Total Assets	\$ 51,763,430	\$ 50,402,451	\$ 2,223,393	\$ 2,496,905	\$ 53,986,823	\$ 52,899,356
Deferred Outflows of Resources						
Deferred pension outflows	\$ 1,255,666	\$ 1,856,572	\$ -	\$ -	\$ 1,255,666	\$ 1,856,572
Deferred other postemployment benefits outflows	265,843	-	102,818	-	368,661	-
Deferred charges on bond refunding	-	-	66,713	74,125	66,713	74,125
Total Deferred Outflows of Resources	\$ 1,521,509	\$ 1,856,572	\$ 169,531	\$ 74,125	\$ 1,691,040	\$ 1,930,697
Liabilities						
Long-term liabilities	\$ 12,449,179	\$ 8,383,887	\$ 4,696,288	\$ 3,792,360	\$ 17,145,467	\$ 12,176,247
Other liabilities	564,619	668,530	22,892	24,329	587,511	692,859
Total Liabilities	\$ 13,013,798	\$ 9,052,417	\$ 4,719,180	\$ 3,816,689	\$ 17,732,978	\$ 12,869,106
Deferred Inflows of Resources						
Advance from other governments	\$ -	\$ 106,574	\$ -	\$ -	\$ -	\$ 106,574
Prepaid property taxes	-	77,939	-	-	-	77,939
Deferred pension inflows	1,867,371	1,389,732	-	-	1,867,371	1,389,732
Total Deferred Inflows of Resources	\$ 1,867,371	\$ 1,574,245	\$ -	\$ -	\$ 1,867,371	\$ 1,574,245
Net Position						
Net investment in capital assets	\$ 42,428,102	\$ 42,026,659	\$ (607,687)	\$ (639,879)	\$ 41,820,415	\$ 41,386,780
Restricted	2,210,219	1,411,301	-	-	2,210,219	1,411,301
Unrestricted	(6,234,551)	(1,805,599)	(1,718,569)	(605,780)	(7,953,120)	(2,411,379)
Total Net Position, as reported	\$ 38,403,770	\$ 41,632,361	\$ (2,326,256)	\$ (1,245,659)	\$ 36,077,514	\$ 40,386,702
Change in accounting principle*		(4,987,453)		(1,197,217)		(6,184,670)
Total Net Position, as restated		\$ 36,644,908		\$ (2,442,876)		\$ 34,202,032

*The January 1, 2018, net position was decreased by \$4,987,453 for governmental activities and by \$1,197,217 for business-type activities to adopt new accounting guidance by implementing the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Traverse County's total net position as of December 31, 2018, is \$36,077,514. The governmental activities' and the business-type activities of the County report deficit unrestricted net position of (\$6,234,551) and (\$1,718,569), respectively.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues						
Fees, charges, fines, and other	\$ 1,210,701	\$ 1,040,556	\$ 687	\$ 1,061	\$ 1,211,388	\$ 1,041,617
Operating grants and contributions	5,782,647	5,297,797	-	-	5,782,647	5,297,797
Capital grants and contributions	-	495,227	25,083	78,587	25,083	573,814
General revenues						
Property taxes	5,126,501	4,914,474	-	-	5,126,501	4,914,474
Other taxes	3,151	2,106	-	-	3,151	2,106
Grants, gifts, and miscellaneous	735,367	427,024	342,000	344,707	1,077,367	771,731
Total Revenues	\$ 12,858,367	\$ 12,177,184	\$ 367,770	\$ 424,355	\$ 13,226,137	\$ 12,601,539
Expenses						
General government	\$ 2,075,461	\$ 1,805,720	\$ -	\$ -	\$ 2,075,461	\$ 1,805,720
Public safety	1,979,095	2,437,893	-	-	1,979,095	2,437,893
Highways and streets	3,932,628	4,263,011	-	-	3,932,628	4,263,011
Sanitation	163,046	164,199	-	-	163,046	164,199
Human services	2,270,006	2,383,078	-	-	2,270,006	2,383,078
Health	43,199	62,110	-	-	43,199	62,110
Culture and recreation	69,134	76,852	-	-	69,134	76,852
Conservation of natural resources	504,179	514,927	-	-	504,179	514,927
Economic development	43,726	6,903	-	-	43,726	6,903
Interest	19,031	47,702	-	-	19,031	47,702
Traverse Care Center	-	-	189,346	401,620	189,346	401,620
Prairieview Place	-	-	61,804	128,380	61,804	128,380
Total Expenses	\$ 11,099,505	\$ 11,762,395	\$ 251,150	\$ 530,000	\$ 11,350,655	\$ 12,292,395
Increase (Decrease) in Net Position	\$ 1,758,862	\$ 414,789	\$ 116,620	\$ (105,645)	\$ 1,875,482	\$ 309,144
Net Position – January 1, as restated	36,644,908*	41,217,572	(2,442,876)*	(1,140,014)	34,202,032*	40,077,558
Net Position – December 31, as reported	\$ 38,403,770	\$ 41,632,361	\$ (2,326,256)	\$ (1,245,659)	\$ 36,077,514	\$ 40,386,702

*Amount includes a change in accounting principles.

The County's activities increased net position by 5.5 percent (\$36,077,514 for 2018 compared to \$34,202,032 for 2017).

Governmental Activities

The cost of all governmental activities in 2018 was \$11,099,505. However, as shown in the Statement of Activities, the amount that taxpayers ultimately financed for these activities through County taxes and other general revenues was only \$4,106,157, because some of the cost was paid by those who directly benefited from the programs (\$1,210,701) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,782,647). General revenues totaling \$5,865,019 funded the net cost.

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

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost (Revenue) of Services	
	2018	2017	2018	2017
Highways and streets	\$ 3,932,628	\$ 4,263,011	\$ (220,253)	\$ 61,522
Human services	2,270,006	2,383,078	779,235	914,568
General government	2,075,461	1,805,720	1,854,863	1,649,245
Public safety	1,979,095	2,437,893	1,248,994	1,809,379
Conservation of natural resources	504,179	514,927	251,329	276,738
All others	338,136	357,766	191,989	217,363
Total	\$ 11,099,505	\$ 11,762,395	\$ 4,106,157	\$ 4,928,815

Business-Type Activities

Revenues for Traverse County’s business-type activities (see Table 2) were \$367,770, and expenses were \$251,150.

THE COUNTY’S FUNDS

Upon completing the year, Traverse County’s governmental funds’ fund balance increased by \$496,939. This net increase was due to a decrease of \$304,822 in the General Fund, an increase of \$776,253 in the Road and Bridge Special Revenue Fund, an increase of \$32,022 in the Social Services Special Revenue Fund, and a decrease of \$6,514 in the Jail/LEC Debt Service Fund.

General Fund Budgetary Highlights and Other Budgetary Highlights

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

Actual revenues exceeded budgeted revenues in the General Fund by \$347,161, primarily due to intergovernmental revenue of \$301,334 and tax revenue of \$67,409 over the projected totals. These were primarily offset by charges for services revenue of \$22,441 and interest earnings of \$11,913 under the projected totals.

Actual expenditures were more than budgeted expenditures in the General Fund by \$573,230, primarily due to greater than expected expenditures of \$223,402 in public safety, \$175,000 in data processing for the County’s contribution to Counties Providing Technology, \$67,925 in conservation of natural resources, \$44,271 in general government, \$35,626 in debt service, and \$32,726 in economic development.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, Traverse County had \$46,537,585 in a broad range of capital assets, net of accumulated depreciation. The investment in capital assets includes land, buildings, bridges, highways, machinery, furniture, and equipment (see Table 4). The investment in capital assets increased \$140,004, or 0.3 percent, from the previous year.

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 189,281	\$ 189,281	\$ 16,175	\$ 16,175	\$ 205,456	\$ 205,456
Right-of-way	962,548	962,548	-	-	962,548	962,548
Construction in progress	40,000	30,000	-	-	40,000	30,000
Buildings	2,674,832	2,790,065	2,240,172	2,440,734	4,915,004	5,230,799
Land improvements	97,888	111,837	-	-	97,888	111,837
Machinery, furniture, and equipment	2,012,583	1,793,510	56,312	59,320	2,068,895	1,852,830
Infrastructure	38,247,794	38,004,111	-	-	38,247,794	38,004,111
Totals	\$ 44,224,926	\$ 43,881,352	\$ 2,312,659	\$ 2,516,229	\$ 46,537,585	\$ 46,397,581

Long-Term Debt

As of December 31, 2018, Traverse County had \$4,405,000 in long-term obligations, compared with \$4,785,000 as of December 31, 2017—a decrease of 7.9 percent due to the scheduled payment of general obligation and revenue bonds.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 1,455,000	\$ 1,595,000	\$ 580,000	\$ 650,000	\$ 2,035,000	\$ 2,245,000
Revenue bonds	-	-	2,370,000	2,540,000	2,370,000	2,540,000
Totals	\$ 1,455,000	\$ 1,595,000	\$ 2,950,000	\$ 3,190,000	\$ 4,405,000	\$ 4,785,000

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Traverse County's elected and appointed officials considered many factors when setting the fiscal year 2019 budget and tax levy. These factors include: state aid levels, increasing input costs, appropriate fund balances, being mindful of the burden on County taxpayers, and a need to provide a certain level of services to Traverse County residents/taxpayers.

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

Traverse County's Board of Commissioners settled on a final 2019 net levy of \$5,612,856, an increase of 7.72 percent from the 2018 levy of \$5,210,508.

Minnesota Department of Revenue statistics show that Traverse County management's efforts over the years are keeping the County share of property taxes relatively low in comparison with other counties. Data taken from the Minnesota Department of Revenue website show that, as of the most recent data available (2016), Traverse County had the lowest "Average Effective Rate for All Property" and the second lowest "County Average Local Net Tax Capacity Rate" amongst all 87 Minnesota counties.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 5,123,355	\$ 180,734	\$ 5,304,089
Taxes receivable			
Delinquent	47,022	-	47,022
Accounts receivable – net	17,138	-	17,138
Due from other governments	1,766,258	-	1,766,258
Internal balances	270,000	(270,000)	-
Loans receivable	180,812	-	180,812
Inventories	76,253	-	76,253
Prepaid items	57,666	-	57,666
Noncurrent assets			
Capital assets			
Non-depreciable	1,191,829	16,175	1,208,004
Depreciable – net of accumulated depreciation	43,033,097	2,296,484	45,329,581
Total Assets	\$ 51,763,430	\$ 2,223,393	\$ 53,986,823
<u>Deferred Outflows of Resources</u>			
Deferred pension outflows	\$ 1,255,666	\$ -	\$ 1,255,666
Deferred other postemployment benefits outflows	265,843	102,818	368,661
Deferred charges on bond refunding	-	66,713	66,713
Total Deferred Outflows of Resources	\$ 1,521,509	\$ 169,531	\$ 1,691,040

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	Governmental Activities	Business-Type Activities	Total
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 150,054	\$ 65	\$ 150,119
Salaries payable	182,439	-	182,439
Due to other governments	149,181	-	149,181
Contracts payable	67,419	-	67,419
Accrued interest payable	15,526	22,827	38,353
Compensated absences payable – current	196,968	-	196,968
General obligation bonds payable – current	145,000	70,000	215,000
Revenue bonds payable – current	-	175,000	175,000
Leases payable – current	67,953	-	67,953
Noncurrent liabilities			
Compensated absences payable	97,568	-	97,568
Other postemployment benefits liability	7,892,046	1,709,229	9,601,275
Net pension liability	2,533,192	-	2,533,192
General obligation bonds payable	-	513,120	513,120
General obligation crossover bonds payable	1,341,801	-	1,341,801
Revenue bonds payable	-	2,228,939	2,228,939
Leases payable	174,651	-	174,651
	\$ 13,013,798	\$ 4,719,180	\$ 17,732,978
<u>Deferred Inflows of Resources</u>			
Deferred pension inflows	\$ 1,867,371	\$ -	\$ 1,867,371
<u>Net Position</u>			
Net investment in capital assets	\$ 42,428,102	\$ (607,687)	\$ 41,820,415
Restricted for			
General government	125,950	-	125,950
Public safety	89,252	-	89,252
Highways and streets	1,647,519	-	1,647,519
Sanitation	84,927	-	84,927
Debt service	137,979	-	137,979
Conservation of natural resources	124,592	-	124,592
Unrestricted	(6,234,551)	(1,718,569)	(7,953,120)
	\$ 38,403,770	\$ (2,326,256)	\$ 36,077,514

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Governmental activities		
General government	\$ 2,075,461	\$ 145,244
Public safety	1,979,095	454,686
Highways and streets	3,932,628	358,018
Sanitation	163,046	58,424
Human services	2,270,006	168,446
Health	43,199	-
Culture and recreation	69,134	12,226
Conservation of natural resources	504,179	9,889
Economic development	43,726	3,768
Interest	19,031	-
	\$ 11,099,505	\$ 1,210,701
Total governmental activities		
Business-type activities		
Traverse Care Center	\$ 189,346	\$ 687
Prairieview Place	61,804	-
	\$ 251,150	\$ 687
Total business-type activities		
	\$ 11,350,655	\$ 1,211,388
Total		

General Revenues

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

Total general revenues

Change in net position

Net Position – Beginning, as restated (Note 1.E.)

Net Position – Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 75,354	\$ -	\$ (1,854,863)	\$ -	\$ (1,854,863)
275,415	-	(1,248,994)	-	(1,248,994)
3,794,863	-	220,253	-	220,253
67,729	-	(36,893)	-	(36,893)
1,322,325	-	(779,235)	-	(779,235)
-	-	(43,199)	-	(43,199)
-	-	(56,908)	-	(56,908)
242,961	-	(251,329)	-	(251,329)
4,000	-	(35,958)	-	(35,958)
-	-	(19,031)	-	(19,031)
\$ 5,782,647	\$ -	\$ (4,106,157)	\$ -	\$ (4,106,157)
\$ -	\$ 25,083	\$ -	\$ (163,576)	\$ (163,576)
-	-	-	(61,804)	(61,804)
\$ -	\$ 25,083	\$ -	\$ (225,380)	\$ (225,380)
\$ 5,782,647	\$ 25,083	\$ (4,106,157)	\$ (225,380)	\$ (4,331,537)
		\$ 5,126,501	\$ -	\$ 5,126,501
		3,151	-	3,151
		601,574	-	601,574
		28,128	-	28,128
		14,466	-	14,466
		91,199	342,000	433,199
		\$ 5,865,019	\$ 342,000	\$ 6,207,019
		\$ 1,758,862	\$ 116,620	\$ 1,875,482
		36,644,908	(2,442,876)	34,202,032
		\$ 38,403,770	\$ (2,326,256)	\$ 36,077,514

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Jail/LEC Debt Service</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled investments	\$ 2,236,687	\$ 1,063,482	\$ 1,503,616	\$ 166,718	\$ 4,970,503
Petty cash and change funds	1,400	-	100	-	1,500
Undistributed cash in agency funds	85,379	41,124	19,798	5,051	151,352
Taxes receivable					
Delinquent	27,968	11,929	5,649	1,476	47,022
Accounts receivable – net	11,146	1,521	4,471	-	17,138
Due from other funds	20,694	749	-	-	21,443
Due from other governments	282,979	1,272,408	210,871	-	1,766,258
Loans receivable	180,812	-	-	-	180,812
Advance to other funds	270,000	-	-	-	270,000
Inventories	-	76,253	-	-	76,253
Prepaid items	52,466	5,200	-	-	57,666
Total Assets	\$ 3,169,531	\$ 2,472,666	\$ 1,744,505	\$ 173,245	\$ 7,559,947
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 54,380	\$ 41,586	\$ 54,088	\$ -	\$ 150,054
Salaries payable	104,624	45,441	32,374	-	182,439
Contracts payable	-	67,419	-	-	67,419
Due to other funds	749	1,753	18,941	-	21,443
Due to other governments	105,965	6,308	36,908	-	149,181
Total Liabilities	\$ 265,718	\$ 162,507	\$ 142,311	\$ -	\$ 570,536
Deferred Inflows of Resources					
Unavailable revenue	\$ 51,394	\$ 1,256,281	\$ 60,917	\$ 1,349	\$ 1,369,941

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Jail/LEC Debt Service</u>	<u>Total</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
(Continued)					
Fund Balances					
Nonspendable					
Inventories	\$ -	\$ 76,253	\$ -	\$ -	\$ 76,253
Loans receivable	180,812	-	-	-	180,812
Prepaid items	52,466	5,200	-	-	57,666
Advances	270,000	-	-	-	270,000
Restricted for					
Law library	4,276	-	-	-	4,276
Recorder's equipment	56,670	-	-	-	56,670
Recorder's compliance fund	65,004	-	-	-	65,004
Enhanced 911	89,252	-	-	-	89,252
Invasive species aid	124,592	-	-	-	124,592
Solid waste	84,927	-	-	-	84,927
Debt service	-	-	-	171,896	171,896
Highway allotments	-	401,861	-	-	401,861
Assigned to					
Road and bridge	-	570,564	-	-	570,564
Capital projects	636,044	-	-	-	636,044
Social services	-	-	1,541,277	-	1,541,277
Unassigned	1,288,376	-	-	-	1,288,376
Total Fund Balances	\$ 2,852,419	\$ 1,053,878	\$ 1,541,277	\$ 171,896	\$ 5,619,470
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 3,169,531	\$ 2,472,666	\$ 1,744,505	\$ 173,245	\$ 7,559,947

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 4

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

Fund balance – total governmental funds (Exhibit 3)	\$	5,619,470
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.		44,224,926
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds.		1,255,666
Deferred outflows of resources resulting from the other postemployment benefits liability are not available resources and, therefore, are not reported in governmental funds.		265,843
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources – unavailable revenue in the governmental funds.		1,369,941
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	\$ (1,486,801)	
Capital leases	(242,604)	
Compensated absences	(294,536)	
Net pension liability	(2,533,192)	
Accrued interest payable	(15,526)	
Other postemployment benefits liability	<u>(7,892,046)</u>	(12,464,705)
Deferred inflows of resources resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds.		<u>(1,867,371)</u>
Net Position of Governmental Activities (Exhibit 1)	\$	<u>38,403,770</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Jail/LEC Debt Service</u>	<u>Total</u>
Revenues					
Taxes	\$ 2,853,324	\$ 1,415,380	\$ 682,600	\$ 173,627	\$ 5,124,931
Special assessments	57,433	-	-	-	57,433
Licenses and permits	9,043	-	-	-	9,043
Intergovernmental	1,030,323	3,193,650	1,391,639	-	5,615,612
Charges for services	587,075	259,922	21,116	-	868,113
Investment earnings	14,587	-	-	-	14,587
Miscellaneous	124,948	41,464	154,160	-	320,572
Total Revenues	\$ 4,676,733	\$ 4,910,416	\$ 2,249,515	\$ 173,627	\$ 12,010,291
Expenditures					
Current					
General government	\$ 1,816,250	\$ -	\$ -	\$ -	\$ 1,816,250
Public safety	2,142,618	-	-	-	2,142,618
Highways and streets	-	4,057,110	-	-	4,057,110
Sanitation	156,061	-	-	-	156,061
Human services	-	-	2,214,675	-	2,214,675
Health	43,199	-	-	-	43,199
Culture and recreation	67,284	-	-	-	67,284
Conservation of natural resources	536,187	-	-	-	536,187
Economic development	43,726	-	-	-	43,726
Intergovernmental	175,000	302,556	-	-	477,556
Debt service					
Principal	35,473	18,219	2,144	140,000	195,836
Interest	153	4	674	39,013	39,844
Administrative charges	-	-	-	1,128	1,128
Total Expenditures	\$ 5,015,951	\$ 4,377,889	\$ 2,217,493	\$ 180,141	\$ 11,791,474

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Jail/LEC Debt Service</u>	<u>Total</u>
Excess of Revenues Over (Under) Expenditures	\$ (339,218)	\$ 532,527	\$ 32,022	\$ (6,514)	\$ 218,817
Other Financing Sources (Uses)					
Capital leases	\$ 34,396	\$ 157,403	\$ -	\$ -	\$ 191,799
Proceeds from sale of capital assets	-	57,592	-	-	57,592
Total Other Financing Sources (Uses)	\$ 34,396	\$ 214,995	\$ -	\$ -	\$ 249,391
Net Change in Fund Balance	\$ (304,822)	\$ 747,522	\$ 32,022	\$ (6,514)	\$ 468,208
Fund Balance – January 1	3,157,241	277,625	1,509,255	178,410	5,122,531
Increase (decrease) in inventories	-	28,731	-	-	28,731
Fund Balance – December 31	\$ 2,852,419	\$ 1,053,878	\$ 1,541,277	\$ 171,896	\$ 5,619,470

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES—GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

Net change in fund balance – total governmental funds (Exhibit 5) \$ 468,208

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

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

Unavailable revenue – December 31	\$ 1,369,941	
Unavailable revenue – January 1	<u>(579,459)</u>	790,482

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

Expenditures for general capital assets and infrastructure	\$ 2,214,666	
Net book value of assets disposed of	(114,454)	
Current year depreciation	<u>(1,756,638)</u>	343,574

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

Principal repayments		
General obligation bonds	\$ 140,000	
Amortization of bond premiums	<u>3,533</u>	143,533

Some capital asset additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing but, in the statement of net position, the lease obligation is reported as a liability. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Principal payments on capital leases	\$ 55,836	
Capital leases (See Note 3.C.4. for more information)	<u>(191,799)</u>	(135,963)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 6
(Continued)**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES—GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

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	\$ 18,408	
Change in compensated absences	436	
Change in other postemployment benefits liability	(242,972)	
Change in deferred other postemployment benefits outflows	265,843	
Change in net pension liability	1,157,127	
Change in deferred pension outflows	(600,906)	
Change in deferred pension inflows	(477,639)	
Change in inventories	28,731	149,028
	<hr/>	<hr/>
Change in Net Position of Governmental Activities (Exhibit 2)		<u><u>\$ 1,758,862</u></u>

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PROPRIETARY FUNDS

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2018**

	Business-Type Activities – Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 21,954	\$ 158,780	\$ 180,734
Noncurrent assets			
Capital assets			
Nondepreciable	\$ -	\$ 16,175	\$ 16,175
Depreciable – net of accumulated depreciation	423,219	1,873,265	2,296,484
Total noncurrent assets	\$ 423,219	\$ 1,889,440	\$ 2,312,659
Total Assets	\$ 445,173	\$ 2,048,220	\$ 2,493,393
<u>Deferred Outflows of Resources</u>			
Deferred other postemployment benefits outflows	\$ -	\$ 102,818	\$ 102,818
Deferred charges on bond refunding	-	66,713	66,713
Total Deferred Outflows of Resources	\$ -	\$ 169,531	\$ 169,531
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ -	\$ 65	\$ 65
Accrued interest payable	-	22,827	22,827
General obligation bonds payable – current	70,000	-	70,000
Revenue bonds payable – current	-	175,000	175,000
Total current liabilities	\$ 70,000	\$ 197,892	\$ 267,892
Noncurrent liabilities			
Advance from other funds	\$ 70,000	\$ 200,000	\$ 270,000
Other postemployment benefits liability	-	1,709,229	1,709,229
General obligation bonds payable – long-term	513,120	-	513,120
Revenue bonds payable – long-term	-	2,228,939	2,228,939
Total noncurrent liabilities	\$ 583,120	\$ 4,138,168	\$ 4,721,288
Total Liabilities	\$ 653,120	\$ 4,336,060	\$ 4,989,180

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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

***EXHIBIT 7
(Continued)***

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2018**

	Business-Type Activities – Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
<u>Net Position</u>			
Net investment in capital assets	\$ (159,901)	\$ (447,786)	\$ (607,687)
Unrestricted	(48,046)	(1,670,523)	(1,718,569)
Total Net Position	\$ (207,947)	\$ (2,118,309)	\$ (2,326,256)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Business-Type Activities – Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Operating Revenues			
Miscellaneous	\$ -	\$ 687	\$ 687
Operating Expenses			
Employee benefits and payroll taxes	\$ -	\$ (56,137)	\$ (56,137)
Professional services	3,688	2,932	6,620
Depreciation	45,754	182,899	228,653
Total Operating Expenses	\$ 49,442	\$ 129,694	\$ 179,136
Operating Income (Loss)	\$ (49,442)	\$ (129,007)	\$ (178,449)
Nonoperating Revenues (Expenses)			
Lease revenue	\$ 83,075	\$ 258,925	\$ 342,000
Interest expense	(12,362)	(59,652)	(72,014)
Total Nonoperating Revenues (Expenses)	\$ 70,713	\$ 199,273	\$ 269,986
Income (Loss) Before Capital Contributions	\$ 21,271	\$ 70,266	\$ 91,537
Capital Contributions	-	25,083	25,083
Change in Net Position	\$ 21,271	\$ 95,349	\$ 116,620
Net Position – January 1, as restated (Note 1.E.)	(229,218)	(2,213,658)	(2,442,876)
Net Position – December 31	\$ (207,947)	\$ (2,118,309)	\$ (2,326,256)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018
Increase (Decrease) in Cash and Cash Equivalents**

	<u>Business-Type Activities – Enterprise Funds</u>		
	<u>Prairieview Place</u>	<u>Traverse Care Center</u>	<u>Totals</u>
Cash Flows from Operating Activities			
Receipts from customers and users	\$ -	\$ 687	\$ 687
Payments to suppliers and employees	(3,688)	(99,748)	(103,436)
Nonoperating revenue received	83,075	258,925	342,000
Net cash provided by (used in) operating activities	<u>\$ 79,387</u>	<u>\$ 159,864</u>	<u>\$ 239,251</u>
Cash Flows from Noncapital Financing Activities			
Proceeds from advance from other funds	\$ -	\$ 200,000	\$ 200,000
Cash Flows from Capital and Related Financing Activities			
Principal paid on long-term debt	\$ (70,000)	\$ (170,000)	\$ (240,000)
Interest paid on long-term debt	(12,708)	(56,485)	(69,193)
Net cash provided by (used in) capital and related financing activities	<u>\$ (82,708)</u>	<u>\$ (226,485)</u>	<u>\$ (309,193)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (3,321)</u>	<u>\$ 133,379</u>	<u>\$ 130,058</u>
Cash and Cash Equivalents at January 1	<u>25,275</u>	<u>25,401</u>	<u>50,676</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 21,954</u></u>	<u><u>\$ 158,780</u></u>	<u><u>\$ 180,734</u></u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018
Increase (Decrease) in Cash and Cash Equivalents**

	Business-Type Activities – Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating income (loss)	<u>\$ (49,442)</u>	<u>\$ (129,007)</u>	<u>\$ (178,449)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	\$ 45,754	\$ 182,899	\$ 228,653
Nonoperating revenue received	83,075	258,925	342,000
Increase (decrease) in accounts payable	-	(20)	(20)
Increase (decrease) in deferred other postemployment benefits outflows	-	(102,818)	(102,818)
Increase (decrease) in other postemployment benefits liability	-	(50,115)	(50,115)
Total adjustments	<u>\$ 128,829</u>	<u>\$ 288,871</u>	<u>\$ 417,700</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 79,387</u>	<u>\$ 159,864</u>	<u>\$ 239,251</u>
Non-Cash Investing, Capital, and Related Financing Activities			
Capital assets contributed			
Buildings	\$ -	\$ 18,680	\$ 18,680
Machinery, furniture, and equipment	-	6,403	6,403

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FIDUCIARY FUNDS

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2018**

Assets

Cash and pooled investments	<u>\$ 190,796</u>
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Liabilities

Due to other governments	<u>\$ 190,796</u>
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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

Traverse County was established February 20, 1862, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Traverse County. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Coordinator, appointed by the Board, serves as the Clerk of the Board but has no vote.

Joint Ventures and Related Organization

The County participates in several joint ventures described in Note 5.B. The County also participates in a related organization described in Note 5.C.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about Traverse County. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. The County presents two enterprise funds. The County reports all of its governmental and proprietary funds as major funds.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

The County reports the following major enterprise funds:

- The Prairieview Place Fund is used to account for the lease revenues and debt payments of the County's congregate housing. The County leases its property and operations of Prairieview Place to LSS of Traverse, LLC. Note 5.D. contains additional information related to this lease.
- The Traverse Care Center Fund is used to account for the lease revenues and debt payments of the County's nursing home. The County leases its property and operations of Traverse Care Center to LSS of Traverse, LLC. Note 5.D. contains additional information related to this lease.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

1. Cash and Cash Equivalents

Cash and cash equivalents are identified only for the purpose of the statement of cash flows for the proprietary funds. The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2018. A market approach is used to value all investments other than external investment pools, which are measured at the net asset value. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2018 were \$14,831.

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

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

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

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

Special assessments receivable consist of delinquent special assessments payable in the years 2012 through 2018 and noncurrent special assessments payable in 2019 and after. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments.

All receivables are shown net of an allowance for uncollectible balances.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

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

6. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (such as roads, bridges, sidewalks, and similar items), and intangible assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value (entry price) on the date of donation.

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Capital Assets (Continued)

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

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

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

7. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated vacation, sick leave, and comp time balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. A liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide financial statements. The government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion consists of all comp time and vacation to the extent of vacation earned during the current year. The noncurrent portion consists of the remaining amount of vacation and vested sick leave balances. Compensated absences are liquidated by the General Fund, Road and Bridge Special Revenue Fund, and Social Services Special Revenue Fund.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Long-Term Obligations

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

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Acquisitions under capital leases are reported as an other financing source at the present value of the future minimum lease payments as of the inception date.

9. Pension Plan

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The County reports deferred outflows of resources only under the full accrual basis of accounting associated with defined benefit pension plans and other postemployment benefits (OPEB) and, accordingly, they are reported only in the statement of net position. The County also reports deferred charges on bond refunding in the Traverse Care Center Enterprise Fund in the business-type activities statement of net position. A deferred charge on bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The County has two types of deferred inflows that qualify for reporting in this category. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period in which it becomes 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 reports deferred inflows of resources associated with defined benefit pension plans and OPEB. These inflows arise only under the full accrual basis of accounting and, accordingly, are reported only in the statement of net position.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Unearned Revenue

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

12. Classification of Net Position

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

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

13. Classification of Fund Balances

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

13. Classification of Fund Balances (Continued)

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

14. Minimum Fund Balance

Traverse County has adopted a minimum fund balance policy for the General Fund and special revenue funds. The General Fund and special revenue funds are heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined it needs to maintain a minimum unrestricted fund balance (committed, assigned, and unassigned) of approximately 35 to 50 percent of fund operating revenues, or no less than five months of operating expenditures. At December 31, 2018, unrestricted fund balance for the General Fund and Social Services Special Revenue Fund was at or above the minimum fund balance level. The Road and Bridge Special Revenue Fund was below the minimum fund balance level.

15. Use of Estimates

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

E. Restatement of Net Position for Change in Accounting Principle

During the year ended December 31, 2018, the County adopted new accounting guidance by implementing the provisions of GASB Statement 75. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, changes the amount employers report as OPEB expense and defers some allocations of expenses to future years as deferred outflows or inflows of resources. This statement also requires additional note disclosures and schedules in the required supplementary information. Beginning net position has been restated to reflect this change.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Restatement of Net Position for Change in Accounting Principle (Continued)

	Governmental Activities	Business-Type Activities
Net Position, January 1, 2018, as previously reported	\$ 41,632,361	\$ (1,245,659)
Restatement of net position Adjustment for OPEB	(4,987,453)	(1,197,217)
Net Position, January 1, 2018, as restated	\$ 36,644,908	\$ (2,442,876)
	Prairieview Place Enterprise Fund	Traverse Care Center Enterprise Fund
Net Position, January 1, 2018, as previously reported	\$ (229,870)	\$ (1,015,789)
Restatement of net position Adjustment for OPEB	652	(1,197,869)
Net Position, January 1, 2018, as restated	\$ (229,218)	\$ (2,213,658)

2. Stewardship, Compliance, and Accountability

Deficit Net Position

The following funds had deficit net position as of December 31, 2018:

Prairieview Place Enterprise Fund	\$ 207,947
Traverse Care Center Enterprise Fund	2,118,309

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 5,123,355
Business-type activities	
Cash and pooled investments	180,734
Statement of fiduciary net position	
Cash and pooled investments	<u>190,796</u>
 Total Cash and Investments	 <u><u>\$ 5,494,885</u></u>

a. Deposits

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

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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County's policy is to minimize deposit custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2018, the County did not have any deposits exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County's policy is to minimize interest rate risk by: (1) structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and (2) investing operating funds primarily in shorter-term securities, money markets, or similar investment pools.

Credit Risk

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage is available. As of December 31, 2018, the County did not have any investments subject to custodial credit risk.

Concentration of Credit Risk

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

The following table presents the County's deposit and investment balances at December 31, 2018, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Negotiable certificates of deposit with brokers					
Customers Bank	N/R	N/A	>5%	06/14/2019	\$ 199,752
Comenity Bank	N/R	N/A	>5%	10/21/2019	99,307
Goldman Sachs Bank USA	N/R	N/A	>5%	01/14/2020	99,451
Total negotiable certificates of deposit with brokers					\$ 398,510
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	<5%	N/A	6,791
Total investments					\$ 405,301
Checking					3,893,941
Savings					579,362
Non-negotiable certificates of deposit					614,781
Change funds					1,500
Total Cash and Investments					\$ 5,494,885

N/R – Not Rated
N/A – Not Applicable

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

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

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

At December 31, 2018, the County had the following recurring fair value measurements:

	December 31, 2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
Negotiable certificates of deposit	\$ 398,510	\$ -	\$ 398,510	\$ -
Investments measured at the net asset value (NAV)				
MAGIC Portfolio	\$ 6,791			

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

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

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

2. Receivables

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

	<u>Receivable</u>	<u>Less: Allowance for Uncollectible Accounts</u>	<u>Net Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities				
Taxes	\$ 47,022	\$ -	\$ 47,022	\$ -
Accounts receivable	35,901	(18,763)	17,138	-
Due from other governments	1,766,258	-	1,766,258	-
Loans receivable	180,812	-	180,812	125,564
	<u>1,999,993</u>	<u>(18,763)</u>	<u>1,981,230</u>	<u>125,564</u>
Total Governmental Activities	<u>\$ 2,029,993</u>	<u>\$ (18,763)</u>	<u>\$ 2,011,230</u>	<u>\$ 125,564</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

2. Receivables (Continued)

Loans Receivable

In 2017, the County loaned Advantenon, Inc. \$180,812 to provide broadband internet services to the rural residents of Traverse County. Advantenon, Inc., started making payments to Traverse County during 2019.

	Beginning Balance	Increase	Decrease	Ending Balance
Advantenon, Inc.. loan	\$ 180,812	\$ -	\$ -	\$ 180,812

3. Capital Assets

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

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 189,281	\$ -	\$ -	\$ 189,281
Right-of-way	962,548	-	-	962,548
Construction in progress	30,000	10,000	-	40,000
Total capital assets not depreciated	\$ 1,181,829	\$ 10,000	\$ -	\$ 1,191,829
Capital assets depreciated				
Buildings	\$ 5,360,449	\$ -	\$ -	\$ 5,360,449
Land improvements	213,358	-	-	213,358
Machinery, furniture, and equipment	5,619,293	780,694	566,770	5,833,217
Infrastructure	53,773,311	1,423,972	-	55,197,283
Total capital assets depreciated	\$ 64,966,411	\$ 2,204,666	\$ 566,770	\$ 66,604,307

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

3. Capital Assets

Governmental Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 2,570,384	\$ 115,233	\$ -	\$ 2,685,617
Land improvements	101,521	13,949	-	115,470
Machinery, furniture, and equipment	3,825,783	447,167	452,316	3,820,634
Infrastructure	15,769,200	1,180,289	-	16,949,489
Total accumulated depreciation	<u>\$ 22,266,888</u>	<u>\$ 1,756,638</u>	<u>\$ 452,316</u>	<u>\$ 23,571,210</u>
Total capital assets depreciated, net	<u>\$ 42,699,523</u>	<u>\$ 448,028</u>	<u>\$ 114,454</u>	<u>\$ 43,033,097</u>
Governmental Activities Capital Assets, Net	<u>\$ 43,881,352</u>	<u>\$ 458,028</u>	<u>\$ 114,454</u>	<u>\$ 44,224,926</u>

Construction in progress at December 31, 2018, consists of amounts paid to date for new tax software.

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 16,175	\$ -	\$ -	\$ 16,175
Capital assets depreciated				
Buildings	\$ 6,322,273	\$ 18,680	\$ -	\$ 6,340,953
Land improvements	19,304	-	-	19,304
Machinery, furniture, and equipment	235,157	6,403	-	241,560
Total capital assets depreciated	<u>\$ 6,576,734</u>	<u>\$ 25,083</u>	<u>\$ -</u>	<u>\$ 6,601,817</u>
Less: accumulated depreciation for				
Buildings	\$ 3,881,539	\$ 219,242	\$ -	\$ 4,100,781
Land improvements	19,304	-	-	19,304
Machinery, furniture, and equipment	175,837	9,411	-	185,248
Total accumulated depreciation	<u>\$ 4,076,680</u>	<u>\$ 228,653</u>	<u>\$ -</u>	<u>\$ 4,305,333</u>
Total capital assets depreciated, net	<u>\$ 2,500,054</u>	<u>\$ (203,570)</u>	<u>\$ -</u>	<u>\$ 2,296,484</u>
Business-Type Activities Capital Assets, Net	<u>\$ 2,516,229</u>	<u>\$ (203,570)</u>	<u>\$ -</u>	<u>\$ 2,312,659</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

3. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	122,991
Public safety		120,311
Highways and streets, including depreciation of infrastructure assets		1,495,810
Human services		7,740
Sanitation		3,426
Culture and recreation		1,850
Conservation of natural resources		4,510
		4,510
Total Depreciation Expense – Governmental Activities	\$	1,756,638
Business-Type Activities		
Traverse Care Center	\$	182,899
Prairieview Place		45,754
		45,754
Total Depreciation Expense – Business-Type Activities	\$	228,653

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

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

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Special Revenue Fund	\$ 1,753
	Social Services Special Revenue Fund	18,941
Total General Fund		\$ 20,694
Road and Bridge Special Revenue Fund	General Fund	749
Total Due To/Due From Other Funds		\$ 21,443

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

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

2. Advances To/From Other Funds

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Prairieview Place Enterprise Fund	\$ 70,000
	Traverse Care Center Enterprise Fund	<u>200,000</u>
Total Advance To/From Other Funds		<u>\$ 270,000</u>

In 2017, the General Fund advanced \$70,000 to the Prairieview Place Enterprise Fund to fund a roof project for the Prairieview Place building. In 2018, the General Fund advanced \$200,000 to the Traverse Care Center Enterprise Fund to cover the cost of retiree insurance. The outstanding loan balances will be repaid once the G.O. Refunding Bond, Series 2013A, is paid in full, beginning in 2027.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2018, were as follows:

	Governmental Activities	Business-Type Activities
Accounts payable	\$ 150,054	\$ 65
Salaries payable	182,439	-
Due to other governments	149,181	-
Contracts payable	67,419	-
Total Payables	\$ 549,093	\$ 65

2. Deferred Inflows of Resources – Unavailable Revenue

Unavailable revenue consists of taxes, state and federal grants, charges for services, and miscellaneous revenues not collected soon enough after year-end to pay liabilities of the current period. Deferred inflows of resources at December 31, 2018, are summarized below by fund:

	Taxes	Grants	Other	Total
Governmental funds				
General Fund	\$ 16,394	\$ -	\$ 35,000	\$ 51,394
Special Revenue Funds				
Road and Bridge	6,455	1,245,820	4,006	1,256,281
Social Services	3,008	52,763	5,146	60,917
Jail/LEC Debt Service Fund	1,349	-	-	1,349
Total	\$ 27,206	\$ 1,298,583	\$ 44,152	\$ 1,369,941

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

3. Construction Commitments

The County had no active construction projects as of December 31, 2018. Construction commitments for highway projects are state-funded and, therefore, not obligations of the County.

4. Leases

Capital Leases

Governmental Activities

The County has entered into lease agreements as lessee for financing the acquisition of certain equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. Capital leases consist of the following at December 31, 2018:

<u>Leases</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
2016 Ford Police Interceptor	2019	Monthly	\$ 109	\$ 23,543	\$ 1,962
Recorder – copier	2019	Monthly	632	5,604	1,767
2015 GMC Sierra	2020	Monthly	668	30,323	2,526
2017 Ford Police Interceptor	2021	Monthly	605	29,025	18,141
2017 Ford Police Interceptor	2021	Monthly	603	28,966	18,104
Social Services – copier	2022	Monthly	235	11,919	8,756
Road and Bridge – copier	2022	Monthly	207	12,400	8,682
Sheriff – copier	2022	Monthly	207	12,400	8,683
2018 Ford Police Interceptor	2022	Monthly	575	27,993	26,663
Road and Bridge – tractor	2023	Semi-annual	9,705	97,052	87,347
Road and Bridge – tractor	2023	Semi-annual	6,035	60,351	54,316
Veterans Service Officer – copier	2023	Monthly	107	6,404	5,657
Total Governmental Activities Capital Leases					<u>\$ 242,604</u>

Capital lease payments are paid from the General Fund, Road and Bridge Special Revenue Fund, and Social Services Special Revenue Fund. The future minimum lease obligations and the net present value of the remaining minimum lease payments as of December 31, 2018, were as follows:

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Leases

Capital Leases

Governmental Activities (Continued)

<u>Year Ending December 31</u>	<u>Lease Payments</u>
2019	\$ 68,588
2020	61,946
2021	54,782
2022	42,321
2023	<u>16,167</u>
Subtotal	\$ 243,804
Less: amount representing interest	<u>(1,200)</u>
Net Present Value of Minimum Lease Payments	<u>\$ 242,604</u>

5. Long-Term Debt

Governmental Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2018</u>
General obligation bonds					
2015A G.O. Crossover		\$140,000 –	2.50 –		
Refunding Bonds	2027	\$180,000	2.75	\$ 1,595,000	\$ 1,455,000
Add: unamortized premium					<u>31,801</u>
Total General Obligation Bonds, Net					<u>\$ 1,486,801</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

5. Long-Term Debt (Continued)

Business-Type Activities

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

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

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2018</u>
2013A G.O. Governmental Housing Refunding Bonds	2027	\$65,000 – \$80,000	1.05 – 2.50	\$ 785,000	\$ 580,000
Add: unamortized premium					<u>3,120</u>
Total G.O. Bonds, Net					<u>\$ 583,120</u>
2012A G.O. Nursing Home Revenue Refunding Bonds	2030	\$160,000 – \$225,000	2.00 – 2.80	\$ 3,350,000	\$ 2,370,000
Add: unamortized premium					<u>33,939</u>
Total Revenue Refunding Bonds, Net					<u>\$ 2,403,939</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

6. Debt Service Requirements

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

Governmental Activities

Year Ending December 31	G.O. Crossover Refunding Bonds, Series 2015A	
	Principal	Interest
2019	\$ 145,000	\$ 35,450
2020	150,000	31,763
2021	155,000	27,950
2022	155,000	24,075
2023	160,000	20,137
2024 – 2027	690,000	37,794
Total	\$ 1,455,000	\$ 177,169

Business-Type Activities

Year Ending December 31	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2019	\$ 70,000	\$ 11,972	\$ 175,000	\$ 53,035
2020	70,000	10,923	175,000	49,535
2021	70,000	9,872	180,000	45,985
2022	70,000	8,578	180,000	42,385
2023	75,000	7,283	190,000	38,590
2024 – 2028	225,000	11,395	1,025,000	125,828
2029 – 2030	-	-	445,000	12,420
Total	\$ 580,000	\$ 60,023	\$ 2,370,000	\$ 367,778

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

7. Changes in Long-Term Liabilities

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

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
G.O. bonds payable	\$ 1,595,000	\$ -	\$ 140,000	\$ 1,455,000	\$ 145,000
Unamortized bond premium	35,334	-	3,533	31,801	-
Capital leases	106,641	191,799	55,836	242,604	67,953
Compensated absences	294,972	242,838	243,274	294,536	196,968
Governmental Activities Long-Term Liabilities	<u>\$ 2,031,947</u>	<u>\$ 434,637</u>	<u>\$ 442,643</u>	<u>\$ 2,023,941</u>	<u>\$ 409,921</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable					
General obligation refunding bonds	\$ 650,000	\$ -	\$ 70,000	\$ 580,000	\$ 70,000
Revenue bonds	2,540,000	-	170,000	2,370,000	175,000
Premium on bonds	40,233	-	3,174	37,059	-
Business-Type Activities Long-Term Liabilities	<u>\$ 3,230,233</u>	<u>\$ -</u>	<u>\$ 243,174</u>	<u>\$ 2,987,059</u>	<u>\$ 245,000</u>

8. Crossover Refunding

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

8. Crossover Refunding (Continued)

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

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

D. Other Postemployment Benefits (OPEB)

1. Plan Description

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

2. Funding Policy

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

No assets have been accumulated in a trust that meets the criteria in paragraph four of GASB 75. The OPEB plan does not issue a stand-alone financial report.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

D. Other Postemployment Benefits (OPEB)

2. Funding Policy (Continued)

As of the January 1, 2017, actuarial valuation, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	48
Active plan participants	74
Total	122

3. Total OPEB Liability

The County's total OPEB liability of \$9,601,275 was measured as of January 1, 2018, and was determined by an actuarial valuation as of January 1, 2017. The OPEB liability is liquidated by the General Fund, Road and Bridge Special Revenue Fund, and Social Services Special Revenue Fund. The Traverse Care Center is charged directly for its share of the annual OPEB cost.

The total OPEB liability for fiscal year-end December 31, 2018, reporting was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method	Entry Age, level percentage of pay
Inflation	2.50 percent
Salary increases	3.00 percent, average wage inflation plus merit/productivity increases
Health care cost trend	6.25 percent in 2018, decreasing to 5.00 percent over five years

The salary increases have been determined on the long-term inflation assumption plus any additional wage increase assumption in excess of inflation. The additional wage increase assumption is based on review of increases in the taxable wage base compared to inflation.

The current year discount rate is 3.30 percent. For the current valuation, the discount rate is the 20-year municipal bond yield. The municipal bond rate assumption was set by considering published rate information for 20-year high quality, tax exempt, general obligation municipal bonds as of January 1, 2018.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

D. Other Postemployment Benefits (OPEB)

3. Total OPEB Liability (Continued)

Mortality rates are based on Society of Actuaries RP-2014 adjusted to 2006 Headcount Weighted White Collar Mortality Tables with MP-2016 Generational Improvement Scale (Blue Collar adjustment for Police and Fire Personnel).

Economic assumptions are based on input from a variety of published sources of historical and projected future financial data.

4. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2017 (Restated)	\$ 9,408,418
Changes for the year	
Service cost	\$ 240,441
Interest	312,519
Benefit payments	(360,103)
Net change	\$ 192,857
Balance at December 31, 2018	\$ 9,601,275

5. OPEB Liability Sensitivity

The following presents the total OPEB liability of the County, calculated using the discount rate previously disclosed, as well as what the County's total OPEB liability would be if it were calculated using a discount rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	Discount Rate	Total OPEB Liability
1% Decrease	2.30%	\$ 10,807,860
Current	3.30	9,601,275
1% Increase	4.30	8,590,142

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

D. Other Postemployment Benefits (OPEB)

5. OPEB Liability Sensitivity (Continued)

The following presents the total OPEB liability of the County, calculated using the health care cost trend previously disclosed, as well as what the County's total OPEB liability would be if it were calculated using health care cost trend rates that are 1.00 percentage point lower or 1.00 percentage point higher than the current health care cost trend rate:

	Health Care Trend Rate	Total OPEB Liability
1% Decrease	5.25% Decreasing to 4.00%	\$ 8,470,996
Current	6.25% Decreasing to 5.00%	9,601,275
1% Increase	7.25% Decreasing to 6.00%	10,950,965

6. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the County recognized OPEB expense of \$552,960. The County reported deferred outflows of resources related to OPEB resulting from contributions made subsequent to the measurement date of \$368,661, which will be recognized as a reduction of the OPEB liability for the year ended December 31, 2019. The County had no deferred inflows of resources related to OPEB to report.

7. Changes in Actuarial Methods and Assumptions

The following changes in actuarial methods and assumptions occurred in 2018:

- The discount rate used changed from 3.50 percent to 3.30 percent.
- The actuarial cost method used changed from the Projected Unit Credit to the Entry Age, level percentage of pay.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

E. Pension Plans

1. Defined Benefit Pension Plans

a. Plan Description

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

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

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Police and Fire Plan (accounted for in the Police and Fire Fund). For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a prorated basis starting with 50 percent after five years and increasing ten percent for each year of service until fully vested after ten years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years and increasing 5.00 percent for each year of service until fully vested after 20 years.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

a. 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 Correctional Plan (accounted for in the Correctional Fund). For members hired after June 30, 2010, benefits vest on a prorated basis starting with 50 percent after five years and increasing ten percent for each year of service until fully vested after ten years.

b. 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. General Employees Plan and Police and Fire Plan benefit recipients receive a future annual 1.00 percent for the post-retirement benefit increase, while Correctional Plan benefit recipients receive 2.50 percent. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will be 2.50 percent. If, after reverting to a 2.50 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 1.00 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 60 consecutive months of allowable service, age, and years of credit at termination of service. In the General Employees Plan, two methods are used to compute benefits for Coordinated Plan members. Members hired prior to July 1, 1989, receive the

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

b. Benefits Provided (Continued)

higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.20 percent of average salary for each of the first ten years of service and 1.70 percent of average salary for each remaining year. Under Method 2, the annuity accrual rate is 1.70 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. For Police and Fire Plan members, the annuity accrual rate is 3.00 percent of average salary for each year of service. For Correctional Plan members, the annuity accrual rate is 1.90 percent of average salary for each year of service.

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

c. 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 Plan members were required to contribute 6.50 percent of their annual covered salary in 2018. Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2018. Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2018.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

c. Contributions (Continued)

In 2018, the County was required to contribute the following percentages of annual covered salary:

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

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

The County's contributions for the year ended December 31, 2018, to the pension plans were:

General Employees Plan	\$	188,820
Police and Fire Plan		61,883
Correctional Plan		44,927

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

d. Pension Costs

General Employees Plan

At December 31, 2018, the County reported a liability of \$2,113,632 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportion

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

General Employees Plan (Continued)

was 0.0381 percent. It was 0.0397 percent measured as of June 30, 2017. The County recognized pension expense of \$219,460 for its proportionate share of the General Employees Plan's pension expense.

The County also recognized \$16,147 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$16 million to the General Employees Plan for the fiscal years ended June 30, 2018 and 2019, and \$6 million thereafter, through calendar year 2031.

The County's proportionate share of the net pension liability	\$ 2,113,632
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>69,243</u>
Total	<u>\$ 2,182,875</u>

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

General Employees Plan (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 58,189	\$ 59,866
Changes in actuarial assumptions	196,076	244,316
Difference between projected and actual investment earnings	-	237,526
Changes in proportion	117,387	76,608
Contributions paid to PERA subsequent to the measurement date	89,835	-
Total	\$ 461,487	\$ 618,316

The \$89,835 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, 2019. 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
2019	\$ 85,268
2020	(103,361)
2021	(209,836)
2022	(18,735)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs (Continued)

Police and Fire Plan

At December 31, 2018, the County reported a liability of \$378,393 for its proportionate share of the Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportion was 0.036 percent. It was 0.035 percent measured as of June 30, 2017. The County recognized pension expense of \$46,617 for its proportionate share of the Police and Fire Plan's pension expense.

The County also recognized \$3,195 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Police and Fire Plan. Legislation requires the State of Minnesota to contribute \$9 million to the Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Police and Fire Plan (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 15,128	\$ 83,677
Changes in actuarial assumptions	424,056	549,378
Difference between projected and actual investment earnings	-	87,502
Changes in proportion	85,889	3,600
Contributions paid to PERA subsequent to the measurement date	29,169	-
Total	\$ 554,242	\$ 724,157

The \$29,169 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, 2019. 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
2019	\$ (2,518)
2020	(18,356)
2021	(41,880)
2022	(125,715)
2023	(10,615)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs (Continued)

Correctional Plan

At December 31, 2018, the County reported a liability of \$41,167 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportion was 0.25 percent. It was 0.24 percent measured as of June 30, 2017. The County recognized pension expense of (\$45,833) for its proportionate share of the Correctional Plan's pension expense.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 2,130	\$ 4,219
Changes in actuarial assumptions	178,441	472,580
Difference between projected and actual investment earnings	-	48,099
Changes in proportion	40,282	-
Contributions paid to PERA subsequent to the measurement date	19,084	-
	<u>19,084</u>	<u>-</u>
Total	<u>\$ 239,937</u>	<u>\$ 524,898</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Correctional Plan (Continued)

The \$19,084 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2019	\$ 50,591
2020	(135,479)
2021	(120,858)
2022	(98,299)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2018, was \$220,244.

e. Actuarial Assumptions

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

e. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.25 percent for the General Employees Plan and 2.00 percent for the Correctional Plan. For the Police and Fire Plan, cost of living benefit increases for retirees are 1.00 percent as set by state statute.

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 30, 2015. The experience study for the Police and Fire Plan was dated August 30, 2016. The experience study for the Correctional Plan was dated February 2012. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The long-term expected rate of return on pension plan investments is 7.50 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	36%	5.10%
International stocks	17	5.30
Bonds (fixed income)	20	0.75
Alternative assets (private markets)	25	5.90
Cash	2	0.00

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans (Continued)

f. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2018, which remained consistent with 2017. 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 Plan, the Police and Fire Plan, and the Correctional Plan were 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.

g. Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred in 2018:

General Employees Plan

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.

Police and Fire Plan

- The mortality projection scale was changed from MP-2016 to MP-2017.
- Post-retirement benefit increases changed to 1.00 percent for all years, with no trigger.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

g. Changes in Actuarial Assumptions and Plan Provisions

Police and Fire Plan (Continued)

- An end date of July 1, 2048, was added to the existing \$9.0 million state contribution. Additionally, annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter, until the plan reaches 100 percent funding, or July 1, 2048, if earlier.
- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80 percent to 11.30 and 11.80 percent of pay, respectively. Employer contributions were changed effective January 1, 2019, and January 1, 2020, from 16.20 percent to 16.95 and 17.70 percent of pay, respectively. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

Correctional Plan

- The single discount rate was changed from 5.96 percent per annum to 7.50 percent per annum.
- The mortality projection scale was changed from MP-2016 to MP-2017.
- The assumed post-retirement benefit increase was changed from 2.50 percent per year to 2.00 percent per year.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans (Continued)

h. Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability calculated using the discount rate previously disclosed, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	Proportionate Share of the					
	General Employees Plan		Police and Fire Plan		Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability (Asset)
1% Decrease	6.50%	\$ 3,434,922	6.50%	\$ 811,299	6.50%	\$ 352,317
Current	7.50	2,113,632	7.50	378,393	7.50	41,167
1% Increase	8.50	1,022,944	8.50	20,398	8.50	(207,744)

i. 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.

2. Defined Contribution Plan

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

2. Defined Contribution Plan (Continued)

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

Total contributions by dollar amount and percentage of covered payroll made by Traverse County during the year ended December 31, 2018, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,810	\$ 2,810
Percentage of covered payroll	5.00%	5.00%

4. Risk Management

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 per claim in 2018 and 2019. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the County.

B. Joint Ventures

Rainbow Rider Transit Board

Douglas, Grant, Pope, Stevens, and Traverse Counties entered into a joint powers agreement to establish the West Central Multi-County Joint Powers Transit Board effective December 1, 1994, and empowered under Minn. Stat. § 471.59. Effective January 13, 2000, the Board changed its name from West Central Multi-County Joint Powers Transit Board to Rainbow Rider Transit Board. The purpose of the Board is to

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Rainbow Rider Transit Board (Continued)

provide coordinated service delivery and a funding source for public transportation. Grant County terminated its membership in Rainbow Rider on May 31, 1999. Grant County rejoined, and Todd County became a member county effective January 1, 2011 and 2012, respectively.

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

The joint powers agreement remains in force until any single county notifies the other parties of its intention to withdraw, at least 90 days before the termination takes effect. The remaining counties may agree to continue the agreement with the remaining counties as members. During 2018, Traverse County contributed \$31,687 to Rainbow Rider.

Complete financial information can be obtained from: Rainbow Rider Transit Board, 249 Poplar Avenue, Lowry, Minnesota 56349.

Horizon Public Health

Grant, Pope, Stevens, and Traverse Counties entered into a joint powers agreement creating and operating the Mid-State Community Health Services, pursuant to Minn. Stat. § 471.59. During 1994, Stevens Traverse Grant Public Health Nursing Service began receiving and administering the grant money for Stevens, Traverse, and Grant Counties. Mid-State Community Health Services was renamed to Horizon Community Health Board when Douglas County was added as a member on January 1, 2011. Horizon Community Health Board was renamed to Horizon Public Health on January 1, 2015, when it became a fiscally-independent entity. The budget is now approved by the five-county Board.

Control is vested in Horizon Public Health's Board, which consists of 13 members comprised of 11 County Commissioners and two community representatives. Each member of the Board is appointed by the County Commissioners of the county they represent.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Horizon Public Health (Continued)

Financing is provided by federal and state grants and appropriations from member counties. Traverse County's contribution for 2018 was \$32,022.

Complete financial statements for Horizon Public Health can be obtained from: Horizon Public Health, 809 Elm Street, Suite 1200, Alexandria, Minnesota 56308.

PrimeWest Health

The PrimeWest Central County-Based Purchasing Initiative (since renamed PrimeWest Health) was established in December 1998 by a joint powers agreement with Big Stone, Douglas, Grant, McLeod, Meeker, Pipestone, Pope, Renville, Stevens, and Traverse Counties under the authority of Minn. Stat. § 471.59. Beltrami, Clearwater, and Hubbard Counties were later added to PrimeWest Health. Pipestone County has since joined Southwest Health and Human Services for public health and human services functions. The partnership is organized to directly purchase health care services for county residents who are eligible for Medical Assistance and General Assistance Medical Care as authorized by Minn. Stat. § 256B.692. County-based purchasing is the local control alternative favored for improved coordination of services to prepaid Medical Assistance programs in complying with Minnesota Department of Health requirements as set forth in Minn. Stat. chs. 62D and 62N.

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

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

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WHEATON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

PrimeWest Health (Continued)

Financing is provided by Medical Assistance and General Assistance Medical Care payments from the Minnesota Department of Human Services, initial start-up loans from the member counties, and by proportional contributions from member counties, if necessary, to cover operational costs. Traverse County did not make any contributions to PrimeWest Health in 2018.

Complete financial information can be obtained from its administrative office at: PrimeWest Health, 3905 Dakota Street, Suite 101, Alexandria, Minnesota 56308.

Region 4 South Adult Mental Health Consortium

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

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

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

Dissolution of the Consortium shall occur by unanimous vote of the counties, or when the membership in the Consortium is reduced to less than two counties. Upon dissolution of the Consortium, the member counties shall share in the current liabilities and current financial assets, including real property, of the Consortium equally if no county has

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Region 4 South Adult Mental Health Consortium (Continued)

contributed during the term of the Consortium or based upon their percentage of contribution to the Consortium's budget during the period applicable to such liabilities and assets.

Financing is predominantly provided by state grants. Grant County, in a fiscal host capacity, reports the cash transactions of the Consortium as an agency fund on its financial statements. In 2018, Traverse County did not make any contributions to the Consortium.

Complete financial information can be obtained from: Region 4 South Consortium, 407 North Nokomis Northeast, Suite 203, Alexandria, Minnesota 56308.

Rural Minnesota Concentrated Employment Program, Inc. (WIA – Rural Minnesota Workforce Service Area 2)

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

The RMCEP is governed by a Board of Directors, which is comprised of representatives from a wide variety of industry sectors, education, and human services. Traverse County provided \$70,886 to this organization in 2018. Current financial statements are not available.

Traverse County Connections

Traverse County Connections was established in 1999 under the authority of Minn. Stat. §§ 124D.23 and 245.491. Traverse County Connections was formed as a children's mental health and family services collaborative for the purpose of providing coordinated children and family services and to create an integrated system of services for children

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Traverse County Connections (Continued)

and families with multiple and special needs. This collaborative includes Traverse County Social Services, Horizon Public Health, Wheaton Public Schools, Browns Valley Public Schools, Traverse County Court Services, the Life Center, West Central Minnesota Community Action, and Prairie Community Services.

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

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

Financing is provided by state and federal grants and contributions from the member parties. Traverse County, in an agent capacity, reports the cash transactions of Traverse County Connections as an agency fund on its financial statements. Traverse County did not make any contributions to Traverse County Connections in 2018.

Viking Library System

Traverse County, along with ten cities and five other counties, participates in the Viking Library System in order to establish, continue, strengthen, and improve library services in the participating cities and counties. The Viking Library System was created as a public library service in 1975 by the Counties of Douglas, Grant, Otter Tail, and Stevens, along with the Cities of Alexandria, Elbow Lake, Fergus Falls, Hancock, and Morris. Additions to the Library System included the Cities of Browns Valley, Glenwood, New

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Viking Library System (Continued)

York Mills, Perham, and Wheaton in 1976; Pope County in 1981, Traverse County in 1983, and the City of Pelican Rapids in 1988. In 1992, the City of Alexandria library became the Douglas County library. The Viking Library System is governed by a governing board which consists of 19 members. Each participating County Board of Commissioners appoints a resident of the county; each participating City's Library Board appoints a representative; and any library with a service area population over 15,000 has an additional representative. Currently, the City of Fergus Falls and Douglas County have additional representatives. During 2018, Traverse County provided \$33,787 to the Viking Library System.

Complete financial information can be obtained from: Viking Library System, 1915 Fir Avenue West, Fergus Falls, Minnesota 56537.

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

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

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

The two probation officers for the five-county area are appointed by three area judges, who also set the probation officer salaries. The Minnesota Department of Corrections reimburses Traverse County for a portion of the probation officer salaries. The remaining expenses are allocated to each participating county based on population. During 2018, Traverse County contributed \$30,312 to the entity.

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Counties Providing Technology

Counties Providing Technology (CPT) was established in 2018, under the authority conferred upon by member parties by Minn. Stat. § 471.59, for the purpose of purchasing the former software vendor, Computer Professionals Unlimited, Inc., (CPUI) and to provide for the development, operation, and maintenance of technology applications and systems. Traverse County and 22 other counties are members of CPT. Each member county provided an initial contribution to start up CPT and provide funds for the purchase of CPUI. CPT purchased CPUI in September 2018 for a purchase price of \$3,600,000.

Control is vested in the CPT Board, which consists of one individual appointed by each member county's Board of Commissioners. The joint powers agreement provides that initial operating capital contributed by each member is to be repaid from any excess in fund balance at the end of the fiscal year, in proportion to the initial contribution. Once the initial contribution is repaid, there is no remaining equity interest for the member counties.

Financing is primarily from county member contributions. During 2018, Traverse County contributed \$175,000 to CPT.

Current financial information can be obtained from: Stevens County Auditor/Treasurer, 400 Colorado Avenue, Suite 303, Morris, Minnesota 56267.

C. Related Organization

Traverse County Housing and Redevelopment Authority

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

D. Lease of Property

On December 1, 2010, Traverse County entered into a lease with LSS of Traverse, LLC, (LSS) whereby LSS is renting the property of Prairieview Place and operating it as a congregate housing facility. The lease was amended on February 8, 2017, to extend the lease for an additional five-year term beginning on December 1, 2016. The lease calls for monthly payments to be made by LSS to Traverse County in amounts equal to the required debt service of Prairieview Place's debts, approximately \$6,500 per month. Prairieview Place employees became employees of LSS on December 1, 2010.

On December 1, 2010, Traverse County entered into a lease with LSS of Traverse, LLC, (LSS) whereby LSS is renting the property of the Traverse Care Center and operating it as a skilled nursing facility. The lease was amended on February 8, 2017, to extend the lease for an additional five-year term beginning on December 1, 2016. The lease calls for monthly payments to be made by LSS to Traverse County in amounts equal to the required debt service of the Traverse Care Center's debts, approximately \$22,000 per month. Most Traverse Care Center employees became employees of LSS on December 1, 2010.

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REQUIRED SUPPLEMENTARY INFORMATION

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,785,915	\$ 2,785,915	\$ 2,853,324	\$ 67,409
Special assessments	56,000	56,000	57,433	1,433
Licenses and permits	7,893	7,893	9,043	1,150
Intergovernmental	728,989	728,989	1,030,323	301,334
Charges for services	609,516	609,516	587,075	(22,441)
Investment earnings	26,500	26,500	14,587	(11,913)
Miscellaneous	114,759	114,759	124,948	10,189
Total Revenues	\$ 4,329,572	\$ 4,329,572	\$ 4,676,733	\$ 347,161
Expenditures				
Current				
General government				
Commissioners	\$ 194,527	\$ 194,527	\$ 239,814	\$ (45,287)
Law library	3,800	3,800	2,208	1,592
County coordinator	120,624	120,624	124,103	(3,479)
County auditor/treasurer	277,411	277,411	308,795	(31,384)
License bureau	97,051	97,051	102,609	(5,558)
County assessor	168,594	168,594	174,796	(6,202)
Elections	27,000	27,000	33,491	(6,491)
Accounting and auditing	48,500	48,500	47,281	1,219
Data processing	94,150	94,150	134,124	(39,974)
Attorney	118,342	118,342	115,353	2,989
Recorder	176,405	176,405	198,784	(22,379)
Buildings and plant	182,028	182,028	124,664	57,364
Veterans service officer	84,993	84,993	92,645	(7,652)
Other general government	178,554	178,554	117,583	60,971
Total general government	\$ 1,771,979	\$ 1,771,979	\$ 1,816,250	\$ (44,271)
Public safety				
Sheriff	\$ 767,970	\$ 767,970	\$ 940,063	\$ (172,093)
Boat and water	2,500	2,500	1,581	919
Coroner	6,000	6,000	8,048	(2,048)
Enhanced 911 system	292,716	292,716	325,515	(32,799)
Jail	458,756	458,756	506,150	(47,394)
Probation officer	298,829	298,829	267,679	31,150
Civil defense	92,445	92,445	93,582	(1,137)
Total public safety	\$ 1,919,216	\$ 1,919,216	\$ 2,142,618	\$ (223,402)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	\$ 163,877	\$ 163,877	\$ 156,061	\$ 7,816
Health				
Nursing service	\$ 45,500	\$ 45,500	\$ 43,199	\$ 2,301
Culture and recreation				
County fair	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Parks	16,000	16,000	20,497	(4,497)
Regional library	36,887	36,887	36,787	100
Total culture and recreation	\$ 62,887	\$ 62,887	\$ 67,284	\$ (4,397)
Conservation of natural resources				
County extension	\$ 134,858	\$ 134,858	\$ 126,234	\$ 8,624
Buffer aid allocation	-	-	74,848	(74,848)
Soil and water conservation	266,778	266,778	263,611	3,167
Weed control	66,626	66,626	71,494	(4,868)
Total conservation of natural resources	\$ 468,262	\$ 468,262	\$ 536,187	\$ (67,925)
Economic development				
Community development	\$ 11,000	\$ 11,000	\$ 43,726	\$ (32,726)
Intergovernmental				
Counties Providing Technology	\$ -	\$ -	\$ 175,000	\$ (175,000)
Debt service				
Principal	\$ -	\$ -	\$ 35,473	\$ (35,473)
Interest	-	-	153	(153)
Total debt service	\$ -	\$ -	\$ 35,626	\$ (35,626)
Total Expenditures	\$ 4,442,721	\$ 4,442,721	\$ 5,015,951	\$ (573,230)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Excess of Revenues Over (Under) Expenditures	<u>\$ (113,149)</u>	<u>\$ (113,149)</u>	<u>\$ (339,218)</u>	<u>\$ (226,069)</u>
Other Financing Sources (Uses)				
Capital leases	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,396</u>	<u>\$ 34,396</u>
Net Change in Fund Balance	<u>\$ (113,149)</u>	<u>\$ (113,149)</u>	<u>\$ (304,822)</u>	<u>\$ (191,673)</u>
Fund Balance – January 1	<u>3,157,241</u>	<u>3,157,241</u>	<u>3,157,241</u>	<u>-</u>
Fund Balance – December 31	<u><u>\$ 3,044,092</u></u>	<u><u>\$ 3,044,092</u></u>	<u><u>\$ 2,852,419</u></u>	<u><u>\$ (191,673)</u></u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,419,602	\$ 1,419,602	\$ 1,415,380	\$ (4,222)
Intergovernmental	4,298,298	4,298,298	3,193,650	(1,104,648)
Charges for services	423,000	423,000	259,922	(163,078)
Miscellaneous	-	-	41,464	41,464
Total Revenues	\$ 6,140,900	\$ 6,140,900	\$ 4,910,416	\$ (1,230,484)
Expenditures				
Current				
Highways and streets				
Administration	\$ 433,080	\$ 433,080	\$ 348,976	\$ 84,104
Authorized work	25,000	25,000	15,138	9,862
Engineering	88,150	88,150	86,417	1,733
Construction	3,103,570	3,103,570	1,418,951	1,684,619
Maintenance	1,727,420	1,727,420	1,361,120	366,300
Equipment maintenance and shops	734,650	734,650	763,490	(28,840)
Material and services for resale	60,011	60,011	63,018	(3,007)
Total highways and streets	\$ 6,171,881	\$ 6,171,881	\$ 4,057,110	\$ 2,114,771
Intergovernmental				
Highways and streets	\$ -	\$ -	\$ 302,556	\$ (302,556)
Debt service				
Principal	\$ -	\$ -	\$ 18,219	\$ (18,219)
Interest	-	-	4	(4)
Total debt service	\$ -	\$ -	\$ 18,223	\$ (18,223)
Total Expenditures	\$ 6,171,881	\$ 6,171,881	\$ 4,377,889	\$ 1,793,992
Excess of Revenues Over (Under)				
Expenditures	\$ (30,981)	\$ (30,981)	\$ 532,527	\$ 563,508
Other Financing Sources (Uses)				
Capital leases	\$ -	\$ -	\$ 157,403	\$ 157,403
Proceeds from sale of capital assets	-	-	57,592	57,592
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 214,995	\$ 214,995
Net Change in Fund Balance	\$ (30,981)	\$ (30,981)	\$ 747,522	\$ 778,503
Fund Balance – January 1	277,625	277,625	277,625	-
Increase (decrease) in inventories	-	-	28,731	28,731
Fund Balance – December 31	\$ 246,644	\$ 246,644	\$ 1,053,878	\$ 807,234

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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 681,350	\$ 681,350	\$ 682,600	\$ 1,250
Intergovernmental	1,359,461	1,359,461	1,391,639	32,178
Charges for services	19,104	19,104	21,116	2,012
Miscellaneous	104,534	104,534	154,160	49,626
Total Revenues	\$ 2,164,449	\$ 2,164,449	\$ 2,249,515	\$ 85,066
Expenditures				
Current				
Human services				
Income maintenance	\$ 705,877	\$ 705,877	\$ 665,428	\$ 40,449
Social services	1,458,572	1,458,572	1,549,247	(90,675)
Total human services	\$ 2,164,449	\$ 2,164,449	\$ 2,214,675	\$ (50,226)
Debt service				
Principal	\$ -	\$ -	\$ 2,144	\$ (2,144)
Interest	-	-	674	(674)
Total debt service	\$ -	\$ -	\$ 2,818	\$ (2,818)
Total Expenditures	\$ 2,164,449	\$ 2,164,449	\$ 2,217,493	\$ (53,044)
Net Change in Fund Balance	\$ -	\$ -	\$ 32,022	\$ 32,022
Fund Balance – January 1	1,509,255	1,509,255	1,509,255	-
Fund Balance – December 31	\$ 1,509,255	\$ 1,509,255	\$ 1,541,277	\$ 32,022

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2018**

	2018
Total OPEB Liability	
Service cost	\$ 240,441
Interest	312,519
Benefit payments	(360,103)
Net change in total OPEB liability	\$ 192,857
Total OPEB Liability – Beginning, as restated	9,408,418
Total OPEB Liability – Ending	\$ 9,601,275
Covered-employee payroll	\$ 3,749,608
Total OPEB liability (asset) as a percentage of covered-employee payroll	256.06%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2018**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Traverse County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.0381 %	\$ 2,113,632	\$ 69,243	\$ 2,182,875	\$ 2,558,746	82.60 %	79.53 %
2017	0.0397	2,534,422	31,880	2,566,302	2,461,647	102.96	75.90
2016	0.0370	3,004,216	39,254	3,043,470	2,285,768	131.43	68.91
2015	0.0364	1,886,437	N/A	1,886,437	2,141,011	88.11	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

The measurement date for each year is June 30.

N/A – Not Applicable

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-6

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2018**

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)
2018	\$ 188,820	\$ 188,820	\$ -	\$ 2,517,592	7.50 %
2017	187,462	187,462	-	2,498,276	7.50
2016	186,551	186,551	-	2,487,346	7.50
2015	162,109	162,109	-	2,161,449	7.50

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-7

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2018**

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
2018	0.036 %	\$ 378,393	\$ 373,980	101.18 %	88.84 %
2017	0.035	472,542	341,814	138.25	85.43
2016	0.032	1,284,216	300,196	427.79	63.88
2015	0.032	363,595	296,162	122.77	86.61

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-8

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2018**

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)
2018	\$ 61,883	\$ 61,883	\$ -	\$ 381,992	16.20 %
2017	55,954	55,954	-	345,394	16.20
2016	54,138	54,138	-	334,185	16.20
2015	46,325	46,325	-	285,958	16.20

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-9

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES LOCAL GOVERNMENT CORRECTIONAL SERVICE RETIREMENT PLAN
DECEMBER 31, 2018**

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
2018	0.25 %	\$ 41,167	\$ 514,572	8.00 %	97.64 %
2017	0.24	683,355	461,954	147.93	67.89
2016	0.23	840,222	430,324	195.25	58.16
2015	0.23	35,558	405,161	8.78	96.95

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-10

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES LOCAL GOVERNMENT CORRECTIONAL SERVICE RETIREMENT PLAN
DECEMBER 31, 2018**

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)
2018	\$ 44,927	\$ 44,927	\$ -	\$ 513,457	8.75 %
2017	41,869	41,869	-	478,503	8.75
2016	40,380	40,380	-	461,489	8.75
2015	35,184	35,184	-	402,101	8.75

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018

1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Budget Amendments

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

4. Excess of Expenditures Over Budget

The following individual funds had expenditures in excess of final budget for the year ended December 31, 2018:

	Expenditures	Final Budget	Excess
General Fund	\$ 5,015,951	\$ 4,442,721	\$ 573,230
Social Services Special Revenue Fund	2,217,493	2,164,449	53,044

5. Other Postemployment Benefits Funded Status

In 2018, Traverse County implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See Note 3.D. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Employer Contributions to Other Postemployment Benefits

Assets have not been accumulated in a trust that meets the criteria in paragraph four of GASB Statement 75 to pay related benefits.

The following changes in actuarial methods and assumptions occurred in 2018:

- The discount rate used changed from 3.50 percent to 3.30 percent.
- The actuarial cost method used changed from the Projected Unit Credit to the Entry Age, level percentage of pay.

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

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

General Employees Retirement Plan

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

General Employees Retirement Plan

2017 (Continued)

- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21 million in calendar years 2017 and 2018 and returns to \$31 million through calendar year 2031. The state's required contribution is \$16 million in PERA's fiscal years 2018 and 2019 and returns to \$6 million annually through calendar year 2031.

2016

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

Public Employees Police and Fire Plan

2018

- The mortality projection scale was changed from MP-2016 to MP-2017.
- Post-retirement benefit increases changed to 1.00 percent for all years, with no trigger.
- An end date of July 1, 2048, was added to the existing \$9.0 million state contribution. Additionally, annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter, until the plan reaches 100 percent funding, or July 1, 2048, if earlier.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

Public Employees Police and Fire Plan

2018 (Continued)

- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80 percent to 11.30 and 11.80 percent of pay, respectively. Employer contributions were changed effective January 1, 2019, and January 1, 2020, from 16.20 percent to 16.95 and 17.70 percent of pay, respectively. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

- The assumed salary increases were changed as recommended in the June 30, 2016, experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- The assumed rates of retirement were changed, resulting in fewer retirements.
- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 33 percent for vested members and 2.00 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality table assumed for healthy retirees.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

Public Employees Police and Fire Plan

2017 (Continued)

- The assumed termination rates were decreased to 3.00 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- The assumed percentage of married female members was decreased from 65 percent to 60 percent.
- The assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing joint and survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064, and 2.50 percent thereafter.
- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

2016

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

Public Employees Local Government Correctional Service Retirement Plan

2018

- The single discount rate was changed from 5.96 percent per annum to 7.50 percent per annum.
- The mortality projection scale was changed from MP-2016 to MP-2017.
- The assumed post-retirement benefit increase was changed from 2.50 percent per year to 2.00 percent per year.

2017

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2016).
- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1.00 percent for non-vested members.
- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

2016

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

SUPPLEMENTARY INFORMATION

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
JAIL/LEC DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	<u>\$ 179,012</u>	<u>\$ 179,012</u>	<u>\$ 173,627</u>	<u>\$ (5,385)</u>
Expenditures				
Debt service				
Principal	\$ 140,000	\$ 140,000	\$ 140,000	\$ -
Interest	51,376	51,376	39,013	12,363
Administrative charges	-	-	1,128	(1,128)
Total Expenditures	<u>\$ 191,376</u>	<u>\$ 191,376</u>	<u>\$ 180,141</u>	<u>\$ 11,235</u>
Net Change in Fund Balance	<u>\$ (12,364)</u>	<u>\$ (12,364)</u>	<u>\$ (6,514)</u>	<u>\$ 5,850</u>
Fund Balance – January 1	<u>178,410</u>	<u>178,410</u>	<u>178,410</u>	<u>-</u>
Fund Balance – December 31	<u><u>\$ 166,046</u></u>	<u><u>\$ 166,046</u></u>	<u><u>\$ 171,896</u></u>	<u><u>\$ 5,850</u></u>

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

AGENCY FUNDS

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

State Revenue – to account for the state’s share of collections and their payment to the state.

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

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

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

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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Balance January 1	Additions	Deductions	Balance December 31
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,458,773	\$ 1,458,773	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,458,773	\$ 1,458,773	\$ -
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 7,077	\$ 481,855	\$ 484,702	\$ 4,230
<u>Liabilities</u>				
Due to other governments	\$ 7,077	\$ 481,855	\$ 484,702	\$ 4,230
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 198,436	\$ 10,200,597	\$ 10,281,897	\$ 117,136
<u>Liabilities</u>				
Due to other governments	\$ 198,436	\$ 10,200,597	\$ 10,281,897	\$ 117,136

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 5,976	\$ 3,357,676	\$ 3,310,526	\$ 53,126
<u>Liabilities</u>				
Due to other governments	\$ 5,976	\$ 3,357,676	\$ 3,310,526	\$ 53,126
 <u>TRAVERSE COUNTY CONNECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 6,725	\$ 16,829	\$ 14,408	\$ 9,146
Advance to other funds	1,978	-	1,978	-
Total Assets	\$ 8,703	\$ 16,829	\$ 16,386	\$ 9,146
<u>Liabilities</u>				
Due to other governments	\$ 8,703	\$ 16,829	\$ 16,386	\$ 9,146
 <u>EMPLOYEE FLEX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 7,597	\$ 24,392	\$ 24,831	\$ 7,158
<u>Liabilities</u>				
Due to other governments	\$ 7,597	\$ 24,392	\$ 24,831	\$ 7,158

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

***EXHIBIT C-1
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 225,811	\$ 15,540,122	\$ 15,575,137	\$ 190,796
Advance to other funds	1,978	-	1,978	-
	\$ 227,789	\$ 15,540,122	\$ 15,577,115	\$ 190,796
<u>Liabilities</u>				
Due to other governments	\$ 227,789	\$ 15,540,122	\$ 15,577,115	\$ 190,796

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OTHER SCHEDULE

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Appropriations and Shared Revenue

State

Highway users tax	\$	2,955,439
Market value credit		118,199
PERA rate reimbursement		35,824
Disparity reduction aid		18,577
Police aid		57,943
County program aid		428,974
Enhanced 911		78,903
Select Committee on Recycling and the Environment (SCORE)		67,729
Aquatic invasive species aid		27,185
Riparian protection aid		141,327
Out of home placement aid		1,917

Total appropriations and shared revenue **\$ 3,932,017**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	123,906
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Local

City of Wheaton		35,033
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Total reimbursement for services **\$ 158,939**

Payments

Local

Local contributions	\$	53,283
Payments in lieu of taxes		28,128

Total payments **\$ 81,411**

Grants

State

Minnesota Department of		
Corrections	\$	16,151
Public Safety		16,029
Natural Resources		2,890
Human Services		424,766
Veterans Affairs		15,000
Secretary of State		37,160
Supreme Court		67,996
Water and Soil Resources Board		71,449

Total state **\$ 651,441**

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT D-1
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Grants (Continued)

Federal

Department of	
Agriculture	\$ 60,134
Education	198,459
Transportation	23,703
Health and Human Services	477,004
Homeland Security	32,504
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Total federal	\$ 791,804
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Total state and federal grants	\$ 1,443,245
	<hr/>
Total Intergovernmental Revenue	\$ 5,615,612
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JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
Traverse County
Wheaton, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Traverse County, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 28, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as item 1996-003, that we consider to be a significant deficiency.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

Other Matters

Included in the Schedule of Findings and Recommendations is a management practices comment. We believe this recommendation to be of benefit to the County, and it is reported for that purpose.

Traverse County's Response to Findings

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

Purpose of This Report

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

October 28, 2019

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2018

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 1996-003

Segregation of Duties

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

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

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

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

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018

View of Responsible Official: Acknowledged

II. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 1997-005

Prairieview Place and Traverse Care Center Deficit Net Position

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

Condition: As of December 31, 2018, the assets and deferred outflows of resources in the County's Prairieview Place Enterprise Fund and Traverse Care Center Enterprise Fund did not exceed liabilities, resulting in a deficit net position.

Context: As of December 31, 2018, the Prairieview Place Enterprise Fund had a deficit net position of \$207,947, which is an increase in net position (restated) from the \$229,218 deficit reported in the prior year. As of December 31, 2018, the Traverse Care Center Enterprise Fund had a deficit net position of \$2,118,309, which is an increase in net position (restated) from the \$2,213,658 deficit reported in the prior year.

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

Cause: The net position in the County's Prairieview Place Enterprise Fund increased by \$21,271 in 2018; nonoperating revenues of \$83,075 were offset by operating expenses of \$49,442 and interest expense on debt of \$12,362. The County's Traverse Care Center Enterprise Fund's net position balance increased by \$95,349 in 2018; operating revenues of \$687 and nonoperating revenues of \$258,925 were offset by operating expenses of \$129,694 and interest expense on debt of \$59,652.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

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

View of Responsible Official: Acknowledged

III. PREVIOUSLY REPORTED ITEMS RESOLVED

2006-003 Audit Adjustments
2017-001 Contracting and Bidding Compliance
2017-002 Publication of Summary Budget
2017-003 Broadband Loan to Adventenon

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Traverse County Minnesota

County Auditor/Treasurer
Kit D. Johnson, Auditor/Treasurer
702 2nd Ave N
Wheaton, MN 56296
Phone: 1-320-422-7740
Email: kit.johnson@co.traverse.mn.us

REPRESENTATION OF TRAVERSE COUNTY WHEATON, MINNESOTA

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2018

Finding Number: 1996-003

Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action:

Kit Johnson, County Auditor/Treasurer

Corrective Action Planned:

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

Anticipated Completion Date:

Traverse County has multiple departments that have small (in many cases, two) staff. With vacation and sick days, it is next to impossible not to have the same person bill, collect, record, and deposit.

Finding Number: 1997-005

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

Name of Contact Person Responsible for Corrective Action:

Kit Johnson, County Auditor/Treasurer

Corrective Action Planned:

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

Anticipated Completion Date:

2033



Traverse County Minnesota

County Auditor/Treasurer
Kit D. Johnson, Auditor/Treasurer
702 2nd Ave N
Wheaton, MN 56296
Phone: 1-320-422-7740
Email: kit.johnson@co.traverse.mn.us

REPRESENTATION OF TRAVERSE COUNTY WHEATON, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2018

Finding Number: 1996-003
Finding Title: Segregation of Duties

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

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

Status: Not Corrected. Please see Corrective Action Plan for explanation.
Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2006-003
Finding Title: Audit Adjustments

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

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

Status: Fully Corrected. Corrective Action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2017-001

Finding Title: Contracting and Bidding Compliance

Summary of Condition: During testing of compliance with the State of Minnesota contracting and bidding laws, noncompliance was noted with withholding affidavits for contractors (IC-134) and direct negotiation by quotations.

Summary of Corrective Action Previously Reported: Traverse County management will work to ensure that all bids and contracts are done in accordance with pertinent laws and procedures.

Status: Fully Corrected. Corrective Action was taken.

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

Yes _____ No X

Finding Number: 2017-002

Finding Title: Publication of Summary Budget

Summary of Condition: The County's 2017 budget was not published in the County's official newspaper or qualified newspaper of general circulation.

Summary of Corrective Action Previously Reported: Traverse County management will work to ensure that the annual budget is published in a timely manner.

Status: Fully Corrected. Corrective Action was taken.

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

Yes _____ No X

Finding Number: 2017-003

Finding Title: Broadband Loan to Advantenon

Summary of Condition: On February 21, 2017, Traverse County entered into a contract with Advantenon, Inc., to extend broadband internet service in the County. As part of this agreement, the County committed to give Advantenon, Inc., an interest-free loan up to \$360,000 for three years or until 150 customers had signed up for Advantenon Inc.'s internet service. The County was unable to identify any statutory authority that would authorize this loan of County funds.

Summary of Corrective Action Previously Reported: Traverse County management will work to ensure that when the Board approves to enter into an agreement contingent on attorney review, the attorney will review it in a timely manner and report to the Board.

Status: Fully Corrected. Corrective Action was taken.

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

Yes _____ No X

Finding Number: 1997-005

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

Summary of Condition: As of December 31, 2017, the assets and deferred outflows of resources in the County's Prairieview Place Enterprise Fund and Traverse Care Center Enterprise Fund did not exceed liabilities, resulting in deficit net position.

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

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

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

Yes _____ No X