

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

TRAVERSE COUNTY
WHEATON, MINNESOTA

YEAR ENDED DECEMBER 31, 2017

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Year Ended December 31, 2017



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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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WHEATON, MINNESOTA**

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2017

			<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 Siegel		Indefinite
Assessor	Dianne Reinart		January 2021
County Engineer	Larry Haukos*		May 2019
Coroner	Stanley Gallagher, D.O.		January 2018
Examiner of Titles	Matthew Franzese		Indefinite
Social Services Director	Rhonda Antrim		Indefinite
Veterans Service Officer	Dustin Kindelberger		April 2019

*Chad Gillespie was appointed on April 3, 2018, to fill the vacancy that occurred upon the death of Larry Haukos.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Traverse County
Wheaton, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Traverse County, Minnesota, as of and for the year ended December 31, 2017, 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2018, 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.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 11, 2018

/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, 2017
(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, 2017. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$41,632,361, of which \$42,026,659 is the net investment in capital assets. Of the governmental activities' net position, \$1,411,301 is restricted to specific purposes/uses by the County, and unrestricted is a deficit (\$1,805,599).
- Business-type activities (Traverse Care Center and Prairieview Place) have a deficit total net position of (\$1,245,659), of which there is a negative net investment in capital assets balance of (\$639,879).
- Traverse County's net position increased by \$309,144 for the year ended December 31, 2017. Of the increase, \$414,789 was in the governmental activities' net position, while the business-type activities' net position decreased by \$105,645.
- The net cost of Traverse County's governmental activities for the year ended December 31, 2017, was \$4,928,815. General revenues totaling \$5,343,604 funded the net cost.
- Traverse County's governmental funds' fund balances decreased by \$1,721,225 in 2017. This net decrease consisted of a \$470,614 decrease in the General Fund, an increase of \$356,348 in the Road and Bridge Special Revenue Fund, a decrease of \$65,892 in the Social Services Special Revenue Fund, and a decrease of \$1,541,067 in the Jail/LEC Debt Service Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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

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

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

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30 through 86 of this report.

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analysis focuses on net position (Table 1) and changes in net position (Table 2) of the County's governmental and business-type activities. Comparative data with 2016 is presented.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	\$ 6,521,099	\$ 8,363,706	\$ (19,324)	\$ 147,116	\$ 6,501,775	\$ 8,510,822
Capital assets	43,881,352	42,544,131	2,516,229	2,662,489	46,397,581	45,206,620
Total Assets	\$ 50,402,451	\$ 50,907,837	\$ 2,496,905	\$ 2,809,605	\$ 52,899,356	\$ 53,717,442
Deferred Outflows of Resources						
Deferred pension outflows	\$ 1,856,572	\$ 2,858,457	\$ -	\$ -	\$ 1,856,572	\$ 2,858,457
Deferred charges on bond refunding	-	-	74,125	81,537	74,125	81,537
Total Deferred Outflows of Resources	\$ 1,856,572	\$ 2,858,457	\$ 74,125	\$ 81,537	\$ 1,930,697	\$ 2,939,994
Liabilities						
Long-term liabilities	\$ 8,383,887	\$ 11,107,091	\$ 3,792,360	\$ 4,004,127	\$ 12,176,247	\$ 15,111,218
Other liabilities	668,530	724,184	24,329	27,029	692,859	751,213
Total Liabilities	\$ 9,052,417	\$ 11,831,275	\$ 3,816,689	\$ 4,031,156	\$ 12,869,106	\$ 15,862,431
Deferred Inflows of Resources						
Advance from other governments	\$ 106,574	\$ 245,081	\$ -	\$ -	\$ 106,574	\$ 245,081
Prepaid property taxes	77,939	-	-	-	77,939	-
Deferred pension inflows	1,389,732	472,366	-	-	1,389,732	472,366
Total Deferred Inflows of Resources	\$ 1,574,245	\$ 717,447	\$ -	\$ -	\$ 1,574,245	\$ 717,447
Net Position						
Net investment in capital assets	\$ 42,026,659	\$ 39,186,589	\$ (639,879)	\$ (729,381)	\$ 41,386,780	\$ 38,457,208
Restricted	1,411,301	2,875,423	-	-	1,411,301	2,875,423
Unrestricted	(1,805,599)	(844,440)	(605,780)	(410,633)	(2,411,379)	(1,255,073)
Total Net Position	\$ 41,632,361	\$ 41,217,572	\$ (1,245,659)	\$ (1,140,014)	\$ 40,386,702	\$ 40,077,558

Traverse County's total net position as of December 31, 2017, is \$41,632,361. The governmental activities' and the business-type activities of the County report deficit unrestricted net position of (\$1,805,599) and (\$605,780), respectively.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues						
Fees, charges, fines, and other	\$ 1,040,556	\$ 1,243,250	\$ 1,061	\$ 17,673	\$ 1,041,617	\$ 1,260,923
Operating grants and contributions	5,297,797	5,124,239	-	-	5,297,797	5,124,239
Capital grants and contributions	495,227	320,857	78,587	-	573,814	320,857
General revenues						
Property taxes	4,914,474	4,685,248	-	-	4,914,474	4,685,248
Other taxes	2,106	3,799	-	-	2,106	3,799
Grants, gifts, and miscellaneous	427,024	447,724	344,707	326,741	771,731	774,465
Total Revenues	\$ 12,177,184	\$ 11,825,117	\$ 424,355	\$ 344,414	\$ 12,601,539	\$ 12,169,531
Expenses						
General government	\$ 1,805,720	\$ 1,758,875	\$ -	\$ -	\$ 1,805,720	\$ 1,758,875
Public safety	2,437,893	2,332,221	-	-	2,437,893	2,332,221
Highways and streets	4,263,011	4,234,856	-	-	4,263,011	4,234,856
Sanitation	164,199	163,332	-	-	164,199	163,332
Human services	2,383,078	2,106,034	-	-	2,383,078	2,106,034
Health	62,110	75,246	-	-	62,110	75,246
Culture and recreation	76,852	81,457	-	-	76,852	81,457
Conservation of natural resources	514,927	393,912	-	-	514,927	393,912
Economic development	6,903	46,266	-	-	6,903	46,266
Interest	47,702	106,595	-	-	47,702	106,595
Traverse Care Center	-	-	401,620	378,564	401,620	378,564
Prairieview Place	-	-	128,380	56,034	128,380	56,034
Total Expenses	\$ 11,762,395	\$ 11,298,794	\$ 530,000	\$ 434,598	\$ 12,292,395	\$ 11,733,392
Increase (Decrease) in Net Position	\$ 414,789	\$ 526,323	\$ (105,645)	\$ (90,184)	\$ 309,144	\$ 436,139
Net Position - January 1	41,217,572	40,691,249	(1,140,014)	(1,049,830)	40,077,558	39,641,419
Net Position - December 31	<u>\$ 41,632,361</u>	<u>\$ 41,217,572</u>	<u>\$ (1,245,659)</u>	<u>\$ (1,140,014)</u>	<u>\$ 40,386,702</u>	<u>\$ 40,077,558</u>

The County's activities increased net position by 0.8 percent (\$40,386,702 for 2017 compared to \$40,077,558 for 2016).

Governmental Activities

The cost of all governmental activities in 2017 was \$11,762,395. However, as shown in the Statement of Activities, the amount that taxpayers ultimately financed for these activities through County taxes and other general revenues was only \$5,343,604, because some of the cost was paid by those who directly benefited from the programs (\$1,040,556) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,793,024).

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	
	2017	2016	2017	2016
Highways and streets	\$ 4,263,011	\$ 4,234,856	\$ 61,522	\$ 57,294
Public safety	2,437,893	2,332,221	1,809,379	1,647,531
Human services	2,383,078	2,106,034	914,568	760,039
General government	1,805,720	1,758,875	1,649,245	1,567,481
Conservation of natural resources	514,927	393,912	276,738	268,102
All others	357,766	472,896	217,363	310,001
Total	\$ 11,762,395	\$ 11,298,794	\$ 4,928,815	\$ 4,610,448

Business-Type Activities

Revenues for Traverse County’s business-type activities (see Table 2) were \$424,355, and expenses were \$530,000.

THE COUNTY’S FUNDS

Upon completing the year, Traverse County’s governmental funds’ fund balance decreased by \$1,721,225. This decrease was due to a decrease of \$470,614 in the General Fund, an increase of \$356,348 in the Road and Bridge Special Revenue Fund, a decrease of \$65,892 in the Social Services Special Revenue Fund, and a decrease of \$1,541,067 in the Jail/LEC Debt Service Fund.

General Fund Budgetary Highlights and Other Budgetary Highlights

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

Budgeted revenues exceeded actual revenues in the General Fund by \$193,992, primarily due to intergovernmental revenue of \$272,803 over the projected totals. These were primarily offset by tax revenue of \$53,146 and charges for services revenue of \$15,096 under the projected totals.

Actual expenditures were more than budgeted expenditures in the General Fund by \$148,565, primarily due to greater than expected expenditures of \$139,508 in public safety and \$98,726 in conservation of natural resources, offset by lower than expected expenditures in general government of \$98,598.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, Traverse County had \$46,397,581 in a broad range of capital assets, net of accumulated depreciation. The investment in capital assets includes land, buildings, bridges, highways, machinery, furniture, and equipment (see Table 4). The investment in capital assets increased \$1,190,961, or 2.6 percent, from the previous year.

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

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
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	30,000	20,000	-	-	30,000	20,000
Buildings	2,790,065	2,905,298	2,440,734	2,612,178	5,230,799	5,517,476
Land improvements	111,837	115,762	-	288	111,837	116,050
Machinery, furniture, and equipment	1,793,510	1,744,446	59,320	33,848	1,852,830	1,778,294
Infrastructure	38,004,111	36,606,796	-	-	38,004,111	36,606,796
Totals	\$ 43,881,352	\$ 42,544,131	\$ 2,516,229	\$ 2,662,489	\$ 46,397,581	\$ 45,206,620

Long-Term Debt

As of December 31, 2017, Traverse County had \$4,785,000 in long-term obligations, compared with \$6,685,000 as of December 31, 2016--a decrease of 28.4 percent due to the closing of the General Obligation County Jail Bonds, Series 2006A--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 1,595,000	\$ 3,255,000	\$ 650,000	\$ 720,000	\$ 2,245,000	\$ 3,975,000
Revenue bonds	-	-	2,540,000	2,710,000	2,540,000	2,710,000
Totals	\$ 1,595,000	\$ 3,255,000	\$ 3,190,000	\$ 3,430,000	\$ 4,785,000	\$ 6,685,000

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Traverse County's elected and appointed officials considered many factors when setting the fiscal year 2018 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 2018 net levy of \$5,210,508, an increase of 4.2 percent from the 2016 levy of \$5,000,130.

Traverse County's 2018 net levy of \$5,210,508 is 9.3 percent higher than the net levy they passed in 2008 of \$4,767,529.

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, 2017**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 5,219,230	\$ 50,676	\$ 5,269,906
Taxes receivable			
Delinquent	68,009	-	68,009
Accounts receivable	8,297	-	8,297
Due from other governments	879,718	-	879,718
Internal balances	70,000	(70,000)	-
Loans receivable	180,812	-	180,812
Inventories	47,522	-	47,522
Prepaid items	47,511	-	47,511
Noncurrent assets			
Capital assets			
Non-depreciable	1,181,829	16,175	1,198,004
Depreciable - net of accumulated depreciation	42,699,523	2,500,054	45,199,577
Total Assets	\$ 50,402,451	\$ 2,496,905	\$ 52,899,356
<u>Deferred Outflows of Resources</u>			
Deferred pension outflows	\$ 1,856,572	\$ -	\$ 1,856,572
Deferred charges on bond refunding	-	74,125	74,125
Total Deferred Outflows of Resources	\$ 1,856,572	\$ 74,125	\$ 1,930,697

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET POSITION
DECEMBER 31, 2017**

	Governmental Activities	Business-Type Activities	Total
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 143,355	\$ 85	\$ 143,440
Salaries payable	152,872	-	152,872
Due to other governments	104,199	-	104,199
Contracts payable	234,170	-	234,170
Accrued interest payable	33,934	24,244	58,178
Compensated absences payable - current	188,220	-	188,220
General obligation bonds payable - current	140,000	70,000	210,000
Revenue bonds payable - current	-	170,000	170,000
Leases payable - current	38,020	-	38,020
Noncurrent liabilities			
Compensated absences payable	106,752	-	106,752
Net other postemployment benefits obligation	2,661,621	562,127	3,223,748
Net pension liability	3,690,319	-	3,690,319
General obligation bonds payable	-	583,466	583,466
General obligation crossover bonds payable	1,490,334	-	1,490,334
Revenue bonds payable	-	2,406,767	2,406,767
Leases payable	68,621	-	68,621
	\$ 9,052,417	\$ 3,816,689	\$ 12,869,106
<u>Deferred Inflows of Resources</u>			
Deferred pension inflows	\$ 1,389,732	\$ -	\$ 1,389,732
Prepaid property taxes	77,939	-	77,939
Advance from other governments	106,574	-	106,574
	\$ 1,574,245	\$ -	\$ 1,574,245
<u>Net Position</u>			
Net investment in capital assets	\$ 42,026,659	\$ (639,879)	\$ 41,386,780
Restricted for			
Public safety	91,153	-	91,153
Highways and streets	825,306	-	825,306
Sanitation	118,939	-	118,939
Debt service	144,493	-	144,493
Conservation of natural resources	97,407	-	97,407
Other purposes	134,003	-	134,003
Unrestricted	(1,805,599)	(605,780)	(2,411,379)
	\$ 41,632,361	\$ (1,245,659)	\$ 40,386,702

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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Governmental activities		
General government	\$ 1,805,720	\$ 144,152
Public safety	2,437,893	479,408
Highways and streets	4,263,011	233,919
Sanitation	164,199	54,204
Human services	2,383,078	104,849
Health	62,110	1,448
Culture and recreation	76,852	16,040
Conservation of natural resources	514,927	6,536
Economic development	6,903	-
Interest	47,702	-
	\$ 11,762,395	\$ 1,040,556
Business-type activities		
Traverse Care Center	\$ 401,620	\$ 1,061
Prairieview Place	128,380	-
	\$ 530,000	\$ 1,061
Total	\$ 12,292,395	\$ 1,041,617

General Revenues

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

Total general revenues

Change in net position

Net Position - Beginning

Net Position - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 12,323	\$ -	\$ (1,649,245)	\$ -	\$ (1,649,245)
149,106	-	(1,809,379)	-	(1,809,379)
3,472,343	495,227	(61,522)	-	(61,522)
68,711	-	(41,284)	-	(41,284)
1,363,661	-	(914,568)	-	(914,568)
-	-	(60,662)	-	(60,662)
-	-	(60,812)	-	(60,812)
231,653	-	(276,738)	-	(276,738)
-	-	(6,903)	-	(6,903)
-	-	(47,702)	-	(47,702)
\$ 5,297,797	\$ 495,227	\$ (4,928,815)	\$ -	\$ (4,928,815)
\$ -	\$ 78,587	\$ -	\$ (321,972)	\$ (321,972)
-	-	-	(128,380)	(128,380)
\$ -	\$ 78,587	\$ -	\$ (450,352)	\$ (450,352)
\$ 5,297,797	\$ 573,814	\$ (4,928,815)	\$ (450,352)	\$ (5,379,167)
		\$ 4,914,474	\$ -	\$ 4,914,474
		2,106	-	2,106
		280,113	-	280,113
		30,175	-	30,175
		29,873	-	29,873
		86,863	344,707	431,570
		\$ 5,343,604	\$ 344,707	\$ 5,688,311
		\$ 414,789	\$ (105,645)	\$ 309,144
		41,217,572	(1,140,014)	40,077,558
		\$ 41,632,361	\$ (1,245,659)	\$ 40,386,702

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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, 2017**

	<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	\$ 2,756,373	\$ 539,500	\$ 1,489,037	\$ 169,943	\$ 4,954,853
Petty cash and change funds	1,400	-	100	-	1,500
Undistributed cash in agency funds	145,310	71,429	36,717	9,421	262,877
Taxes receivable					
Delinquent	39,033	17,661	8,934	2,381	68,009
Accounts receivable	3,700	4,376	221	-	8,297
Due from other funds	18,310	5,637	-	-	23,947
Due from other governments	171,529	518,439	189,750	-	879,718
Loans receivable	180,812	-	-	-	180,812
Advance to other funds	70,000	-	-	-	70,000
Inventories	-	47,522	-	-	47,522
Prepaid items	42,891	4,620	-	-	47,511
Total Assets	\$ 3,429,358	\$ 1,209,184	\$ 1,724,759	\$ 181,745	\$ 6,545,046
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 35,417	\$ 29,375	\$ 78,563	\$ -	\$ 143,355
Salaries payable	89,351	34,865	28,656	-	152,872
Contracts payable	-	234,170	-	-	234,170
Due to other funds	5,637	704	17,606	-	23,947
Due to other governments	67,682	13,955	20,584	-	102,221
Advance from other funds	-	-	1,978	-	1,978
Total Liabilities	\$ 198,087	\$ 313,069	\$ 147,387	\$ -	\$ 658,543
Deferred Inflows of Resources					
Unavailable revenue	\$ 30,646	\$ 490,375	\$ 57,748	\$ 690	\$ 579,459
Prepaid property taxes	43,384	21,541	10,369	2,645	77,939
Advance from other governments	-	106,574	-	-	106,574
Total Deferred Inflows of Resources	\$ 74,030	\$ 618,490	\$ 68,117	\$ 3,335	\$ 763,972

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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	<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	\$ -	\$ 47,522	\$ -	\$ -	\$ 47,522
Loans receivable	180,812	-	-	-	180,812
Prepaid items	42,891	4,620	-	-	47,511
Advances	70,000	-	-	-	70,000
Restricted for					
Law library	2,313	-	-	-	2,313
Recorder's equipment	76,487	-	-	-	76,487
Recorder's compliance fund	55,203	-	-	-	55,203
Enhanced 911	91,153	-	-	-	91,153
Invasive species aid	97,407	-	-	-	97,407
Solid waste assessments	118,939	-	-	-	118,939
Debt service	-	-	-	178,410	178,410
Highway allotments	-	418,552	-	-	418,552
Assigned to					
Courthouse security project	142,240	-	-	-	142,240
Capital projects	579,601	-	-	-	579,601
Social services	-	-	1,509,255	-	1,509,255
Unassigned	1,700,195	(193,069)	-	-	1,507,126
Total Fund Balances	\$ 3,157,241	\$ 277,625	\$ 1,509,255	\$ 178,410	\$ 5,122,531
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 3,429,358	\$ 1,209,184	\$ 1,724,759	\$ 181,745	\$ 6,545,046

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2017**

Fund balance - total governmental funds (Exhibit 3)	\$	5,122,531
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.		43,881,352
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds.		1,856,572
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.		579,459
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	\$ (1,630,334)	
Capital leases	(106,641)	
Compensated absences	(294,972)	
Net pension liability	(3,690,319)	
Accrued interest payable	(33,934)	
Net other postemployment benefits obligation	<u>(2,661,621)</u>	(8,417,821)
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>(1,389,732)</u>
Net Position of Governmental Activities (Exhibit 1)	\$	<u>41,632,361</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Jail/LEC Debt Service</u>	<u>Total</u>
Revenues					
Taxes	\$ 2,656,202	\$ 1,358,093	\$ 718,297	\$ 184,613	\$ 4,917,205
Special assessments	54,204	-	-	-	54,204
Licenses and permits	10,168	-	-	-	10,168
Intergovernmental	638,201	4,058,360	1,354,552	-	6,051,113
Charges for services	601,949	203,897	20,598	-	826,444
Investment earnings	20,326	-	-	9,653	29,979
Gifts and contributions	-	-	750	-	750
Miscellaneous	119,625	30,924	100,105	-	250,654
Total Revenues	\$ 4,100,675	\$ 5,651,274	\$ 2,194,302	\$ 194,266	\$ 12,140,517
Expenditures					
Current					
General government	\$ 1,598,390	\$ -	\$ -	\$ -	\$ 1,598,390
Public safety	2,023,853	-	-	-	2,023,853
Highways and streets	-	5,249,741	-	-	5,249,741
Sanitation	151,013	-	-	-	151,013
Human services	-	-	2,271,094	-	2,271,094
Health	62,110	-	-	-	62,110
Culture and recreation	75,002	-	-	-	75,002
Conservation of natural resources	499,021	-	-	-	499,021
Economic development	6,903	-	-	-	6,903
Intergovernmental	-	258,778	-	-	258,778
Debt service					
Principal	25,169	1,239	1,019	1,660,000	1,687,427
Interest	219	-	-	74,838	75,057
Administrative charges	-	-	-	495	495
Total Expenditures	\$ 4,441,680	\$ 5,509,758	\$ 2,272,113	\$ 1,735,333	\$ 13,958,884

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<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	\$ (341,005)	\$ 141,516	\$ (77,811)	\$ (1,541,067)	\$ (1,818,367)
Other Financing Sources (Uses)					
Transfers in	\$ -	\$ 200,000	\$ -	\$ -	\$ 200,000
Transfers out	(200,000)	-	-	-	(200,000)
Capital leases	70,391	12,400	11,919	-	94,710
Proceeds from sale of capital assets	-	1,553	-	-	1,553
Total Other Financing Sources (Uses)	\$ (129,609)	\$ 213,953	\$ 11,919	\$ -	\$ 96,263
Net Change in Fund Balance	\$ (470,614)	\$ 355,469	\$ (65,892)	\$ (1,541,067)	\$ (1,722,104)
Fund Balance - January 1	3,627,855	(78,723)	1,575,147	1,719,477	6,843,756
Increase (decrease) in inventories	-	879	-	-	879
Fund Balance - December 31	\$ 3,157,241	\$ 277,625	\$ 1,509,255	\$ 178,410	\$ 5,122,531

**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, 2017**

Net change in fund balance - total governmental funds (Exhibit 5) \$ (1,722,104)

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	\$ 579,459	
Unavailable revenue - January 1	<u>(584,619)</u>	(5,160)

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	\$ 2,967,976	
Net book value of assets disposed of	(14,279)	
Current year depreciation	<u>(1,616,476)</u>	1,337,221

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 net effect of premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of activities.

Principal repayments		
General obligation bonds	\$ 1,660,000	
Capital leases	27,427	
Amortization of bond premiums	<u>27,850</u>	1,715,277

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 (see Note 3.C.4. for more information). (94,710)

**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, 2017**

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 compensated absences	\$	9,794	
Change in net other postemployment benefits obligation		(345,492)	
Change in net pension liability		1,438,335	
Change in deferred pension outflows		(1,001,885)	
Change in deferred pension inflows		(917,366)	
Change in inventories		879	
		879	(815,735)
Change in Net Position of Governmental Activities (Exhibit 2)			\$ 414,789

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PROPRIETARY FUNDS

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 25,275	\$ 25,401	\$ 50,676
Noncurrent assets			
Capital assets			
Nondepreciable	\$ -	\$ 16,175	\$ 16,175
Depreciable - net of accumulated depreciation	468,973	2,031,081	2,500,054
Total noncurrent assets	\$ 468,973	\$ 2,047,256	\$ 2,516,229
Total Assets	\$ 494,248	\$ 2,072,657	\$ 2,566,905
<u>Deferred Outflows of Resources</u>			
Deferred charges on bond refunding	\$ -	\$ 74,125	\$ 74,125
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ -	\$ 85	\$ 85
Accrued interest payable	-	24,244	24,244
General obligation bonds payable - current	70,000	-	70,000
Revenue bonds payable - current	-	170,000	170,000
Total current liabilities	\$ 70,000	\$ 194,329	\$ 264,329
Noncurrent liabilities			
Advance from other funds	\$ 70,000	\$ -	\$ 70,000
Net other postemployment benefits obligation	652	561,475	562,127
General obligation bonds payable - long-term	583,466	-	583,466
Revenue bonds payable - long-term	-	2,406,767	2,406,767
Total noncurrent liabilities	\$ 654,118	\$ 2,968,242	\$ 3,622,360
Total Liabilities	\$ 724,118	\$ 3,162,571	\$ 3,886,689

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

***EXHIBIT 7
(Continued)***

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
<u>Net Position</u>			
Net investment in capital assets	\$ (184,493)	\$ (455,386)	\$ (639,879)
Unrestricted	(45,377)	(560,403)	(605,780)
Total Net Position	\$ (229,870)	\$ (1,015,789)	\$ (1,245,659)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Operating Revenues			
Miscellaneous	\$ -	\$ 1,061	\$ 1,061
Operating Expenses			
Employee benefits and payroll taxes	\$ -	\$ 127,278	\$ 127,278
Professional services	69,530	31,087	100,617
Depreciation	45,754	180,202	225,956
Total Operating Expenses	\$ 115,284	\$ 338,567	\$ 453,851
Operating Income (Loss)	\$ (115,284)	\$ (337,506)	\$ (452,790)
Nonoperating Revenues (Expenses)			
Miscellaneous	\$ -	\$ 1,109	\$ 1,109
Lease revenue	78,796	264,802	343,598
Interest expense	(13,096)	(63,053)	(76,149)
Total Nonoperating Revenues (Expenses)	\$ 65,700	\$ 202,858	\$ 268,558
Income (Loss) Before Capital Contributions	\$ (49,584)	\$ (134,648)	\$ (184,232)
Capital Contributions	-	78,587	78,587
Change in Net Position	\$ (49,584)	\$ (56,061)	\$ (105,645)
Net Position - January 1	(180,286)	(959,728)	(1,140,014)
Net Position - December 31	\$ (229,870)	\$ (1,015,789)	\$ (1,245,659)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
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	\$ -	\$ 1,061	\$ 1,061
Payments to suppliers and employees	(70,162)	(127,596)	(197,758)
Nonoperating revenue received	78,784	264,802	343,586
Net cash provided by (used in) operating activities	\$ 8,622	\$ 138,267	\$ 146,889
Cash Flows from Noncapital Financing Activities			
Proceeds from advance from other funds	\$ 70,000	\$ -	\$ 70,000
Net cash provided by (used in) noncapital financing activities	\$ 70,000	\$ -	\$ 70,000
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	(13,444)	(59,885)	(73,329)
Net cash provided by (used in) capital and related financing activities	\$ (83,444)	\$ (229,885)	\$ (313,329)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (4,822)	\$ (91,618)	\$ (96,440)
Cash and Cash Equivalents at January 1	30,097	117,019	147,116
Cash and Cash Equivalents at December 31	\$ 25,275	\$ 25,401	\$ 50,676

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
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>\$ (115,284)</u>	<u>\$ (337,506)</u>	<u>\$ (452,790)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	\$ 45,754	\$ 180,202	\$ 225,956
Nonoperating revenue received	78,798	264,802	343,600
Increase (decrease) in accounts payable	(633)	(651)	(1,284)
Increase (decrease) in net other postemployment benefits obligation	<u>(13)</u>	<u>31,420</u>	<u>31,407</u>
Total adjustments	<u>\$ 123,906</u>	<u>\$ 475,773</u>	<u>\$ 599,679</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 8,622</u>	<u>\$ 138,267</u>	<u>\$ 146,889</u>
Non-cash Investing, Capital and Related Financing Activities			
Adjustment due to prior year error in capital assets	\$ -	\$ 1,109	\$ 1,109
Capital assets contributed			
Buildings	-	43,740	43,740
Machinery, furniture, and equipment	-	34,847	34,847

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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, 2017

<u>Assets</u>	
Cash and pooled investments	\$ 225,811
Advance to other funds	1,978
Total Assets	\$ 227,789
 <u>Liabilities</u>	
Due to other governments	\$ 227,789

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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, 2017. 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 6.B. The County also participates in a related organization described in Note 6.C.

B. Basic Financial Statements

1. Government-Wide Statements

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

The County reports the following major enterprise funds:

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

The government-wide 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, 2017. 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 2017 were \$23,457.

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

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

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

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

Special assessments receivable consist of delinquent special assessments payable in the years 2011 through 2017 and noncurrent special assessments payable in 2018 and after. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments.

No allowance for uncollectible receivables have been provided because such amounts are not expected to be material.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

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

6. Capital Assets

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Capital Assets (Continued)

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

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

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

7. Compensated Absences

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Long-Term Obligations

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, 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 (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 has two items, deferred pension outflows and deferred charges on bond refunding, which qualify for reporting in this category. Deferred pension outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date, differences between expected and actual pension plan economic experience, changes in actuarial assumptions, and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position. The deferred charge on bond refunding is reported in the Traverse Care Center Enterprise Fund in the business-type activities statement of net position. A deferred charge on bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Deferred Outflows/Inflows of Resources (Continued)

pension plan changes in proportionate share, changes in actuarial assumptions, and also the differences between projected and actual earnings on pension plan investments and, accordingly, are reported only in the statement of net position. The County also has an advance from other governments. This inflow arises under both the modified accrual and the full accrual basis of accounting, and is reported in both the governmental funds balance sheet and on the statement of net position. The last item, prepaid property taxes, arise under both the modified accrual and full accrual basis of accounting and is reported in both the governmental funds balance sheet and the statement of net position. These amounts represent the County's share of the 2018 property taxes collected in advance. Since the property taxes were levied for use in a future year, the revenue is deferred and recognized in the period for which the amounts were levied.

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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.
- 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
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)

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.

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, 2017, 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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Excess of Expenditures Over Budget

The Jail/LEC Debt Service Fund had expenditures in excess of budget for the year ended December 31, 2017:

Expenditures	Final Budget	Excess
\$ 1,735,333	\$ 189,801	\$ 1,545,532

B. Deficit Net Position

The following funds had deficit net position as of December 31, 2017:

Prairieview Place Enterprise Fund	\$ 229,870
Traverse Care Center Enterprise Fund	1,015,789

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

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 5,219,230
Business-type activities	
Cash and pooled investments	50,676
Statement of fiduciary net position	
Cash and pooled investments	225,811
Total Cash and Investments	\$ 5,495,717

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County's policy is to minimize deposit custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2017, the County did not have any deposits exposed to custodial credit risk.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

b. Investments

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

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

Interest Rate Risk

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments

Interest Rate Risk (Continued)

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage is available. As of December 31, 2017, 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, 2017, 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					
GE Capital Retail	N/R	N/A	>5%	06/08/2018	\$ 200,448
Comenity Bank	N/R	N/A	<5%	10/21/2019	99,640
Goldman Sachs Bank USA	N/R	N/A	<5%	01/14/2020	100,357
Total negotiable certificates of deposit with brokers					\$ 400,445
Investment pools/mutual funds					
Federated Total Return Government Bond Fund	N/R	N/A	<5%	N/A	\$ 41,145
MAGIC Fund	N/R	N/A	<5%	N/A	6,665
Total investment pools/mutual funds					\$ 47,810
Total investments					\$ 448,255
Checking					3,934,385
Savings					445,438
Non-negotiable certificates of deposit					666,139
Change funds					1,500
Total Cash and Investments					\$ 5,495,717

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, 2017, the County had the following recurring fair value measurements:

	December 31, 2017	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	\$ 400,445	\$ -	\$ 400,445	\$ -
Total Investments Included in the Fair Value Hierarchy	\$ 400,445	\$ -	\$ 400,445	\$ -
Investments measured at the net asset value (NAV)				
MAGIC Portfolio	\$ 6,665			
Mutual fund	41,145			
Total Investments Measured at the NAV	\$ 47,810			

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 net asset value not reasonably practical.

The County also holds \$41,145 in money market mutual funds. The fair value of the investment is the fair value per share of the underlying portfolio. There are no restrictions on these funds.

2. Receivables

Receivables as of December 31, 2017, for the County's governmental activities and business-type activities are as follows:

	Governmental Activities	Business-Type Activities
Taxes	\$ 68,009	\$ -
Accounts receivable	8,297	-
Due from other governments	879,718	-
Loans receivable	180,812	-
Total Receivables	\$ 1,136,836	\$ -

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

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 will repay Traverse County within three years after reaching 150 subscribers, which occurred in 2018. A finalized repayment plan is not yet available.

	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, 2017, 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	20,000	10,000	-	30,000
Total capital assets not depreciated	\$ 1,171,829	\$ 10,000	\$ -	\$ 1,181,829
Capital assets depreciated				
Buildings	\$ 5,360,449	\$ -	\$ -	\$ 5,360,449
Land improvements	203,309	10,049	-	213,358
Machinery, furniture, and equipment	5,182,712	459,224	22,643	5,619,293
Infrastructure	51,284,608	2,488,703	-	53,773,311
Total capital assets depreciated	\$ 62,031,078	\$ 2,957,976	\$ 22,643	\$ 64,966,411

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

3. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 2,455,151	\$ 115,233	\$ -	\$ 2,570,384
Land improvements	87,547	13,974	-	101,521
Machinery, furniture, and equipment	3,438,266	395,881	8,364	3,825,783
Infrastructure	14,677,812	1,091,388	-	15,769,200
Total accumulated depreciation	\$ 20,658,776	\$ 1,616,476	\$ 8,364	\$ 22,266,888
Total capital assets depreciated, net	\$ 41,372,302	\$ 1,341,500	\$ 14,279	\$ 42,699,523
Governmental Activities				
Capital Assets, Net	<u>\$ 42,544,131</u>	<u>\$ 1,341,500</u>	<u>\$ 14,279</u>	<u>\$ 43,881,352</u>

Construction in progress at December 31, 2017, consists of amounts paid to date for new tax software.

Business-Type Activities

	Beginning Balance	Increase	Decrease/ Adjustment*	Ending Balance
Capital assets not depreciated				
Land	\$ 16,175	\$ -	\$ -	\$ 16,175
Capital assets depreciated				
Buildings	\$ 6,375,739	\$ 43,740	\$ 97,206	\$ 6,322,273
Land improvements	42,079	-	22,775	19,304
Machinery, furniture, and equipment	501,072	34,847	300,762	235,157
Total capital assets depreciated	\$ 6,918,890	\$ 78,587	\$ 420,743	\$ 6,576,734
Less: accumulated depreciation for				
Buildings	\$ 3,763,561	\$ 215,184	\$ 97,206	\$ 3,881,539
Land improvements	41,791	288	22,775	19,304
Machinery, furniture, and equipment	467,224	10,484	301,871	175,837
Total accumulated depreciation	\$ 4,272,576	\$ 225,956	\$ 421,852	\$ 4,076,680
Total capital assets depreciated, net	\$ 2,646,314	\$ (147,369)	\$ (1,109)	\$ 2,500,054
Business-Type Activities				
Capital Assets, Net	<u>\$ 2,662,489</u>	<u>\$ (147,369)</u>	<u>\$ (1,109)</u>	<u>\$ 2,516,229</u>

*Machinery and equipment accumulated depreciation was reduced by \$1,109 to correct a prior year error.

**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	\$	117,855
Public safety		94,919
Highways and streets, including depreciation of infrastructure assets		1,390,367
Human services		6,548
Sanitation		3,426
Culture and recreation		1,850
Conservation of natural resources		1,511
		1,511
Total Depreciation Expense - Governmental Activities	\$	1,616,476
Business-Type Activities		
Traverse Care Center	\$	180,202
Prairieview Place		45,754
		45,754
Total Depreciation Expense - Business-Type Activities	\$	225,956

B. Interfund Receivables, Payables, and Transfers

Due To/From Other Funds

The composition of interfund balances as of December 31, 2017, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Special Revenue Fund	\$ 704
	Social Services Special Revenue Fund	17,606
		17,606
Total General Fund		\$ 18,310
Road and Bridge Special Revenue Fund	General Fund	5,637
		5,637
Total Due To/Due From Other Funds		\$ 23,947

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

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.

Advances To/From Other Funds

The composition of interfund balances as of December 31, 2017, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Prairieview Place Enterprise Fund	\$ 70,000
Total Advance To Other Funds		\$ 70,000
Traverse County Connections Agency Fund	Social Services Special Revenue Fund	\$ 1,978
Total Advance From Other Funds		\$ 1,978

The General Fund advanced \$70,000 to the Prairieview Place Enterprise Fund to fund a roof project for the Prairieview Place building in 2017. The outstanding loan balance will be repaid once the G.O. Refunding Bond, Series 2013A, is paid in full, beginning in 2027. The advance from the Social Services Special Revenue Fund to the Traverse County Connections Agency Fund is to provide collaborative grant funds received from Minnesota Department of Human Services.

Interfund Transfers

Interfund transfers for the year ended December 31, 2017, consisted of the following:

Transfer to Road and Bridge Special Revenue Fund from General Fund	\$ 200,000	Budgeted transfer to provide funding
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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2017, were as follows:

	Governmental Activities	Business-Type Activities
Accounts payable	\$ 143,355	\$ 85
Salaries payable	152,872	-
Due to other governments	104,199	-
Contracts payable	234,170	-
Total Payables	\$ 634,596	\$ 85

2. Deferred Inflows of Resources - Unavailable Revenue/Prepaid Property Taxes/
Advance From Other Governments

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. The advance from other governments is advanced state aid allotments received by the County but not yet appropriated by the State of Minnesota. Prepaid property taxes consist of the County's share of 2018 property taxes collected in advance. Deferred inflows of resources at December 31, 2017, are summarized below by fund:

	Taxes	Grants	Other	Total
Governmental funds				
General Fund	\$ 57,614	\$ 16,272	\$ 144	\$ 74,030
Special Revenue Funds				
Road and Bridge	26,750	591,740	-	618,490
Social Services	12,733	54,291	1,093	68,117
Jail/LEC Debt Service Fund	3,335	-	-	3,335
Total	\$ 100,432	\$ 662,303	\$ 1,237	\$ 763,972
Deferred inflows of resources				
Prepaid property taxes	\$ 77,939	\$ -	\$ -	\$ 77,939
Advance from other governments	-	106,574	-	106,574
Unavailable revenue	22,493	555,729	1,237	579,459
Total	\$ 100,432	\$ 662,303	\$ 1,237	\$ 763,972

**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, 2017. 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, 2017:

<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	\$ 9,645
Recorder - copier	2019	Monthly	632	5,604	2,925
2015 GMC Sierra	2020	Monthly	668	30,323	10,107
2017 Ford Police Interceptor	2021	Monthly	605	29,025	25,397
2017 Ford Police Interceptor	2021	Monthly	603	28,966	25,345
Social Services - copier	2022	Monthly	235	11,919	10,900
Road and Bridge - copier	2022	Monthly	207	12,400	11,161
Sheriff - copier	2022	Monthly	207	12,400	11,161
Total Governmental Activities Capital Leases					<u>\$ 106,641</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, 2017, were as follows:

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Leases

Capital Leases (Continued)

<u>Year Ending December 31</u>	<u>Lease Payments</u>
2018	\$ 38,850
2019	28,723
2020	22,176
2021	15,031
2022	3,891
Less: amount representing interest	<u>(2,030)</u>
Net Present Value of Minimum Lease Payments	<u>\$ 106,641</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, 2017</u>
General obligation bonds					
2015A G.O. Crossover Refunding Bonds	2027	\$140,000 - \$180,000	2.50 - 2.75	\$ 1,595,000	\$ 1,595,000
Add: unamortized premium					<u>35,334</u>
Total General Obligation Bonds, Net					<u>\$ 1,630,334</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, 2017</u>
2013A G.O. Governmental Housing Refunding Bonds	2027	\$65,000 - \$80,000	1.05 - 2.50	\$ 785,000	\$ 650,000
Add: unamortized premium					<u>3,466</u>
Total G.O. Bonds, Net					<u>\$ 653,466</u>
2012A G.O. Nursing Home Revenue Refunding Bonds	2030	\$160,000 - \$225,000	0.00 - 2.80	\$ 3,350,000	\$ 2,540,000
Add: unamortized premium					<u>36,767</u>
Total Revenue Refunding Bonds, Net					<u>\$ 2,576,767</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, 2017, were as follows:

Governmental Activities

Year Ending December 31	G.O. Crossover Refunding Bonds, Series 2015A	
	Principal	Interest
	2018	\$ 140,000
2019	145,000	35,450
2020	150,000	31,763
2021	155,000	27,950
2022	155,000	24,075
2023 - 2027	850,000	57,931
Total	\$ 1,595,000	\$ 216,182

Business-Type Activities

Year Ending December 31	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2018	\$ 70,000	\$ 12,708	\$ 170,000	\$ 56,485
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 - 2027	300,000	18,677	1,000,000	149,383
2028 - 2030	-	-	660,000	27,455
Total	\$ 650,000	\$ 72,730	\$ 2,540,000	\$ 424,263

**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, 2017, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
G.O. bonds payable	\$ 3,255,000	\$ -	\$ 1,660,000	\$ 1,595,000	\$ 140,000
Unamortized bond premium	63,184	-	27,850	35,334	-
Capital leases	39,358	94,710	27,427	106,641	38,020
Compensated absences	304,766	237,176	246,970	294,972	188,220
Governmental Activities Long-Term Liabilities	<u>\$ 3,662,308</u>	<u>\$ 331,886</u>	<u>\$ 1,962,247</u>	<u>\$ 2,031,947</u>	<u>\$ 366,240</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable					
General obligation refunding bonds	\$ 720,000	\$ -	\$ 70,000	\$ 650,000	\$ 70,000
Revenue bonds	2,710,000	-	170,000	2,540,000	170,000
Premium on bonds	43,407	-	3,174	40,233	-
Business-Type Activities Long-Term Liabilities	<u>\$ 3,473,407</u>	<u>\$ -</u>	<u>\$ 243,174</u>	<u>\$ 3,230,233</u>	<u>\$ 240,000</u>

8. Crossover Refunding

In 2015, the County issued \$1,595,000 General Obligation Crossover Refunding Bonds, Series 2015A. Proceeds from the sale of the bonds 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.

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description

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

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No County employees belong to either the Basic Plan or the Minneapolis Retirement Fund.

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

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Public Employees Correctional Plan (accounted for in the Correctional Fund). For members hired after June 30, 2010, benefits vest on a prorated basis starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years.

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. General Employees Retirement Plan and Public Employees Police and Fire Plan benefit recipients receive a future annual 1.0 percent for the post-retirement benefit increase, while Public Employees Correctional Plan benefit recipients receive 2.5 percent. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, if the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

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

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in 2017. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2017. Public Employees Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2017.

In 2017, the County was required to contribute the following percentages of annual covered salary:

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

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

The County's contributions for the year ended December 31, 2017, to the pension plans were:

General Employees Retirement Plan	\$ 187,462
Public Employees Police and Fire Plan	55,954
Public Employees Correctional Plan	41,869

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

4. Pension Costs

General Employees Retirement Plan

At December 31, 2017, the County reported a liability of \$2,534,422 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.0397 percent. It was 0.0370 percent measured as of June 30, 2016. The County recognized pension expense of \$392,034 for its proportionate share of the General Employees Retirement Plan's pension expense.

The County also recognized \$921 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation required the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan for the fiscal year ended June 30, 2017.

The County's proportionate share of the net pension liability	\$ 2,534,422
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>31,880</u>
Total	<u><u>\$ 2,566,302</u></u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 83,527	\$ 151,434
Changes in actuarial assumptions	392,152	254,076
Difference between projected and actual investment earnings	-	15,483
Changes in proportion	179,967	32,883
Contributions paid to PERA subsequent to the measurement date	92,831	-
Total	\$ 748,477	\$ 453,876

The \$92,831 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, 2018. 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
2018	\$ 122,937
2019	187,522
2020	(1,107)
2021	(107,582)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Police and Fire Plan

At December 31, 2017, the County reported a liability of \$472,542 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.035 percent. It was 0.032 percent measured as of June 30, 2016. The County recognized pension expense of \$119,412 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

The County also recognized \$3,150 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Plan. Legislation requires the State of Minnesota to contribute \$9 million to the 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 Public Employees Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 10,877	\$ 115,500
Changes in actuarial assumptions	565,408	670,892
Difference between projected and actual investment earnings	-	6,920
Changes in proportion	100,329	5,400
Contributions paid to PERA subsequent to the measurement date	27,871	-
Total	\$ 704,485	\$ 798,712

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

The \$27,871 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, 2018. 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>
2018	\$ 11,260
2019	11,260
2020	(4,578)
2021	(28,102)
2022	(111,938)

Public Employees Correctional Plan

At December 31, 2017, the County reported a liability of \$683,355 for its proportionate share of the Public Employees Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.24 percent. It was 0.23 percent measured as of June 30, 2016. The County recognized pension expense of \$258,826 for its proportionate share of the Public Employees Correctional Plan's pension expense.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 439	\$ 10,867
Changes in actuarial assumptions	356,882	119,064
Difference between projected and actual investment earnings	-	7,213
Changes in proportion	27,399	-
Contributions paid to PERA subsequent to the measurement date	18,890	-
Total	\$ 403,610	\$ 137,144

The \$18,890 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, 2018. 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
2018	\$ 147,870
2019	152,408
2020	(33,662)
2021	(19,040)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2017, was \$770,272.

5. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, cost of living benefit increases for retirees are assumed to be 1.0 percent through 2044 and 2064, respectively, and 2.5 percent thereafter. Cost of living benefit increases for retirees are assumed to be 2.5 percent for the Public Employees Correctional Plan.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Retirement Plan was dated June 30, 2015. The experience study for the Public Employees Police and Fire Plan was dated August 30, 2016. The experience study for the Public Employees Correctional Plan was dated February 2012.

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	39%	5.10%
International stocks	19	5.30
Bonds	20	0.75
Alternative assets	20	5.90
Cash	2	0.00

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2017, which remained consistent with 2016. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan and the Public Employees Police and Fire 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.

In the Public Employees Correctional Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2061. Beginning in fiscal year ended June 30, 2062, when projected benefit payments exceed the Plan's projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 3.56 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.96 percent for the Public Employees Correctional Plan was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits to the point of asset depletion and 3.56 percent thereafter.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2017:

General Employees Retirement Plan

- The Combined Service Annuity (CSA) loads were changed from 0.8 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 0.0 percent for active member liability, 15 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21,000,000 in calendar years 2017 and 2018 and returns to \$31,000,000 through calendar year 2031. The state's required contribution is \$16,000,000 in PERA's fiscal years 2018 and 2019 and returns to \$6,000,000 annually through calendar year 2031.

Public Employees Police and Fire Plan

- 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 2.0 percent for non-vested members.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions

Public Employees Police and Fire Plan (Continued)

- 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.
- The assumed termination rates were decreased to 3.0 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 1.0 percent for all years to 1.0 percent per year through 2064 and 2.5 percent thereafter.
- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions (Continued)

Public Employees Correctional Plan

- The 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 1.0 percent for non-vested members.
- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

8. 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 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	Proportionate Share of the					
	General Employees Retirement Plan		Public Employees Police and Fire Plan		Public Employees Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 3,931,077	6.50%	\$ 889,934	4.96%	\$ 1,127,150
Current	7.50	2,534,422	7.50	472,542	5.96	683,355
1% Increase	8.50	1,391,006	8.50	127,961	6.96	338,119

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

9. Pension Plan Fiduciary Net Position

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

B. Defined Contribution Plan

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

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

Total contributions by dollar amount and percentage of covered payroll made by Traverse County during the year ended December 31, 2017, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,573	\$ 2,573
Percentage of covered payroll	5%	5%

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (Continued)

C. Other Postemployment Benefits (OPEB)

Plan Description and Funding Policy

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

The contribution requirements of the plan members and the County are established and may be amended by the Traverse County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2017, there were 141 participants in the plan, including 49 retirees and 23 spouses.

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

Annual OPEB Cost and Net OPEB Obligation

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

ARC	\$	789,509
Interest on net OPEB obligation		99,640
Adjustment to ARC		(152,147)
Annual OPEB cost (expense)	\$	737,002
Contributions made during the year		(360,103)
Increase in net OPEB obligation	\$	376,899
Net OPEB Obligation - Beginning of Year		2,846,849
Net OPEB Obligation - End of Year	\$	3,223,748

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for the years ended December 31, 2015, 2016, and 2017, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2015	\$ 619,768	\$ 336,031	54.2%	\$ 2,593,859
December 31, 2016	622,075	369,085	59.3	2,846,849
December 31, 2017	737,002	360,103	48.9	3,223,748

Funded Status and Funding Progress

Governmental Activities

As of January 1, 2017, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial accrued liability for benefits was \$7,264,264, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,264,264. The covered payroll (annual payroll of active employees covered by the plan) was \$3,640,396, and the ratio of the UAAL to the covered payroll was 246.8 percent.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

Business-Type Activities

As of January 1, 2017, the most recent actuarial valuation date, the County had no assets to fund the plan. The Traverse Care Center's UAAL was \$1,718,415. The annual payroll for active employees covered by the plan in the actuarial valuation was zero, as most of the Care Center's employees became employees of LSS effective with the lease of the facility on December 31, 2010.

Actuarial Methods and Assumptions

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

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

In the January 1, 2017, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.5 percent investment rate of return (net of investment expenses), which is Traverse County's implicit rate of return on the General Fund. The annual health care cost trend is 6.5 percent initially, reduced by

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

decrements to an ultimate rate of 5.0 percent over 6 years. Both rates included a 2.5 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2017, was 21 years.

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; or natural disasters, for which the County carries commercial insurance. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For group employee health benefits, the County 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.

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 2017 and 2018. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and the County pays an annual premium to cover current and future losses. 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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the 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 provide coordinated service delivery and a funding source for public transportation. Grant County terminated its membership in Rainbow Rider on May 31, 1999. Grant County rejoined, and Todd County became a member county effective January 1, 2011 and 2012, respectively.

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

The joint powers agreement remains in force until any single county notifies the other parties of its intentions to withdraw, at least 90 days before the termination takes effect. The remaining counties may agree to continue the agreement with the remaining counties as members. During 2017, Traverse County contributed \$7,500 to Rainbow Rider.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Rainbow Rider Transit Board (Continued)

Complete financial information can be obtained from:

Rainbow Rider
P. O. Box 136
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 the Horizon Public Health's governing Board, which consists of 13 members comprised of 11 County Commissioners and 2 community representatives. Each member of the Board is appointed by the County Commissioners of the county they represent.

Financing is provided by federal and state grants and appropriations from member counties. Traverse County's contribution for 2017 was \$50,962.

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

PrimeWest Rural Minnesota Health Care Access Initiative

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

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

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

Douglas County acts as fiscal agent for the PrimeWest Rural Minnesota Health Care Access Initiative and reports the cash transactions as an investment trust fund on its financial statements. Financing is provided by Medical Assistance and General Assistance Medical Care payments from the Minnesota Department of Human Services. In 2017, Traverse County did not make any contributions to the Initiative.

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

PrimeWest Rural Minnesota Health Care Access Initiative
3905 Dakota Street, Suite 101
Alexandria, Minnesota 56308

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Region 4 South Adult Mental Health Consortium

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

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

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

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

Financing is predominantly provided by state grants. Grant County, in a fiscal host capacity, reports the cash transactions of the Consortium as an agency fund on its financial statements. In 2017, Traverse County did not make any contributions to the Consortium.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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

The Rural Minnesota Concentrated Employment Program, Inc. (RMCEP), is a private non-profit corporation that provides workforce development services in a 19-county area in North Central and West Central Minnesota. The agency was incorporated in 1968 to operate employment and training programs which include Workforce Investment Act (WIA) services. RMCEP was established to create job training and employment opportunities for economically disadvantaged, underemployed and unemployed persons, and youthful persons in both the private and the public sector. Traverse County provided \$65,405 to this organization in 2017.

Traverse County Connections

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

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Traverse County Connections (Continued)

Financing is provided by state and federal grants and contributions from the member parties. Traverse County, in an agent capacity, reports the cash transactions of Traverse County Connections as an agency fund on its financial statements. Traverse County did not make any contributions to Traverse County Connections in 2017.

Viking Library System

Traverse County, along with ten cities and five other counties participates in the Viking Library System in order to establish, continue, strengthen, and improve library services in the participating cities and counties. The Viking Library System was created as a public library service in 1975 by the Counties of Douglas, Grant, Otter Tail, and Stevens, along with the Cities of Alexandria, Elbow Lake, Fergus Falls, Hancock, and Morris. Additions to the Library System included the Cities of Browns Valley, Glenwood, New York Mills, Perham, and Wheaton in 1976; Pope County in 1981, Traverse County in 1983, and the City of Pelican Rapids in 1988. In 1992, the City of Alexandria library became the Douglas County library. The Viking Library System is governed by a governing board which consists of 19 members. Each participating County Board of Commissioners appoints a resident of the county; each participating City's Library Board appoints a representative; and any library with a service area population over 15,000 has an additional representative. Currently, the City of Fergus Falls and Douglas County have additional representatives. During 2017, Traverse County provided \$32,803 to the Viking Library System.

Complete financial information can be obtained at:

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

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

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

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

The two probation officers for the five-county area are appointed by three area judges, who also set the probation officer salaries. The Minnesota Department of Corrections reimburses Traverse County for a portion of the probation officer salaries. The remaining expenses are allocated to each participating county based on population. During 2017, Traverse County contributed \$30,679 to the entity.

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

C. Related Organizations

Traverse County Housing and Redevelopment Authority

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

D. Lease of Property

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Lease of Property (Continued)

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

E. Other Item

On July 17, 2018, the County Board was informed that Traverse County was approved up to \$250,000 of a United States Department of Agriculture (USDA) 0.75 percent interest 10-year loan for projects at the Traverse Care Center, including parking lot repair, roof replacement, call light system upgrade, and installation of an electronic medical system. The estimated cost of the projects is \$504,575 to be split equally with the County and LSS at a cost of \$252,288 each. During 2017, the roof replacement and parking lot projects were completed. The loan funds will not be issued to the County until the final project costs are submitted to the USDA.

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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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,709,348	\$ 2,709,348	\$ 2,656,202	\$ (53,146)
Special assessments	56,000	56,000	54,204	(1,796)
Licenses and permits	7,575	7,575	10,168	2,593
Intergovernmental	365,398	365,398	638,201	272,803
Charges for services	617,045	617,045	601,949	(15,096)
Investment earnings	25,000	25,000	20,326	(4,674)
Miscellaneous	126,317	126,317	119,625	(6,692)
Total Revenues	\$ 3,906,683	\$ 3,906,683	\$ 4,100,675	\$ 193,992
Expenditures				
Current				
General government				
Commissioners	\$ 190,171	\$ 190,171	\$ 183,488	\$ 6,683
Law library	4,800	4,800	3,405	1,395
County coordinator	105,423	105,423	104,841	582
County auditor/treasurer	288,737	288,737	269,651	19,086
License bureau	91,640	91,640	88,989	2,651
County assessor	160,968	160,968	156,492	4,476
Elections	4,585	4,585	4,585	-
Accounting and auditing	48,000	48,000	43,882	4,118
Data processing	144,305	144,305	100,186	44,119
Attorney	108,646	108,646	102,182	6,464
Recorder	169,415	169,415	178,559	(9,144)
Buildings and plant	121,160	121,160	133,208	(12,048)
Veterans service officer	82,216	82,216	82,949	(733)
Other general government	176,922	176,922	145,973	30,949
Total general government	\$ 1,696,988	\$ 1,696,988	\$ 1,598,390	\$ 98,598
Public safety				
Sheriff	\$ 768,513	\$ 768,513	\$ 871,599	\$ (103,086)
Boat and water	3,000	3,000	676	2,324
Coroner	6,000	6,000	4,534	1,466
Enhanced 911 system	285,933	285,933	350,427	(64,494)
Jail	465,252	465,252	443,800	21,452
Probation officer	269,811	269,811	264,457	5,354
Civil defense	85,836	85,836	88,360	(2,524)
Total public safety	\$ 1,884,345	\$ 1,884,345	\$ 2,023,853	\$ (139,508)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<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	\$ 159,087	\$ 159,087	\$ 151,013	\$ 8,074
Health				
Nursing service	\$ 65,200	\$ 65,200	\$ 62,110	\$ 3,090
Culture and recreation				
County fair	\$ 15,000	\$ 15,000	\$ 15,000	\$ -
Parks	16,000	16,000	14,099	1,901
Regional library	46,200	46,200	45,903	297
Total culture and recreation	<u>\$ 77,200</u>	<u>\$ 77,200</u>	<u>\$ 75,002</u>	<u>\$ 2,198</u>
Conservation of natural resources				
County extension	\$ 134,960	\$ 134,960	\$ 123,098	\$ 11,862
Buffer aid allocation	-	-	113,062	(113,062)
Soil and water conservation	209,620	209,620	211,399	(1,779)
Weed control	55,715	55,715	51,462	4,253
Total conservation of natural resources	<u>\$ 400,295</u>	<u>\$ 400,295</u>	<u>\$ 499,021</u>	<u>\$ (98,726)</u>
Economic development				
Community development	\$ 10,000	\$ 10,000	\$ 6,903	\$ 3,097
Debt service				
Principal	\$ -	\$ -	\$ 25,169	\$ (25,169)
Interest	-	-	219	(219)
Total debt service	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,388</u>	<u>\$ (25,388)</u>
Total Expenditures	<u>\$ 4,293,115</u>	<u>\$ 4,293,115</u>	<u>\$ 4,441,680</u>	<u>\$ (148,565)</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<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	\$ (386,432)	\$ (386,432)	\$ (341,005)	\$ 45,427
Other Financing Sources (Uses)				
Transfers out	\$ (200,000)	\$ (200,000)	\$ (200,000)	\$ -
Capital leases	-	-	70,391	70,391
Total Other Financing Sources (Uses)	<u>\$ (200,000)</u>	<u>\$ (200,000)</u>	<u>\$ (129,609)</u>	<u>\$ 70,391</u>
Net Change in Fund Balance	<u>\$ (586,432)</u>	<u>\$ (586,432)</u>	<u>\$ (470,614)</u>	<u>\$ 115,818</u>
Fund Balance - January 1	<u>3,627,855</u>	<u>3,627,855</u>	<u>3,627,855</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 3,041,423</u></u>	<u><u>\$ 3,041,423</u></u>	<u><u>\$ 3,157,241</u></u>	<u><u>\$ 115,818</u></u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,431,880	\$ 1,431,880	\$ 1,358,093	\$ (73,787)
Intergovernmental	4,135,000	4,135,000	4,058,360	(76,640)
Charges for services	423,000	423,000	203,897	(219,103)
Miscellaneous	85,000	85,000	30,924	(54,076)
Total Revenues	\$ 6,074,880	\$ 6,074,880	\$ 5,651,274	\$ (423,606)
Expenditures				
Current				
Highways and streets				
Administration	\$ 310,238	\$ 310,238	\$ 373,152	\$ (62,914)
Authorized work	46,136	46,136	32,738	13,398
Engineering	57,817	57,817	99,550	(41,733)
Construction	3,196,359	3,196,359	2,474,985	721,374
Maintenance	1,921,987	1,921,987	1,538,736	383,251
Equipment maintenance and shops	536,576	536,576	653,290	(116,714)
Material and services for resale	5,767	5,767	77,290	(71,523)
Total highways and streets	\$ 6,074,880	\$ 6,074,880	\$ 5,249,741	\$ 825,139
Intergovernmental				
Highways and streets	-	-	258,778	(258,778)
Debt service				
Principal	-	-	1,239	(1,239)
Total Expenditures	\$ 6,074,880	\$ 6,074,880	\$ 5,509,758	\$ 565,122
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ 141,516	\$ 141,516
Other Financing Sources (Uses)				
Transfers in	\$ 200,000	\$ 200,000	\$ 200,000	\$ -
Capital leases	-	-	12,400	12,400
Proceeds from sale of capital assets	-	-	1,553	1,553
Total Other Financing Sources (Uses)	\$ 200,000	\$ 200,000	\$ 213,953	\$ 13,953
Net Change in Fund Balance	\$ 200,000	\$ 200,000	\$ 355,469	\$ 155,469
Fund Balance - January 1	(78,723)	(78,723)	(78,723)	-
Increase (decrease) in inventories	-	-	879	879
Fund Balance - December 31	\$ 121,277	\$ 121,277	\$ 277,625	\$ 156,348

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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 709,394	\$ 709,394	\$ 718,297	\$ 8,903
Intergovernmental	1,496,961	1,496,961	1,354,552	(142,409)
Charges for services	10,075	10,075	20,598	10,523
Gifts and contributions	-	-	750	750
Miscellaneous	98,389	98,389	100,105	1,716
Total Revenues	\$ 2,314,819	\$ 2,314,819	\$ 2,194,302	\$ (120,517)
Expenditures				
Current				
Human services				
Income maintenance	\$ 687,135	\$ 687,135	\$ 670,250	\$ 16,885
Social services	1,627,684	1,627,684	1,600,844	26,840
Total human services	\$ 2,314,819	\$ 2,314,819	\$ 2,271,094	\$ 43,725
Debt service				
Principal	-	-	1,019	(1,019)
Total Expenditures	\$ 2,314,819	\$ 2,314,819	\$ 2,272,113	\$ 42,706
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ (77,811)	\$ (77,811)
Other Financing Sources (Uses)				
Capital leases	-	-	11,919	11,919
Net Change in Fund Balance	\$ -	\$ -	\$ (65,892)	\$ (65,892)
Fund Balance - January 1	1,575,147	1,575,147	1,575,147	-
Fund Balance - December 31	\$ 1,575,147	\$ 1,575,147	\$ 1,509,255	\$ (65,892)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2017**

Governmental Activities

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2009	\$ -	\$ 8,043,747	\$ 8,043,747	0.00%	\$ 2,117,166	379.93%
January 1, 2011	-	7,669,790	7,669,790	0.00	2,541,642	301.77
January 1, 2014	-	6,487,794	6,487,794	0.00	2,892,233	224.32
January 1, 2017	-	7,264,264	7,264,264	0.00	3,640,396	199.55

Business-Type Activities

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2009	\$ -	\$ 3,049,073	\$ 3,049,073	0.00%	\$ 1,278,309	238.52%
January 1, 2011	-	2,441,583	2,441,583	0.00	-	N/A
January 1, 2014	-	1,937,688	1,937,688	0.00	-	N/A
January 1, 2017	-	1,718,415	1,718,415	0.00	-	N/A

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2017**

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
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, 2017**

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)
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, 2017**

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
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, 2017**

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)
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 CORRECTIONAL PLAN
DECEMBER 31, 2017**

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
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 CORRECTIONAL PLAN
DECEMBER 31, 2017**

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)
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, 2017

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 fund had expenditures in excess of final budget for the year ended December 31, 2017:

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 4,441,680	\$ 4,293,115	\$ 148,565

5. Other Postemployment Benefits - Funded Status

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

2011

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

Plan Provisions

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

2014

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

Plan Provisions

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

Actuarial Assumptions

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

2014

Actuarial Assumptions (Continued)

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

2017

The County obtained an actuarial valuation as of January 1, 2017. Since the actuarial valuation as of January 1, 2014, the following plan provisions and actuarial assumptions have changed:

Plan Provisions

- The years of service required to be eligible for a benefit (implicit rate subsidy) was increased from three years to five years.
- The years of service required to be eligible for a subsidized benefit for employees under the Law Enforcement Labor Services contract was updated to be the same as the eligibility for a benefit from PERA.

Actuarial Assumptions

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality table was updated from RP 2000 Combined Healthy Table projected to 2014 with Scale BB (with Blue Collar adjustment for Police and Fire Personnel) to the RP-2014 adjusted to 2006 Headcount Weighted White Collar Mortality Tables with MP-2016 Generational Improvement Scale (Blue Collar Tables for Police and Fire Personnel).
- The withdrawal and retirement tables for all employees were updated.
- The discount rate was changed from 4.00 percent to 3.50 percent.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

2017

- The Combined Service Annuity (CSA) loads were changed from 0.8 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 0.0 percent for active member liability, 15 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21,000,000 in calendar years 2017 and 2018 and returns to \$31,000,000 through calendar year 2031. The state's required contribution is \$16,000,000 in PERA's fiscal years 2018 and 2019 and returns to \$6,000,000 annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

Public Employees Police and Fire Plan

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 2.0 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.
- The assumed termination rates were decreased to 3.0 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 1.0 percent for all years to 1.0 percent per year through 2064 and 2.5 percent thereafter.

**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 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.

Public Employees Correctional Plan

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 1.0 percent for non-vested members.
- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

Public Employees Correctional Plan (Continued)

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.

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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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 189,801	\$ 189,801	\$ 184,613	\$ (5,188)
Investment earnings	-	-	9,653	9,653
Total Revenues	<u>\$ 189,801</u>	<u>\$ 189,801</u>	<u>\$ 194,266</u>	<u>\$ 4,465</u>
Expenditures				
Debt service				
Principal	\$ 120,000	\$ 120,000	\$ 1,660,000	\$ (1,540,000)
Interest	69,801	69,801	74,838	(5,037)
Administrative charges	-	-	495	(495)
Total Expenditures	<u>\$ 189,801</u>	<u>\$ 189,801</u>	<u>\$ 1,735,333</u>	<u>\$ (1,545,532)</u>
Net Change in Fund Balance	\$ -	\$ -	\$ (1,541,067)	\$ (1,541,067)
Fund Balance - January 1	<u>1,719,477</u>	<u>1,719,477</u>	<u>1,719,477</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 1,719,477</u></u>	<u><u>\$ 1,719,477</u></u>	<u><u>\$ 178,410</u></u>	<u><u>\$ (1,541,067)</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, 2017**

	Balance January 1	Additions	Deductions	Balance December 31
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,570,704	\$ 1,570,704	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,570,704	\$ 1,570,704	\$ -
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ (83,232)	\$ 541,669	\$ 451,360	\$ 7,077
Prepaid taxes	84,740	-	84,740	-
Total Assets	\$ 1,508	\$ 541,669	\$ 536,100	\$ 7,077
<u>Liabilities</u>				
Due to other governments	\$ 1,508	\$ 541,669	\$ 536,100	\$ 7,077
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 139,402	\$ 10,186,016	\$ 10,126,982	\$ 198,436
<u>Liabilities</u>				
Due to other governments	\$ 139,402	\$ 10,186,016	\$ 10,126,982	\$ 198,436

**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, 2017**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ (4,551)</u>	<u>\$ 3,019,856</u>	<u>\$ 3,009,329</u>	<u>\$ 5,976</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ (4,551)</u>	<u>\$ 3,019,856</u>	<u>\$ 3,009,329</u>	<u>\$ 5,976</u>
 <u>TRAVERSE COUNTY CONNECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 3,226	\$ 12,988	\$ 9,489	\$ 6,725
Advance to other funds	<u>-</u>	<u>1,978</u>	<u>-</u>	<u>1,978</u>
Total Assets	<u>\$ 3,226</u>	<u>\$ 14,966</u>	<u>\$ 9,489</u>	<u>\$ 8,703</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 3,226</u>	<u>\$ 14,966</u>	<u>\$ 9,489</u>	<u>\$ 8,703</u>
 <u>EMPLOYEE FLEX</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 3,703</u>	<u>\$ 51,022</u>	<u>\$ 47,128</u>	<u>\$ 7,597</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 3,703</u>	<u>\$ 51,022</u>	<u>\$ 47,128</u>	<u>\$ 7,597</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT C-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 58,548	\$ 15,382,255	\$ 15,214,992	\$ 225,811
Prepaid taxes	84,740	-	84,740	-
Advance to other funds	-	1,978	-	1,978
	\$ 143,288	\$ 15,384,233	\$ 15,299,732	\$ 227,789
<u>Liabilities</u>				
Due to other governments	\$ 143,288	\$ 15,384,233	\$ 15,299,732	\$ 227,789

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OTHER SCHEDULES

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Appropriations and Shared Revenue

State

Highway users tax	\$	3,440,552
Market value credit		120,610
PERA rate reimbursement		16,482
Disparity reduction aid		18,576
Police aid		42,494
County program aid		120,374
Enhanced 911		72,903
Select Committee on Recycling and the Environment (SCORE)		68,711
Aquatic invasive species aid		27,415
Riparian Protection Aid		120,562
		120,562

Total appropriations and shared revenue **\$ 4,048,679**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	114,917
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Local

City of Wheaton		35,033
		35,033

Total reimbursement for services **\$ 149,950**

Payments

Local

Local contributions	\$	35,800
Payments in lieu of taxes		30,175
		30,175

Total payments **\$ 65,975**

Grants

State

Minnesota Department of Corrections	\$	12,033
Public Safety		16,146
Transportation		16,512
Natural Resources		1,821
Human Services		330,991
Water and Soil Resources Board		83,676
		83,676

Total state **\$ 461,179**

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT D-1
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Grants (Continued)

Federal

Department of	
Agriculture	\$ 58,976
Commerce	132
Education	407,412
Transportation	424,949
Health and Human Services	380,710
Homeland Security	53,151
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Total federal **\$ 1,325,330**

Total state and federal grants **\$ 1,786,509**

Total Intergovernmental Revenue **\$ 6,051,113**

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Passed Through Minnesota Department of Human Services SNAP Cluster State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	172MN101S2514	\$ 58,976	\$ -
U.S. Department of Commerce				
Passed Through City of Saint Cloud, Minnesota State and Local Implementation Grant Program	11.549	A-SLIGP-2017- CMESB-00001	\$ 132	\$ -
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction	20.205	99978	\$ 448,652	\$ -
U.S. Department of Education				
Passed Through Minnesota Department of Education Twenty-First Century Community Learning Centers	84.287	81716	\$ 288,349	\$ 24,440
Twenty-First Century Community Learning Centers (Total Twenty-First Century Community Learning Centers 84.287 \$404,924)	84.287	128910	116,575	48
Total U.S. Department of Education			\$ 404,924	\$ 24,488
U.S. Department of Health and Human Services				
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families TANF Cluster	93.556	G-1601MNFPS	\$ 2,920	\$ -
Temporary Assistance for Needy Families	93.558	1601MNTANF	91,108	-
Child Support Enforcement	93.563	1704MNCSES	45,320	-
Refugee and Entrant Assistance - State Administered Programs	93.566	1701MNRCA	147	-
CCDF Cluster Child Care and Development Block Grant	93.575	G1701MNCCDF	440	-
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNFPRG	2,936	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNCWSS	2,083	-
Foster Care - Title IV-E	93.658	1701MNFOST	29,554	-
Social Services Block Grant	93.667	G-1701MNSOSR	45,562	-
Chafee Foster Care Independence Program	93.674	G-1601MNCILP	1,285	-
Children's Health Insurance Program	93.767	05-1705MN0301	69	-

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Federal Grantor Pass-Through Agency Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grant Numbers</u>	<u>Expenditures</u>	<u>Passed Through to Subrecipients</u>
U.S. Department of Health and Human Services				
Passed Through Minnesota Department of Human Services (Continued)				
Medicaid Cluster				
Medical Assistance Program	93.778	05-1705MN5ADM	187,900	-
Medical Assistance Program	93.778	05-1705MN5MAP	1,000	-
(Total Medical Assistance Program 93.778 \$188,900)				
Total U.S. Department of Health and Human Services			\$ 410,324	\$ -
U.S. Department of Homeland Security				
Passed Through Minnesota Department of Public Safety				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR-1982/ P07201982PA	\$ 28,000	\$ -
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR4131/P0720	168	-
(Total Disaster Grants - Public Assistance (Presidentially Declared Disasters) 97.036 \$28,168)				
Hazard Mitigation Grant	97.039	1941-DR-MN F-EMPG-2017-	10,672	-
Emergency Management Performance Grants	97.042	TRAVERCO-2526	16,272	-
Passed Through West Central Emergency Management Services				
Homeland Security Grant Program	97.067	A-DECN-SHSP-2016- CMESB-00001	198	-
Total U.S. Department of Homeland Security			\$ 55,310	\$ -
Total Federal Awards			\$ 1,378,318	\$ 24,488
Totals by Cluster				
Total expenditures for SNAP Cluster			\$ 58,976	
Total expenditures for Highway Planning and Construction Cluster			448,652	
Total expenditures for TANF Cluster			91,108	
Total expenditures for CCDF Cluster			440	
Total expenditures for Medicaid Cluster			188,900	

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Traverse County under programs of the federal government for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Traverse County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Traverse County.

3. Summary of Significant Accounting Policies

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 1,325,330
Grants received more than 60 days after year-end, considered unavailable revenue in 2017	
Highway Planning and Construction (CFDA No. 20.205)	23,703
Twenty-First Century Community Learning Centers (CFDA No. 84.287)	15,877
Promoting Safe and Stable Families (CFDA No. 93.556)	635
Temporary Assistance for Needy Families (CFDA No. 93.558)	26,151
Child Support Enforcement (CFDA No. 93.563)	1,800
Community-Based Child Abuse Prevention Grants (CFDA No. 93.590)	544
Stephanie Tubbs Jones Child Welfare Services Program (CFDA No. 93.645)	483
Emergency Management Performance Grants (CFDA No. 97.042)	16,272
Unavailable revenue in 2016, recognized as revenue in 2017	
Twenty-First Century Community Learning Centers (CFDA No. 84.287)	(18,365)
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA No. 97.036)	<u>(14,112)</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 1,378,318</u>

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REBECCA OTTO
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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, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 11, 2018.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention of those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2006-003 to be a material weakness and item 1996-003 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*, except as described in the Schedule of Findings and Questioned Costs as items 2017-001, 2017-002, and 2017-003. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

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

Traverse County's Response to Findings

Traverse County's responses to the internal control, legal compliance, 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 11, 2018

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
Traverse County
Wheaton, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Traverse County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2017. Traverse County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Traverse County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

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

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

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 11, 2018

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified**

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **No**

The major federal programs are:

Highway Planning and Construction Cluster	CFDA No. 20.205
Twenty-First Century Community Learning Centers	CFDA No. 84.287

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 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.

View of Responsible Official: Acknowledged

Finding Number 2006-003

Audit Adjustments

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

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

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

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

General Fund

- Recorded loans receivable and nonspendable fund balance of \$180,812, and decreased expenditures by the same amount to set up a loan made for a broadband internet project.

Prairieview Place Enterprise Fund

- Reversed an entry to reclassify debt principal payments of \$65,000 from an expense to a reduction of the 2013A General Obligation Governmental Housing Refunding Bonds payable liability, as the transaction had already been recorded.

Traverse Care Center Enterprise Fund

- Decreased depreciable capital assets for machinery, furniture, and equipment by \$290,293 and decreased the corresponding accumulated depreciation account by the same amount to record capital asset disposals.

Cause: Procedures were not in place to consider the full extent of all entries needed for financial reporting and these activities were overlooked when financial statement information was prepared.

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

View of Responsible Official: Acknowledged

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

Finding Number 2017-001

Contracting and Bidding Compliance

Criteria: Minnesota statutes contain requirements for the contracting and bidding processes used by local governments.

Condition: During testing of compliance with the State of Minnesota contracting and bidding laws, noncompliance with the following requirements was noted:

- **Withholding Affidavit for Contractors (IC-134):** Referring to the withholding of income taxes by the contractor or subcontractor, Minn. Stat. § 270C.66 states that, "No . . . political or governmental subdivision of the state shall make final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor and by subcontractors until satisfactory showing is made that said contractor or subcontractor has complied with the provisions of section 290.92." For two of the four contracts tested that included the employment of individuals for wages by the contractor and where final payment had been made, the final payment was issued prior to receiving a Minnesota Department of Revenue approved Form IC-134, which requires the reporting of employee withholdings, from the contractor.

- **Direct Negotiation by Quotations:** Minn. Stat. § 471.345, subd. 4, requires either sealed bids or direct negotiation by obtaining two or more quotations for contracts exceeding \$25,000 but not \$100,000. For one contract tested totaling \$29,060, the County obtained only one quote.

Context: Individual County departments are responsible for overseeing the contracting and bidding process for their own projects and purchases.

Effect: Noncompliance with Minn. Stat. §§ 270C.66 and 471.345.

Cause: Staff from the County Departments were not aware of all of the contract requirements.

Recommendation: We recommend the County update its policy and procedures manual to include contracting requirements, so the County Departments that oversee the contracting process for their own projects will be aware of the statutory requirements to ensure compliance with applicable statutes for all future contracts. We further recommend all contracts be put in writing.

View of Responsible Official: Acknowledged

Finding Number 2017-002

Publication of Summary Budget

Criteria: According to Minn. Stat. § 375.169, a summary budget statement is to be published annually upon adoption of the County budget in a form prescribed by the State Auditor in the County's official newspaper or qualified newspaper of general circulation.

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

Context: The publishing of the summary budget statement is handled administratively by the County Coordinator.

Effect: The County is not in compliance with Minn. Stat. § 375.169.

Cause: The County informed us that the summary budget statement was not published due to oversight.

Recommendation: We recommend the County publish a summary budget statement annually in the County's official newspaper, in accordance with Minn. Stat. § 375.169.

View of Responsible Official: Concur

Finding Number 2017-003

Broadband Loan to Adventenon

Criteria: Traverse County has those authorities and powers, express and implied, granted to it by the legislature.

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.

Context: Though it is a state goal to make broadband available to citizens throughout the state, we are not aware of any authority that would allow a county to loan county funds to a private business to advance that goal. Further, the County was unable to identify any statutory authority that would authorize this loan of County funds.

Effect: The County acted beyond its authority by providing an unauthorized interest-free loan to a private business in the amount of \$180,812 at December 31, 2017.

Cause: The County Board wanted to facilitate the availability of broadband to citizens within the County.

Recommendation: The County should exercise those powers it has been granted. No loans, with or without interest, should be made to private parties with public funds unless there is authority in statute.

View of Responsible Official: Acknowledged

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 1997-005

Prairieview Place and Traverse Care Center Deficit Net Position

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

Condition: As of December 31, 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 a deficit net position.

Context: As of December 31, 2017, the Prairieview Place Enterprise Fund had a deficit net position of \$229,870, which is a decrease in net position from the \$180,286 deficit reported in the prior year. As of December 31, 2017, the Traverse Care Center Enterprise Fund had a deficit net position of \$1,015,789, which is a decrease in net position from the \$959,728 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 decreased by \$49,584 in 2017; nonoperating revenues of \$78,796 were offset by operating expenses of \$115,284 and interest expense on debt of \$13,096. The County's Traverse Care Center Enterprise Fund's net position balance decreased by \$56,061 in 2017; operating revenues of \$1,061 and nonoperating revenues of \$265,911 were offset by operating expenses of \$338,567 and nonoperating expenses of \$63,053.

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

V. PREVIOUSLY REPORTED ITEMS RESOLVED

- 2015-003 Activities Allowed and Unallowed, Allowable Costs/Cost Principles, and Reporting, (CFDA No. 93.778)
- 2016-001 Bank Reconciliations and Reconciliations of Treasury Cash and Investment Balances to IFS Balances
- 2016-002 Monitoring Financial Health - Road and Bridge Special Revenue Fund

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Traverse County Minnesota

County Auditor/Treasurer
Kit D. Johnson, Auditor/Treasurer
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REPRESENTATION OF TRAVERSE COUNTY WHEATON, MINNESOTA

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2017

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 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: 2006-003

Finding Title: Audit Adjustments

Name of Contact Person Responsible for Corrective Action:

Kit Johnson, County Auditor/Treasurer

Corrective Action Planned:

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

Anticipated Completion Date:

For Financial Statements to be completed as of 12/31/2018

Finding Number: 2017-001

Finding Title: Contracting and Bidding Compliance

Name of Contact Person Responsible for Corrective Action:

Kit Johnson, County Auditor/Treasurer

Corrective Action Planned:

Traverse County management will work to ensure that all bids and contracts are done in accordance with pertinent laws and procedures.

Anticipated Completion Date:

Immediately going forward

Finding Number: 2017-002

Finding Title: Publication of Summary Budget

Name of Contact Person Responsible for Corrective Action:

Kit Johnson, County Auditor/Treasurer

Corrective Action Planned:

Traverse County management will work to ensure that the annual budget is published in a timely manner.

Anticipated Completion Date:

Immediately going forward

Finding Number: 2017-003

Finding Title: Broadband Loan to Advantenon

Name of Contact Person Responsible for Corrective Action:

Matt Franzese, County Attorney

Corrective Action Planned:

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.

Anticipated Completion Date:

Immediately going forward

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 Prairie View 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

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Traverse County Minnesota

County Auditor/Treasurer
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REPRESENTATION OF TRAVERSE COUNTY WHEATON, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2017

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

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

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

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

Finding Number: 2006-003
Finding Title: Audit Adjustments

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

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

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

Finding Number: 2016-001

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

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

Summary of Corrective Action Previously Reported: Traverse County will make sure corrections do not affect already reconciled statements.

Status: Fully Corrected. Corrective action was taken.

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

Yes _____ No X

Finding Number: 2016-002

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

Summary of Condition: The Road and Bridge Special Revenue Fund had deficit cash balances at month-end for six of the months of 2016 and reported a deficit ending net position in the fund at December 31, 2016.

Summary of Corrective Action Previously Reported: Traverse County will make transfers/loans from other funds to make sure Road and Bridge does not run into a negative balance.

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

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

Finding Number: 2015-003

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

Program: Medical Assistance Program (CFDA No. 93.778)

Summary of Condition: A number of charges for claims and payroll submitted to the Minnesota Department of Human Services (DHS) for reimbursement provided benefit to all functions of the County but were not allocated across the benefitting County functions. Additionally, one claim submitted to DHS for reimbursement on the County's DHS-2550 and DHS-2556 quarterly reports had already been reported in a previous period. Unallowable costs (questioned costs) charged to the Medical Assistance Program were estimated to be \$1,075.

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

Status: Fully Corrected. Corrective action was taken.

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

Yes _____ No X