

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**TRAVERSE COUNTY**  
**WHEATON, MINNESOTA**

YEAR ENDED DECEMBER 31, 2014

## **Description of the Office of the State Auditor**

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

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

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

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

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

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

**Pension** - monitors investment, financial, and actuarial reporting for approximately 700 public pension funds; and

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

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

Office of the State Auditor  
525 Park Street, Suite 500  
Saint Paul, Minnesota 55103  
(651) 296-2551  
state.auditor@osa.state.mn.us  
www.auditor.state.mn.us

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**Year Ended December 31, 2014**



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

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2014

			<u>Term Expires</u>
<b>Elected</b>			
<b>Commissioners</b>			
Board Member	Todd Johnson	District 1	January 2019
Chair	Kevin Leininger	District 2	January 2017
Board Member	Donald Appel	District 3	January 2015
Vice Chair	David Salberg	District 4	January 2017
Board Member	Jerry Deal	District 5	January 2015
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	Brion Plautz		January 2015
<b>Appointed</b>			
County Coordinator	Rhonda Antrim		Indefinite
Assessor	Dianne Reinart		January 2017
County Engineer	Larry Haukos		May 2019
Coroner	Stanley Gallagher, D.O.		January 2015
Examiner of Titles	Lowell Nelson		Indefinite
Social Services Director	Rhonda Antrim		Indefinite
Veterans Service Officer	Dustin Kindelberger		April 2019

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

## 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, 2014, 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 of 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, 2014, 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 25, 2015, on our consideration of Traverse County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Traverse County's internal control over financial reporting and compliance.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 25, 2015

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2014  
(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, 2014. 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 \$42,887,761, of which \$35,820,361 is the net investment in capital assets. Of the governmental activities' net position, \$3,113,748 is restricted to specific purposes/uses by the County, and \$3,953,652 is unrestricted.
- Business-type activities (Traverse Care Center and Prairieview Place) have a deficit total net position of \$(901,171), of which there is a negative net investment in capital assets balance of \$(703,599).
- Traverse County's net position increased by \$1,294,283 for the year ended December 31, 2014. Of the increase, \$1,399,317 was in the governmental activities' net position, while the business-type activities' net position decreased by \$105,034.
- The net cost of Traverse County's governmental activities for the year ended December 31, 2014, was \$3,620,065. General revenues totaling \$5,019,382 funded the net cost.
- Traverse County's governmental funds' fund balances increased by \$480,439 in 2014. This net increase consisted of a \$176,329 increase in the General Fund, an increase of \$832,440 in the Road and Bridge Special Revenue Fund, a decrease of \$531,957 in the Social Services Special Revenue Fund, and a \$3,627 increase 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.

<b>Management's Discussion and Analysis (Required Supplementary Information)</b>
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<b>Government-Wide Financial Statements</b>	<b>Fund Financial Statements</b>
<b>Notes to the Financial Statements</b>	

<b>Required Supplementary Information (Other than Management's Discussion and Analysis)</b>
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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 and liabilities of the County using the accrual basis of accounting, with the difference being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. It is important to consider other nonfinancial factors, such as changes in the County’s property tax base and the condition of County roads and other capital assets, to assess the overall health of the County.

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

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

### **Fund Level Financial Statements**

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

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

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

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

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

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

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

## Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28 through 77 of this report.

## Other Information

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

**Table 1  
Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013 (Restated)	2014	2013	2014	2013 (Restated)
<b>Assets</b>						
Current and other assets	\$ 10,053,645	\$ 8,754,372	\$ 1,046,998	\$ 1,139,503	\$ 11,100,643	\$ 9,893,875
Capital assets	37,742,196	37,606,147	3,108,947	3,297,762	40,851,143	40,903,909
<b>Total Assets</b>	<b>\$ 47,795,841</b>	<b>\$ 46,360,519</b>	<b>\$ 4,155,945</b>	<b>\$ 4,437,265</b>	<b>\$ 51,951,786</b>	<b>\$ 50,797,784</b>
<b>Deferred Outflows of Resources</b>						
Deferred charges on bond refunding	\$ -	\$ -	\$ 81,537	\$ 81,537	\$ 81,537	\$ 81,537
<b>Liabilities</b>						
Long-term liabilities	\$ 4,088,749	\$ 3,977,082	\$ 5,100,056	\$ 5,276,904	\$ 9,188,805	\$ 9,253,986
Other liabilities	819,331	817,092	38,597	38,035	857,928	855,127
<b>Total Liabilities</b>	<b>\$ 4,908,080</b>	<b>\$ 4,794,174</b>	<b>\$ 5,138,653</b>	<b>\$ 5,314,939</b>	<b>\$ 10,046,733</b>	<b>\$ 10,109,113</b>
<b>Net Position</b>						
Net investment in capital assets	\$ 35,820,361	\$ 35,539,807	\$ (703,599)	\$ (709,578)	\$ 35,116,762	\$ 34,830,229
Restricted	3,113,748	1,664,650	-	-	3,113,748	1,664,650
Unrestricted	3,953,652	4,283,987	(197,572)	(86,559)	3,756,080	4,197,428
<b>Total Net Position</b>	<b>\$ 42,887,761</b>	<b>\$ 41,488,444</b>	<b>\$ (901,171)</b>	<b>\$ (796,137)</b>	<b>\$ 41,986,590</b>	<b>\$ 40,692,307</b>

Traverse County's total net position as of December 31, 2014, is \$41,986,590. The governmental activities' unrestricted net position totaling \$3,953,652 is available to finance the day-to-day operations of the governmental activities of the County. The business-related activities of the County face a deficit unrestricted net position of \$(197,572).

**Table 2**  
**Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013 (Restated)	2014	2013	2014	2013 (Restated)
<b>Revenues</b>						
Program revenues						
Fees, fines, and charges	\$ 1,445,695	\$ 1,099,002	\$ 16,774	\$ 15,500	\$ 1,462,469	\$ 1,114,502
Operating grants and contributions	4,232,496	3,800,405	-	-	4,232,496	3,800,405
Capital grants and contributions	706,746	592,684	40,000	-	746,746	592,684
General revenues						
Property taxes	4,583,503	4,656,687	-	-	4,583,503	4,656,687
Other taxes	5,081	4,212	-	-	5,081	4,212
Grants, gifts, and miscellaneous	430,798	410,420	349,782	393,908	780,580	804,328
<b>Total Revenues</b>	<b>\$ 11,404,319</b>	<b>\$ 10,563,410</b>	<b>\$ 406,556</b>	<b>\$ 409,408</b>	<b>\$ 11,810,875</b>	<b>\$ 10,972,818</b>
<b>Expenses</b>						
General government	\$ 1,549,969	\$ 1,541,822	\$ -	\$ -	\$ 1,549,969	\$ 1,541,822
Public safety	1,926,145	1,584,579	-	-	1,926,145	1,584,579
Highways and streets	3,995,062	5,054,279	-	-	3,995,062	5,054,279
Sanitation	152,727	132,409	-	-	152,727	132,409
Human services	1,752,322	1,421,116	-	-	1,752,322	1,421,116
Health	74,217	76,785	-	-	74,217	76,785
Culture and recreation	82,490	58,152	-	-	82,490	58,152
Conservation of natural resources	387,287	354,405	-	-	387,287	354,405
Economic development	7,985	6,159	-	-	7,985	6,159
Interest	76,798	120,649	-	-	76,798	120,649
Traverse Care Center	-	-	398,020	454,539	398,020	454,539
Prairieview Place	-	-	113,570	155,735	113,570	155,735
<b>Total Expenses</b>	<b>\$ 10,005,002</b>	<b>\$ 10,350,355</b>	<b>\$ 511,590</b>	<b>\$ 610,274</b>	<b>\$ 10,516,592</b>	<b>\$ 10,960,629</b>
Increase (Decrease) in Net Position	\$ 1,399,317	\$ 213,055	\$ (105,034)	\$ (200,866)	\$ 1,294,283	\$ 12,189
Net Position - January 1	41,488,444	41,275,389	(796,137)	(595,271)	40,692,307	40,680,118
Net Position - December 31	<u>\$ 42,887,761</u>	<u>\$ 41,488,444</u>	<u>\$ (901,171)</u>	<u>\$ (796,137)</u>	<u>\$ 41,986,590</u>	<u>\$ 40,692,307</u>

The County's activities increased net position by 3.18 percent (\$41,986,590 for 2014 compared to \$40,692,307 for 2013).

## Governmental Activities

The cost of all governmental activities in 2014 was \$10,005,002. 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 \$5,019,382, because some of the cost was paid by those who directly benefited from the programs (\$1,445,695) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4,939,242).

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	
	2014	2013	2014	2013 (Restated)
	Highways and streets	\$ 3,995,062	\$ 5,054,279	\$ (158,050)
Public safety	1,926,145	1,584,579	1,297,956	984,530
Human services	1,752,322	1,421,116	607,404	647,517
General government	1,549,969	1,541,822	1,308,706	1,374,037
Conservation of natural resources	387,287	354,405	292,730	254,873
All others	394,217	394,154	271,319	269,649
<b>Total</b>	<b>\$ 10,005,002</b>	<b>\$ 10,350,355</b>	<b>\$ 3,620,065</b>	<b>\$ 4,702,462</b>

## Business-Type Activities

Revenues for Traverse County's business-type activities, net of capital grants and contributions, (see Table 2) were \$366,556, and expenses were \$511,590.

## The County's Funds

Upon completing the year, Traverse County's governmental funds' fund balance increased by \$480,439. This increase was due to an increase of \$176,329 in the General Fund, an increase of \$832,440 in the Road and Bridge Special Revenue Fund, a decrease of \$531,957 in the Social Services Special Revenue Fund, and an increase of \$3,627 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. During 2014, the Road and Bridge Fund was amended to reflect the increased expenditure and transfer in budgets by \$303,149 for the purchase of two motor graders. The Road and Bridge budget was also increased by \$64,527 to reflect a Board-approved purchase of signs. The Social Services budget was also amended to reflect the transfer out of \$303,149.

Actual revenues exceeded budgeted revenues in the General Fund by \$215,945, primarily due to intergovernmental revenues of \$225,168 over projections and charges for services \$252,757 over projected totals. These were offset by miscellaneous revenue of \$164,337 under the projected total.

Actual expenditures were more than budgeted expenditures in the General Fund by \$39,616.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2014, Traverse County had \$40,851,143 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 decreased \$52,766, or 0.10 percent, from the previous year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Land	\$ 182,981	\$ 178,352	\$ 16,175	\$ 16,175	\$ 199,156	\$ 194,527
Right-of-way	962,548	962,548	-	-	962,548	962,548
Construction in progress	-	66,701	-	-	-	66,701
Buildings	3,110,199	3,166,142	3,042,691	3,260,461	6,152,890	6,426,603
Land improvements	76,907	86,223	616	1,254	77,523	87,477
Machinery, furniture, and equipment	1,816,067	1,605,860	49,465	19,872	1,865,532	1,625,732
Infrastructure	31,593,494	31,540,321	-	-	31,593,494	31,540,321
Totals	\$ 37,742,196	\$ 37,606,147	\$ 3,108,947	\$ 3,297,762	\$ 40,851,143	\$ 40,903,909

## Long-Term Debt

As of December 31, 2014, Traverse County had \$6,490,000 in long-term obligations, compared with \$6,814,814 as of December 31, 2013--a decrease of 4.7 percent--as shown in Table 5.

**Table 5**  
**Outstanding Debt at Year-End**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$ 1,885,000	\$ 1,990,000	\$ 1,575,000	\$ 1,620,000	\$ 3,460,000	\$ 3,610,000
Revenue bonds	-	-	3,030,000	3,190,000	3,030,000	3,190,000
Loans	-	-	-	14,814	-	14,814
Totals	<u>\$ 1,885,000</u>	<u>\$ 1,990,000</u>	<u>\$ 4,605,000</u>	<u>\$ 4,824,814</u>	<u>\$ 6,490,000</u>	<u>\$ 6,814,814</u>

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Traverse County's elected and appointed officials considered many factors when setting the fiscal year 2015 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 few years are a major reason Traverse County has been able to keep operating costs down. As a result, Traverse County's property tax levy will be lower in 2015 than it was in 2008.

Traverse County's Board of Commissioners settled on a final 2015 levy of \$4,596,816; a decrease of 1.68 percent from the 2014 levy of \$4,675,375.

## 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, 2014**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b><u>Assets</u></b>			
<b>Current assets</b>			
Cash and pooled investments	\$ 6,433,335	\$ 1,011,998	\$ 7,445,333
Investments	-	35,000	35,000
Taxes receivable			
Delinquent	106,994	-	106,994
Accounts receivable	6,972	-	6,972
Due from other governments	3,448,681	-	3,448,681
Inventories	57,663	-	57,663
<b>Noncurrent assets</b>			
Capital assets			
Non-depreciable	1,145,529	16,175	1,161,704
Depreciable - net of accumulated depreciation	36,596,667	3,092,772	39,689,439
<b>Total Assets</b>	<b>\$ 47,795,841</b>	<b>\$ 4,155,945</b>	<b>\$ 51,951,786</b>
<b><u>Deferred Outflows of Resources</u></b>			
Deferred charges on bond refunding	\$ -	\$ 81,537	\$ 81,537

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 1  
(Continued)**

**STATEMENT OF NET POSITION  
DECEMBER 31, 2014**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b><u>Liabilities</u></b>			
<b>Current liabilities</b>			
Accounts payable	\$ 310,295	\$ 1,874	\$ 312,169
Salaries payable	2,552	-	2,552
Due to other governments	269,446	-	269,446
Accrued interest payable	33,934	36,723	70,657
Unearned revenue	203,104	-	203,104
Compensated absences payable - current	205,008	-	205,008
General obligation bonds payable - current	110,000	50,000	160,000
Revenue bonds payable - current	-	155,000	155,000
Leases payable - current	7,614	-	7,614
<b>Noncurrent liabilities</b>			
Compensated absences payable	99,608	-	99,608
Net OPEB liability	1,862,298	447,824	2,310,122
General obligation bonds payable	1,804,221	1,526,981	3,331,202
Revenue bonds payable	-	2,920,251	2,920,251
	<b>\$ 4,908,080</b>	<b>\$ 5,138,653</b>	<b>\$ 10,046,733</b>
<b><u>Net Position</u></b>			
Net investment in capital assets	\$ 35,820,361	\$ (703,599)	\$ 35,116,762
Restricted for			
Public safety	49,156	-	49,156
Highways and streets	2,517,387	-	2,517,387
Sanitation	208,361	-	208,361
Debt service	12,969	-	12,969
Conservation of natural resources	137,380	-	137,380
Other purposes	188,495	-	188,495
Unrestricted	3,953,652	(197,572)	3,756,080
	<b>\$ 42,887,761</b>	<b>\$ (901,171)</b>	<b>\$ 41,986,590</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>
<b><u>Functions/Programs</u></b>		
<b>Governmental activities</b>		
General government	\$ 1,549,969	\$ 208,581
Public safety	1,926,145	493,260
Highways and streets	3,995,062	464,892
Sanitation	152,727	50,017
Human services	1,752,322	213,863
Health	74,217	-
Culture and recreation	82,490	9,078
Conservation of natural resources	387,287	6,004
Economic development	7,985	-
Interest	76,798	-
	<b>\$ 10,005,002</b>	<b>\$ 1,445,695</b>
<b>Business-type activities</b>		
Traverse Care Center	\$ 398,020	\$ 16,774
Prairieview Place	113,570	-
	<b>\$ 511,590</b>	<b>\$ 16,774</b>
<b>Total</b>	<b>\$ 10,516,592</b>	<b>\$ 1,462,469</b>

**General Revenues**

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

**Total general revenues**

**Change in net position**

**Net Position - Beginning, as restated  
(Note 1.D.15.)**

**Net Position - Ending**



**EXHIBIT 2**

<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Position</b>		
<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ 32,682	\$ -	\$ (1,308,706)	\$ -	\$ (1,308,706)
134,929	-	(1,297,956)	-	(1,297,956)
2,981,474	706,746	158,050	-	158,050
63,803	-	(38,907)	-	(38,907)
931,055	-	(607,404)	-	(607,404)
-	-	(74,217)	-	(74,217)
-	-	(73,412)	-	(73,412)
88,553	-	(292,730)	-	(292,730)
-	-	(7,985)	-	(7,985)
-	-	(76,798)	-	(76,798)
<b>\$ 4,232,496</b>	<b>\$ 706,746</b>	<b>\$ (3,620,065)</b>	<b>\$ -</b>	<b>\$ (3,620,065)</b>
\$ -	\$ 40,000	\$ -	\$ (341,246)	\$ (341,246)
-	-	-	(113,570)	(113,570)
<b>\$ -</b>	<b>\$ 40,000</b>	<b>\$ -</b>	<b>\$ (454,816)</b>	<b>\$ (454,816)</b>
<b>\$ 4,232,496</b>	<b>\$ 746,746</b>	<b>\$ (3,620,065)</b>	<b>\$ (454,816)</b>	<b>\$ (4,074,881)</b>
		\$ 4,583,503	\$ -	\$ 4,583,503
		5,081	-	5,081
		242,304	-	242,304
		24,320	-	24,320
		36,652	1,516	38,168
		127,522	348,266	475,788
		<b>\$ 5,019,382</b>	<b>\$ 349,782</b>	<b>\$ 5,369,164</b>
		\$ 1,399,317	\$ (105,034)	\$ 1,294,283
		<b>41,488,444</b>	<b>(796,137)</b>	<b>40,692,307</b>
		<b>\$ 42,887,761</b>	<b>\$ (901,171)</b>	<b>\$ 41,986,590</b>

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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, 2014**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Jail/LEC Debt Service</u>	<u>Total</u>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 3,566,152	\$ 530,907	\$ 2,073,341	\$ 169,728	\$ 6,340,128
Petty cash and change funds	1,400	-	100	-	1,500
Undistributed cash in agency funds	55,837	26,359	5,940	3,571	91,707
Taxes receivable					
Delinquent	63,491	30,647	8,763	4,093	106,994
Accounts receivable	2,505	250	4,217	-	6,972
Due from other funds	40,560	7,709	-	-	48,269
Due from other governments	147,547	3,117,324	183,810	-	3,448,681
Inventories	-	57,663	-	-	57,663
<b>Total Assets</b>	<b><u>\$ 3,877,492</u></b>	<b><u>\$ 3,770,859</u></b>	<b><u>\$ 2,276,171</u></b>	<b><u>\$ 177,392</u></b>	<b><u>\$ 10,101,914</u></b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 129,199	\$ 109,579	\$ 71,517	\$ -	\$ 310,295
Salaries payable	1,314	116	1,122	-	2,552
Due to other funds	7,709	5,689	34,871	-	48,269
Due to other governments	102,861	134,966	31,619	-	269,446
Unearned revenue	-	203,104	-	-	203,104
<b>Total Liabilities</b>	<b><u>\$ 241,083</u></b>	<b><u>\$ 453,454</u></b>	<b><u>\$ 139,129</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 833,666</u></b>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue	<b><u>\$ 63,491</u></b>	<b><u>\$ 2,609,843</u></b>	<b><u>\$ 8,763</u></b>	<b><u>\$ 4,093</u></b>	<b><u>\$ 2,686,190</u></b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2014**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Jail/LEC Debt Service</u>	<u>Total</u>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>					
<b>(Continued)</b>					
<b>Fund Balances</b>					
Nonspendable					
Inventories	\$ -	\$ 57,663	\$ -	\$ -	\$ 57,663
Missing heirs	30,262	-	-	-	30,262
Restricted for					
Recorder's equipment	76,529	-	-	-	76,529
Recorder's compliance fund	81,704	-	-	-	81,704
Enhanced 911	49,156	-	-	-	49,156
Invasive species aid	12,969	-	-	-	12,969
Solid waste assessments	208,361	-	-	-	208,361
Debt service	-	-	-	173,299	173,299
Highway allotments	-	105,074	-	-	105,074
Assigned to					
Road and bridge	-	544,825	-	-	544,825
Capital projects	833,881	-	-	-	833,881
Social services	-	-	2,128,279	-	2,128,279
Unassigned	2,280,056	-	-	-	2,280,056
<b>Total Fund Balances</b>	<b><u>\$ 3,572,918</u></b>	<b><u>\$ 707,562</u></b>	<b><u>\$ 2,128,279</u></b>	<b><u>\$ 173,299</u></b>	<b><u>\$ 6,582,058</u></b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b><u>\$ 3,877,492</u></b>	<b><u>\$ 3,770,859</u></b>	<b><u>\$ 2,276,171</u></b>	<b><u>\$ 177,392</u></b>	<b><u>\$ 10,101,914</u></b>



**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

***EXHIBIT 4***

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2014**

<b>Fund balance - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>6,582,058</b>
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.		37,742,196
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		2,686,190
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	\$ (1,914,221)	
Capital leases	(7,614)	
Compensated absences	(304,616)	
Accrued interest payable	(33,934)	
Net OPEB liability	<u>(1,862,298)</u>	<u>(4,122,683)</u>
<b>Net Position of Governmental Activities (Exhibit 1)</b>		<b><u>\$ 42,887,761</u></b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

*EXHIBIT 5*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Jail/LEC Debt Service</u>	<u>Total</u>
<b>Revenues</b>					
Taxes	\$ 2,639,358	\$ 1,383,307	\$ 304,048	\$ 188,327	\$ 4,515,040
Special assessments	55,214	-	-	-	55,214
Licenses and permits	11,103	-	-	-	11,103
Intergovernmental	525,680	2,908,234	979,398	-	4,413,312
Charges for services	655,444	328,658	20,415	-	1,004,517
Fines and forfeits	450	-	-	-	450
Investment earnings	36,737	-	-	-	36,737
Miscellaneous	229,192	43,988	151,650	-	424,830
<b>Total Revenues</b>	<b>\$ 4,153,178</b>	<b>\$ 4,664,187</b>	<b>\$ 1,455,511</b>	<b>\$ 188,327</b>	<b>\$ 10,461,203</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 1,526,033	\$ -	\$ -	\$ -	\$ 1,526,033
Public safety	1,726,401	-	-	-	1,726,401
Highways and streets	-	3,898,028	-	-	3,898,028
Sanitation	140,208	-	-	-	140,208
Human services	-	-	1,684,319	-	1,684,319
Health	74,217	-	-	-	74,217
Culture and recreation	81,542	-	-	-	81,542
Conservation of natural resources	382,532	-	-	-	382,532
Economic development	7,535	-	-	-	7,535
<b>Intergovernmental</b>	-	237,265	-	-	237,265
<b>Debt service</b>					
Principal	37,053	-	-	105,000	142,053
Interest	1,328	-	-	79,250	80,578
Administrative charges	-	-	-	450	450
<b>Total Expenditures</b>	<b>\$ 3,976,849</b>	<b>\$ 4,135,293</b>	<b>\$ 1,684,319</b>	<b>\$ 184,700</b>	<b>\$ 9,981,161</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 176,329</b>	<b>\$ 528,894</b>	<b>\$ (228,808)</b>	<b>\$ 3,627</b>	<b>\$ 480,042</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	\$ -	\$ 303,149	\$ -	\$ -	\$ 303,149
Transfers out	-	-	(303,149)	-	(303,149)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ 303,149</b>	<b>\$ (303,149)</b>	<b>\$ -</b>	<b>\$ -</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 5  
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Jail/LEC Debt Service</u>	<u>Total</u>
<b>Net Change in Fund Balance</b>	\$ 176,329	\$ 832,043	\$ (531,957)	\$ 3,627	\$ 480,042
<b>Fund Balance - January 1, as restated (Note 1.D.15.)</b>	3,396,589	(124,878)	2,660,236	169,672	6,101,619
<b>Increase (decrease) in inventories</b>	-	397	-	-	397
<b>Fund Balance - December 31</b>	<u>\$ 3,572,918</u>	<u>\$ 707,562</u>	<u>\$ 2,128,279</u>	<u>\$ 173,299</u>	<u>\$ 6,582,058</u>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**Net change in fund balance - total governmental funds (Exhibit 5) \$ 480,042**

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

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

Deferred inflows of resources - December 31	\$ 2,686,190	
Deferred inflows of resources - January 1	<u>(1,791,694)</u>	894,496

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	\$ 1,668,122	
Net book value of assets disposed of	(200,421)	
Current year depreciation	<u>(1,331,652)</u>	136,049

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal repayments		
General obligation bonds	\$ 105,000	
Capital leases	<u>37,053</u>	142,053

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 funds.

Amortization of bond premiums	\$ 2,452	
Change in compensated absences	8,730	
Change in inventories	397	
Change in net OPEB liability	<u>(264,902)</u>	<u>(253,323)</u>

**Change in Net Position of Governmental Activities (Exhibit 2) \$ 1,399,317**

**PROPRIETARY FUNDS**

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

*EXHIBIT 7*

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2014**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Prairieview Place</b>	<b>Traverse Care Center</b>	<b>Totals</b>
<b><u>Assets</u></b>			
<b>Current assets</b>			
Cash and pooled investments	\$ 6,196	\$ 247,653	\$ 253,849
Cash with escrow agent	758,149	-	758,149
Investments	-	35,000	35,000
<b>Total current assets</b>	<b>\$ 764,345</b>	<b>\$ 282,653</b>	<b>\$ 1,046,998</b>
<b>Noncurrent assets</b>			
Advance to other funds	\$ -	\$ 84,078	\$ 84,078
Capital assets			
Nondepreciable	-	16,175	16,175
Depreciable - net	605,952	2,486,820	3,092,772
<b>Total noncurrent assets</b>	<b>\$ 605,952</b>	<b>\$ 2,587,073</b>	<b>\$ 3,193,025</b>
<b>Total Assets</b>	<b>\$ 1,370,297</b>	<b>\$ 2,869,726</b>	<b>\$ 4,240,023</b>
<b><u>Deferred Outflows of Resources</u></b>			
Deferred charges on bond refunding	\$ -	\$ 81,537	\$ 81,537

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 7  
(Continued)**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2014**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Prairieview Place</b>	<b>Traverse Care Center</b>	<b>Totals</b>
<b><u>Liabilities</u></b>			
<b>Current liabilities</b>			
Accounts payable	\$ 850	\$ 1,024	\$ 1,874
Accrued interest payable	7,063	29,660	36,723
General obligation bonds payable - current	50,000	-	50,000
Revenue bonds payable - current	-	155,000	155,000
<b>Total current liabilities</b>	<b>\$ 57,913</b>	<b>\$ 185,684</b>	<b>\$ 243,597</b>
<b>Noncurrent liabilities</b>			
Advance from other funds	\$ 84,078	\$ -	\$ 84,078
Net OPEB liability	689	447,135	447,824
General obligation bonds payable - long-term	1,526,981	-	1,526,981
Revenue bonds payable - long-term	-	2,920,251	2,920,251
<b>Total noncurrent liabilities</b>	<b>\$ 1,611,748</b>	<b>\$ 3,367,386</b>	<b>\$ 4,979,134</b>
<b>Total Liabilities</b>	<b>\$ 1,669,661</b>	<b>\$ 3,553,070</b>	<b>\$ 5,222,731</b>
<b><u>Net Position</u></b>			
Net investment in capital assets	\$ (212,880)	\$ (490,719)	\$ (703,599)
Unrestricted	(86,484)	(111,088)	(197,572)
<b>Total Net Position</b>	<b>\$ (299,364)</b>	<b>\$ (601,807)</b>	<b>\$ (901,171)</b>



**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

*EXHIBIT 8*

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Prairieview Place</b>	<b>Traverse Care Center</b>	<b>Totals</b>
<b>Operating Revenues</b>			
Miscellaneous	\$ -	\$ 16,774	\$ 16,774
<b>Operating Expenses</b>			
Employee benefits and payroll taxes	\$ -	\$ 143,845	\$ 143,845
Professional services	4,600	3,978	8,578
Insurance	-	378	378
Depreciation	45,754	183,061	228,815
<b>Total Operating Expenses</b>	<b>\$ 50,354</b>	<b>\$ 331,262</b>	<b>\$ 381,616</b>
<b>Operating Income (Loss)</b>	<b>\$ (50,354)</b>	<b>\$ (314,488)</b>	<b>\$ (364,842)</b>
<b>Nonoperating Revenues (Expenses)</b>			
Interest income	\$ 1,374	\$ 142	\$ 1,516
Lease revenue	96,459	251,807	348,266
Interest expense	(63,216)	(66,758)	(129,974)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 34,617</b>	<b>\$ 185,191</b>	<b>\$ 219,808</b>
<b>Income (Loss) Before Capital Contributions</b>	<b>\$ (15,737)</b>	<b>\$ (129,297)</b>	<b>\$ (145,034)</b>
Capital contributions	-	40,000	40,000
<b>Change in Net Position</b>	<b>\$ (15,737)</b>	<b>\$ (89,297)</b>	<b>\$ (105,034)</b>
<b>Net Position - January 1</b>	<b>(283,627)</b>	<b>(512,510)</b>	<b>(796,137)</b>
<b>Net Position - December 31</b>	<b>\$ (299,364)</b>	<b>\$ (601,807)</b>	<b>\$ (901,171)</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

*EXHIBIT 9*

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014  
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>
<b>Cash Flows from Operating Activities</b>			
Receipts from customers and users	\$ -	\$ 16,774	\$ 16,774
Payments to suppliers and employees	(3,750)	(102,180)	(105,930)
Nonoperating revenue received	96,444	251,807	348,251
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 92,694</b>	<b>\$ 166,401</b>	<b>\$ 259,095</b>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Principal paid on long-term debt	\$ (45,000)	\$ (174,814)	\$ (219,814)
Interest paid on long-term debt	(63,716)	(69,586)	(133,302)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>\$ (108,716)</b>	<b>\$ (244,400)</b>	<b>\$ (353,116)</b>
<b>Cash Flows from Investing Activities</b>			
Interest received	\$ 1,374	\$ 142	\$ 1,516
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ (14,648)</b>	<b>\$ (77,857)</b>	<b>\$ (92,505)</b>
<b>Cash and Cash Equivalents at January 1</b>	<b>778,993</b>	<b>325,510</b>	<b>1,104,503</b>
<b>Cash and Cash Equivalents at December 31</b>	<b>\$ 764,345</b>	<b>\$ 247,653</b>	<b>\$ 1,011,998</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>			
Operating income (loss)	\$ (50,354)	\$ (314,488)	\$ (364,842)
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>			
Depreciation and amortization	\$ 45,754	\$ 183,061	\$ 228,815
Nonoperating revenue received	96,444	251,807	348,251
Increase (decrease) in accounts payable	850	496	1,346
Increase (decrease) in net OPEB liability	-	45,525	45,525
<b>Total adjustments</b>	<b>\$ 143,048</b>	<b>\$ 480,889</b>	<b>\$ 623,937</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 92,694</b>	<b>\$ 166,401</b>	<b>\$ 259,095</b>

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

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## **FIDUCIARY FUNDS**

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

*EXHIBIT 10*

**STATEMENT OF FIDUCIARY NET POSITION  
AGENCY FUNDS  
DECEMBER 31, 2014**

**Assets**

Cash and pooled investments	<u>\$ 132,191</u>
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**Liabilities**

Due to other governments	<u>\$ 132,191</u>
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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2014. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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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**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

The County reports the following major enterprise funds:

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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

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

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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, 2014, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2014 were \$21,094.

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 MAGIC Fund is not registered with the Securities and Exchange Commission. The investment in the pool is measured at the amortized cost per share provided by the pool which would approximate fair value.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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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 2008 through 2014 and deferred special assessments payable in 2015 and after. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments.

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

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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

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

6. Capital Assets

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

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

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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

6. Capital Assets (Continued)

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. Unearned/Unavailable Revenue

Proprietary funds, governmental funds, and government-wide financial statements report unearned revenue in connection with resources that have been received but not yet earned. Governmental funds report unavailable revenue in connection with the receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

8. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. A liability is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide financial statements. The government-wide statement of net position reports both current and noncurrent portions of compensated absences.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations

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

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report 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 only one item that qualifies for reporting in this category. It is the deferred charge on bond refunding 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.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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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)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

11. 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**

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1. Summary of Significant Accounting Policies

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

12. 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**

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1. Summary of Significant Accounting Policies

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

12. 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.

13. 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, 2014, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

14. Use of Estimates

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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

15. Restatement of Fund Balance

The January 1, 2014, fund balance of the Road and Bridge Special Revenue Fund and the net position of the governmental activities decreased by \$77,901 to correct a prior year overstatement of intergovernmental revenues recognized in the Road and Bridge Special Revenue Fund.

	Balance at January 1, 2014	Adjustment	Balance at January 1, 2014, as Restated
Road and Bridge Special Revenue Fund	\$ (46,977)	\$ (77,901)	\$ (124,878)
Governmental activities	41,566,345	(77,901)	41,488,444

E. Future Change in Accounting Standards

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the County's calendar year 2015. The County has not yet determined the financial statement impact of adopting this new standard.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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2. Stewardship, Compliance, and Accountability

Deficit Fund Equity

The following major funds had deficit net position or fund balance as of December 31, 2014:

Prairieview Place Enterprise Fund	\$ 299,364
Traverse Care Center Enterprise Fund	601,807

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

3. Detailed Notes on All Funds

A. Assets

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	\$ 6,433,335
Business-type activities	
Cash and pooled investments	1,011,998
Investments	35,000
Statement of fiduciary net position	
Cash and pooled investments	<u>132,191</u>
 Total Cash and Investments	 <u>\$ 7,612,524</u>

a. Deposits

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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County’s policy is to minimize deposit custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2014, the County’s deposits were not exposed to custodial credit risk.

b. Investments

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

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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (2) mutual funds through shares of registered investment companies provided the mutual fund receives ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. As of December 31, 2014, 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

1. Deposits and Investments (Continued)

The following table presents the County's deposit and investment balances at December 31, 2014, 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	
U.S. government agency securities					
Federal Home Loan Bank	AA+	S&P	>5%	05/23/2023	\$ 99,941
Negotiable certificates of deposit with brokers					
First Niagara Bank	N/A	N/A	>5%	01/12/2015	\$ 116,181
Mizuho Bank	N/A	N/A	>5%	01/29/2015	101,356
Union Bank	N/A	N/A	<5%	02/28/2017	20,000
HSBC Bank	N/A	N/A	<5%	05/01/2017	100,000
GE Capital Retail	N/A	N/A	>5%	06/08/2018	199,616
Total negotiable certificates of deposit with brokers					\$ 537,153
Investment pools/mutual funds					
Federated U.S. Government Fund	N/A	N/A	>5%	N/A	\$ 39,892
Money Market	N/A	N/A	>5%	N/A	100,000
MAGIC Fund	N/A	N/A	<5%	N/A	6,565
Total investment pools/mutual funds					\$ 146,457
Total investments					\$ 783,551
Checking					5,495,113
Savings					638,278
Certificates of deposit					694,082
Change funds					1,500
Total Cash and Investments					\$ 7,612,524

N/A - Not Applicable  
S&P - Standard & Poor's



**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2014, for the County's governmental activities and business-type activities are as follows:

	Governmental Activities	Business-Type Activities
Taxes	\$ 106,994	\$ -
Accounts receivable	6,972	-
Due from other governments	3,448,681	-
Total Receivables	\$ 3,562,647	\$ -

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

3. Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 178,352	\$ 4,629	\$ -	\$ 182,981
Right-of-way	962,548	-	-	962,548
Construction in progress	66,701	-	66,701	-
Total capital assets not depreciated	\$ 1,207,601	\$ 4,629	\$ 66,701	\$ 1,145,529
Capital assets depreciated				
Buildings	\$ 5,267,625	\$ 62,495	\$ -	\$ 5,330,120
Land improvements	142,670	-	-	142,670
Machinery, furniture, and equipment	4,891,272	730,026	648,431	4,972,867
Infrastructure	43,287,282	937,673	-	44,224,955
Total capital assets depreciated	\$ 53,588,849	\$ 1,730,194	\$ 648,431	\$ 54,670,612

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings	\$ 2,101,483	\$ 118,438	\$ -	\$ 2,219,921
Land improvements	56,447	9,316	-	65,763
Machinery, furniture, and equipment	3,285,412	319,398	448,010	3,156,800
Infrastructure	11,746,961	884,500	-	12,631,461
	<u>\$ 17,190,303</u>	<u>\$ 1,331,652</u>	<u>\$ 448,010</u>	<u>\$ 18,073,945</u>
Total accumulated depreciation				
	<u>\$ 17,190,303</u>	<u>\$ 1,331,652</u>	<u>\$ 448,010</u>	<u>\$ 18,073,945</u>
Total capital assets depreciated, net	<u>\$ 36,398,546</u>	<u>\$ 398,542</u>	<u>\$ 200,421</u>	<u>\$ 36,596,667</u>
Governmental Activities Capital Assets, Net	<u>\$ 37,606,147</u>	<u>\$ 403,171</u>	<u>\$ 267,122</u>	<u>\$ 37,742,196</u>

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 16,175	\$ -	\$ -	\$ 16,175
Capital assets depreciated				
Buildings	\$ 6,398,048	\$ -	\$ -	\$ 6,398,048
Land improvements	43,938	-	-	43,938
Machinery, furniture, and equipment	510,477	40,000	-	550,477
	<u>\$ 6,952,463</u>	<u>\$ 40,000</u>	<u>\$ -</u>	<u>\$ 6,992,463</u>
Total capital assets depreciated				
	<u>\$ 6,952,463</u>	<u>\$ 40,000</u>	<u>\$ -</u>	<u>\$ 6,992,463</u>
Less: accumulated depreciation for				
Buildings	\$ 3,137,587	\$ 217,770	\$ -	\$ 3,355,357
Land improvements	42,684	638	-	43,322
Machinery, furniture, and equipment	490,605	10,407	-	501,012
	<u>\$ 3,670,876</u>	<u>\$ 228,815</u>	<u>\$ -</u>	<u>\$ 3,899,691</u>
Total accumulated depreciation				
	<u>\$ 3,670,876</u>	<u>\$ 228,815</u>	<u>\$ -</u>	<u>\$ 3,899,691</u>
Total capital assets depreciated, net	<u>\$ 3,281,587</u>	<u>\$ (188,815)</u>	<u>\$ -</u>	<u>\$ 3,092,772</u>
Business-Type Activities Capital Assets, Net	<u>\$ 3,297,762</u>	<u>\$ (188,815)</u>	<u>\$ -</u>	<u>\$ 3,108,947</u>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	116,587
Public safety		69,128
Highways and streets, including depreciation of infrastructure assets		1,134,378
Human services		7,185
Sanitation		3,426
Culture and recreation		948
		948
Total Depreciation Expense - Governmental Activities	\$	1,331,652
Business-Type Activities		
Traverse Care Center	\$	183,061
Prairieview Place		45,754
		45,754
Total Depreciation Expense - Business-Type Activities	\$	228,815

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2014, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Special Revenue Fund	\$ 5,689
	Social Services Special Revenue Fund	34,871
		34,871
Total General Fund		\$ 40,560
Road and Bridge Special Revenue Fund	General Fund	7,709
		7,709
Total Due To/Due From Other Funds		\$ 48,269

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

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

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
Traverse Care Center Enterprise Fund	Prairieview Place Enterprise Fund	\$ 84,078

The purpose of the advance from the Traverse Care Center Enterprise Fund to the Prairieview Place Enterprise Fund was for payment of debt issued for the construction of the congregate housing project. The balance of this interfund loan is not expected to be repaid within the year.

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2014, consisted of the following:

Transfer from Social Services Special Revenue Fund to Road and Bridge Special Revenue Fund	\$ 303,149	For the purchase of equipment
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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, 2014, were as follows:

	Governmental Activities	Business-Type Activities
Accounts payable	\$ 310,295	\$ 1,874
Salaries payable	2,552	-
Due to other governments	269,446	-
Accrued interest payable	33,934	36,723
Total Payables	\$ 616,227	\$ 38,597

2. Unearned Revenues/Deferred Inflows of Resources

Unearned revenues and deferred inflows of resources consist of taxes, state and federal grants, and charge for service revenues not collected soon enough after year-end to pay liabilities of the current period, and state and federal grants received but not yet earned. Unearned revenues and deferred inflows of resources at December 31, 2014, are summarized below by fund:

	Taxes	Grants	Other	Total
Major governmental funds				
General	\$ 63,491	\$ -	\$ -	\$ 63,491
Road and Bridge	30,647	2,684,660	97,640	2,812,947
Social Services	8,763	-	-	8,763
Jail/LEC Debt Service	4,093	-	-	4,093
Total	\$ 106,994	\$ 2,684,660	\$ 97,640	\$ 2,889,294
Liability				
Unearned revenue	\$ -	\$ 203,104	\$ -	\$ 203,104
Deferred inflows of resources				
Unavailable revenue	106,994	2,481,556	97,640	2,686,190
Total	\$ 106,994	\$ 2,684,660	\$ 97,640	\$ 2,889,294

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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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, 2014. Construction commitments for highway projects are state-funded and, therefore, not obligations of the County.

4. Leases

Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of certain equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. Capital leases consist of the following at December 31, 2014:

<u>Leases</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
Governmental Activities					
Social Services building	2014	Semi-Annual	\$ 12,900	\$ 300,000	\$ -
2010 phone system	2015	Monthly	1,285	69,101	<u>7,614</u>
Total Governmental Activities Capital Leases					<u>\$ 7,614</u>

The future minimum lease obligations and the net present value of the remaining minimum lease payments as of December 31, 2014, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2015	\$ 7,712
Less: amount representing interest	<u>(98)</u>
Net Present Value of Minimum Lease Payments	<u>\$ 7,614</u>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

5. Long-Term Debt

Governmental Activities

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.

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2014
General obligation bonds					
2006A G.O. Jail Bonds	2027	\$50,000 - \$185,000	4.00 - 4.25	\$ 2,515,000	\$ 1,885,000
Add: unamortized premium					29,221
Total General Obligation Bonds, Net					<u>\$ 1,914,221</u>

Business-Type Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2014
USDA Loan	2014	\$44,444	-	\$ 400,000	\$ -
2005A G.O. Governmental Housing Refunding Bonds	2026	\$30,000 - \$85,000	5.00	\$ 1,190,000	\$ 790,000
2013A G.O. Governmental Housing Refunding Bonds	2027	\$65,000 - \$80,000	1.05 - 2.50	785,000	785,000
Add: unamortized premium					5,196
Less: unamortized discount					(3,215)
Total G.O. Bonds, Net					<u>\$ 1,576,981</u>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

5. Long-Term Debt

Business-Type Activities (Continued)

<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, 2014</u>
2012A G.O. Nursing Home Revenue Refunding Bonds	2030	\$160,000 - \$225,000	0.00 - 2.80	\$ 3,350,000	\$ 3,030,000
Add: unamortized premium					<u>45,251</u>
Total Revenue Refunding Bonds, Net					<u>\$ 3,075,251</u>

6. Debt Service Requirements

Debt service requirements at December 31, 2014, were as follows:

Governmental Activities

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 110,000	\$ 74,950
2016	115,000	70,450
2017	120,000	65,750
2018	125,000	60,850
2019	130,000	55,750
2020 - 2024	750,000	193,344
2025 - 2027	<u>535,000</u>	<u>34,744</u>
Total	<u>\$ 1,885,000</u>	<u>\$ 555,838</u>



**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

6. Debt Service Requirements (Continued)

Business-Type Activities

Year Ending December 31	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2015	\$ 50,000	\$ 53,625	\$ 155,000	\$ 66,435
2016	740,000	52,375	165,000	63,235
2017	65,000	13,784	170,000	59,885
2018	70,000	13,075	170,000	56,485
2019	70,000	12,340	175,000	53,035
2020 - 2024	355,000	45,401	920,000	211,043
2025 - 2029	225,000	8,635	1,050,000	100,550
2030	-	-	225,000	3,150
Total	<u>\$ 1,575,000</u>	<u>\$ 199,235</u>	<u>\$ 3,030,000</u>	<u>\$ 613,818</u>

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
G.O. jail bonds payable	\$ 1,990,000	\$ -	\$ 105,000	\$ 1,885,000	\$ 110,000
Unamortized bond premium	31,673	-	2,452	29,221	-
Capital leases	44,667	-	37,053	7,614	7,614
Compensated absences	313,346	311,655	320,385	304,616	205,008
Net OPEB liability	1,597,396	484,149	219,247	1,862,298	-
Governmental Activities Long-Term Liabilities	<u>\$ 3,977,082</u>	<u>\$ 795,804</u>	<u>\$ 684,137</u>	<u>\$ 4,088,749</u>	<u>\$ 322,622</u>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

7. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable					
General obligation refunding bonds	\$ 1,620,000	\$ -	\$ 45,000	\$ 1,575,000	\$ 50,000
Revenue bonds	3,190,000	-	160,000	3,030,000	155,000
Premium on bonds	53,275	-	2,828	50,447	-
Discount on bonds	(3,498)	-	(283)	(3,215)	-
Total bonds payable	\$ 4,859,777	\$ -	\$ 207,545	\$ 4,652,232	\$ 205,000
Loans payable	14,814	-	14,814	-	-
Net OPEB liability	402,313	143,100	97,589	447,824	-
Business-Type Activities Long-Term Liabilities	<u>\$ 5,276,904</u>	<u>\$ 143,100</u>	<u>\$ 319,948</u>	<u>\$ 5,100,056</u>	<u>\$ 205,000</u>

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description

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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description (Continued)

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

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent for each year of service.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description (Continued)

For General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs 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 public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

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. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014. Public Employees Police and Fire Fund members were required to contribute 10.20 percent of their annual covered salary in 2014. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Funding Policy (Continued)

In 2014, the County was required to contribute the following percentages of annual covered payroll:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	15.30
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2014	2013	2012
General Employees Retirement Fund	\$ 152,532	\$ 143,994	\$ 136,217
Public Employees Police and Fire Fund	45,124	37,790	38,300
Public Employees Correctional Fund	34,603	32,305	30,610

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers) and the Public Employees Police and Fire Fund (10.80 percent for members and 16.20 percent for employers).

B. Defined Contribution Plan

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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2014, were:

	Employee	Employer
Contribution amount	\$ 4,289	\$ 4,289
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

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.

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Traverse County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2014, there were 111 participants in the plan, including 48 retirees.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

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

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

ARC	\$	665,410
Interest on net OPEB obligation		79,988
Adjustment to ARC		(118,149)
		_____
Annual OPEB cost (expense)	\$	627,249
Contributions made during the year		(316,836)
		_____
Increase in net OPEB obligation	\$	310,413
Net OPEB Obligation - Beginning of Year		1,999,709
		_____
Net OPEB Obligation - End of Year	\$	2,310,122

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, 2012, 2013, and 2014, were as follows:

<u>Fiscal Year-End</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2012	\$ 747,981	\$ 407,218	54.4%	\$ 1,646,510
December 31, 2013	741,476	388,277	52.4	1,999,709
December 31, 2014	627,249	316,836	50.5	2,310,122

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

Governmental Activities

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

Business-Type Activities

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

Actuarial Methods and Assumptions

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



**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

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

In the January 1, 2014, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.0 percent investment rate of return (net of investment expenses), which is Traverse County's implicit rate of return on the General Fund. The annual health care cost trend is 7.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 10 years. Both rates included a 2.5 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2014, was 24 years.

5. Risk Management

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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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5. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$480,000 per claim in 2014 and \$490,000 in 2015. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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

B. Joint Ventures

Stevens Traverse Grant Public Health Service

Traverse County entered into a joint powers agreement creating and operating the Stevens Traverse Grant Public Health Service, pursuant to Minn. Stat. § 471.59. The Health Service is headquartered in Morris, Minnesota, and has other offices in Wheaton and Elbow Lake, Minnesota.

The management of the Health Service is vested in the Joint Public Health Board, which consists of nine members, three Commissioners each from Stevens County, Traverse County, and Grant County.

The primary functions of the Health Service are to prevent illness and to promote efficiency and economy in the delivery of community health services. Financing is provided by federal and state grants; appropriations from Stevens, Traverse, and Grant Counties; and charges for services. Stevens County, as an agent, reports the cash transactions of Stevens Traverse Grant Public Health Service in an agency fund on its annual financial statements. Traverse County's contribution for 2014 was \$63,784.

Complete financial statements for the Stevens Traverse Grant Public Health Service can be obtained from:

Stevens Traverse Grant Public Health Service  
10 East Highway 28  
Morris, Minnesota 56267

Horizon Community Health Board

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 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. The budget is now approved by the five-county Board.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Horizon Community Health Board (Continued)

Control is vested in Horizon's Board, which consists of 11 members composed of 8 County Commissioners and 3 community representatives. Each member of the Board is appointed by the County Commissioners of the county represented.

Financing is provided by state and federal grants and contributions from the member parties. Pope County, in an agent capacity, reports the cash transactions of Horizon as an agency fund on its financial statements. During 2014, Traverse County did not contribute funds to Horizon.

Complete financial statements for the Horizon Community Health Board can be obtained from:

Horizon Community Health Board  
211 East Minnesota Avenue, Suite 100  
Glenwood, Minnesota 56344

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.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Rainbow Rider Transit Board (Continued)

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.

Complete financial information can be obtained from:

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

West Central Area Agency on Aging

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

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

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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

West Central Area Agency on Aging (Continued)

Complete financial information can be obtained from:

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

PrimeWest Health System

In December 1998, Traverse County became a member of the PrimeWest Central County-Based Purchasing Initiative Joint Powers Board (since renamed PrimeWest Health System) with Big Stone, Douglas, Grant, McLeod, Meeker, Pipestone, Pope, Renville, and Stevens Counties under the authority of Minn. Stat. § 471.59. Beltrami, Clearwater, and Hubbard Counties were later added to the PrimeWest Health System. Traverse County, in partnership with these 12 counties, is organized to directly purchase health care services for county residents who are eligible for Medical Assistance and General Assistance Medical Care as authorized by Minn. Stat. § 256B.692. County-based purchasing is the local control alternative favored for improved coordination of services to prepaid Medical Assistance programs in complying with Minnesota Department of Health requirements as set forth in Minn. Stat. chs. 62D and 62N.

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

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

Douglas County acts as fiscal agent for the PrimeWest Health System 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.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

PrimeWest Health System (Continued)

Complete financial information can be obtained from:

PrimeWest Health System  
2209 Jefferson Street, Suite 101  
Alexandria, Minnesota 56308

Central Minnesota Emergency Services Board

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

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

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

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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Central Minnesota Emergency Services Board (Continued)

The Central Minnesota Emergency Services Board has no long-term debt. Financing is provided by the appropriations from member parties and by state and federal grants. During 2014, Traverse County did not contribute to the Joint Powers Board.

Complete financial information can be obtained from:

Central Minnesota Emergency Services Board  
City of St. Cloud  
Office of the Mayor  
City Hall  
400 Second Street South  
St. Cloud, Minnesota 56303

Supporting Hands Nurse Family Partnership Board

The Supporting Hands Nurse Family Partnership Board was established pursuant to Minn. Stat. §§ 145A.17 and 471.59 and a joint powers agreement, effective May 31, 2007. The Board is composed of one representative from each county to the agreement. The counties in the agreement are Big Stone, Chippewa, Douglas, Grant, Lac qui Parle, Lincoln, Lyon, McLeod, Meeker, Murray, Pipestone, Pope, Redwood, Renville, Stevens, Swift, Traverse, and Yellow Medicine. The purpose of this agreement is to organize, govern, plan, and administer a multi-county based Nurse Family Partnership Program specifically within the jurisdictional boundaries of the counties involved.

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2014, Traverse County did not make a contribution to the Partnership.



**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Supporting Hands Nurse Family Partnership Board (Continued)

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

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

Land of the Dancing Sky Area Agency on Aging

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

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

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.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Region 4 South Adult Mental Health Consortium (Continued)

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.

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

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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

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

Traverse County provided \$39,645 to this organization in 2014.

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, Stevens Traverse Grant Public Health Service, Wheaton Public Schools, Browns Valley Public Schools, Traverse County Court Services, the Life Center, West Central Minnesota Community Action, and Prairie Community Services.

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

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

Financing is provided by state and federal grants and contributions from the member parties. Traverse County, in an agent capacity, reports the cash transactions of Traverse County Connections as an agency fund on its financial statements. The County did not make a contribution to Traverse County Connections in 2014.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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

C. Jointly-Governed Organizations

Western Area City/County Co-Op

Traverse County and 24 other cities and counties entered into a joint powers agreement to establish the Western Area City/County Co-Op (WACCO) Joint Powers Board, effective September 5, 1995, and empowered under Minn. Stat. § 471.59. The purpose of WACCO is to establish a resource network that identifies common needs of the individual governmental units and reduces the financial burden on each of its members through the cooperative sharing of existing resources. The management and control of WACCO is vested in a Board of Directors composed of a representative appointed by each member city and county. During 2014, the County contributed \$827 to WACCO.

District IV Transportation Planning

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

Region Four - West Central Minnesota Homeland Security Emergency Management Organization

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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Minnesota Criminal Justice Data Communications Network

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

Southwest Minnesota Immunization Information Connection

The Southwest Minnesota Immunization Information Connection (SW-MIIC) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. The County did not contribute to the SW-MIIC during 2014.

Minnesota Red River Basin of the North Joint Powers Agreement

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

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

In the event of termination of the agreement, any unexpended funds and surplus property shall be disposed of equally among the member counties. During 2014, the County did not contribute any funding to the Joint Powers Board.

Complete financial statements can be obtained from:

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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Minnesota Rural Counties Caucus

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

Sentencing to Service

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

West Central S.W.A.T. Team

The West Central S.W.A.T. Team is comprised of five County Sheriff's Offices and seven Police Departments including Big Stone, Pope, Stevens, Swift, and Traverse Counties, along with the Appleton, Benson, Glenwood, Morris, Starbuck, University of Minnesota Morris, and Wheaton Police Departments. The purpose of the team is to create a feasible economical way, by sharing the costs, to protect the citizens of the cities and counties involved. During the year, the County contributed \$770 to the Team.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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

D. Related Organization

Traverse County Housing and Redevelopment Authority (HRA)

The Traverse County HRA has its own governing board appointed by the Traverse County Board of Commissioners. The County's accountability for the organization does not extend beyond making the appointments. In 2005, the HRA issued \$1,190,000 of General Obligation Governmental Housing Refunding Bonds on behalf of Traverse County, which is responsible for making the payments. The balance of this debt outstanding is \$786,785, net of discount. In 2013, the HRA issued \$785,000 of General Obligation Government Housing Refunding Bonds, Series 2013A, for the full advance refunding of the General Obligation Governmental Housing Refunding Bonds, Series 2005A. Proceeds were deposited in an irrevocable trust with an escrow agent to provide partial interest payments on the General Obligation Government Housing Refunding Bonds, Series 2013A, until January 1, 2016, at which time the refunded bonds will be paid off. The principal balance of both the original issue and the refunding issue will be shown on the statement of net position until the call date of the refunded bonds, at which time the 2005 bonds will be paid, and the liability for those bonds will be removed.

E. Lease of Property

On December 1, 2010, Traverse County entered into a lease with LSS of Traverse, LLC (LSS), whereby LSS is renting the property of Prairieview Place and operating it as a congregate housing facility. The lease was amended on November 5, 2013, to extend the lease for an additional three-year term beginning on December 1, 2013. The lease calls for monthly payments to be made by LSS to Traverse County in amounts equal to the required debt service of Prairieview Place's debts, approximately \$8,000 per month. Prairieview Place employees became employees of LSS on December 1, 2010.

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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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

F. Subsequent Event

On August 1, 2015, Traverse County issued \$1,595,000 General Obligation Crossover Refunding Bonds, Series 2015A, to crossover refund \$1,540,000 of the County's General Obligation Bonds, Series 2006A (the Jail Bonds). The 2006A Bonds, in the amount of \$2,515,000, were originally issued to finance construction of a County Jail.



**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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,712,192	\$ 2,712,192	\$ 2,639,358	\$ (72,834)
Special assessments	80,005	80,005	55,214	(24,791)
Licenses and permits	10,008	10,008	11,103	1,095
Intergovernmental	300,512	300,512	525,680	225,168
Charges for services	402,687	402,687	655,444	252,757
Fines and forfeits	500	500	450	(50)
Investment earnings	37,800	37,800	36,737	(1,063)
Miscellaneous	393,529	393,529	229,192	(164,337)
	<u>393,529</u>	<u>393,529</u>	<u>229,192</u>	<u>(164,337)</u>
<b>Total Revenues</b>	<b>\$ 3,937,233</b>	<b>\$ 3,937,233</b>	<b>\$ 4,153,178</b>	<b>\$ 215,945</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 195,793	\$ 195,793	\$ 202,776	\$ (6,983)
Law library	8,000	6,000	4,438	1,562
County coordinator	-	2,000	1,039	961
County auditor/treasurer	217,655	217,655	208,894	8,761
License bureau	81,100	81,100	80,341	759
County assessor	136,605	136,605	139,341	(2,736)
Elections	26,000	26,000	25,614	386
Accounting and auditing	66,000	66,000	54,809	11,191
Data processing	131,500	131,500	114,228	17,272
Attorney	189,404	189,404	210,124	(20,720)
Recorder	148,437	148,437	149,138	(701)
Buildings and plant	160,649	160,649	146,721	13,928
Veterans service officer	63,988	63,988	73,647	(9,659)
Other general government	143,675	143,675	114,923	28,752
	<u>143,675</u>	<u>143,675</u>	<u>114,923</u>	<u>28,752</u>
<b>Total general government</b>	<b>\$ 1,568,806</b>	<b>\$ 1,568,806</b>	<b>\$ 1,526,033</b>	<b>\$ 42,773</b>
<b>Public safety</b>				
Sheriff	\$ 701,794	\$ 701,794	\$ 568,295	\$ 133,499
Boat and water	3,000	3,000	8,420	(5,420)
Coroner	6,000	6,000	2,855	3,145
Enhanced 911 system	294,668	294,668	405,673	(111,005)
Jail	343,857	343,857	353,438	(9,581)
Probation officer	264,163	264,163	250,378	13,785
Civil defense	82,722	82,722	137,342	(54,620)
	<u>82,722</u>	<u>82,722</u>	<u>137,342</u>	<u>(54,620)</u>
<b>Total public safety</b>	<b>\$ 1,696,204</b>	<b>\$ 1,696,204</b>	<b>\$ 1,726,401</b>	<b>\$ (30,197)</b>

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

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Sanitation</b>				
Solid waste	\$ 135,980	\$ 135,980	\$ 140,208	\$ (4,228)
<b>Health</b>				
Nursing service	\$ 73,884	\$ 73,884	\$ 74,217	\$ (333)
<b>Culture and recreation</b>				
County fair	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Parks	11,000	11,000	32,582	(21,582)
Regional library	38,960	38,960	38,960	-
<b>Total culture and recreation</b>	<u>\$ 59,960</u>	<u>\$ 59,960</u>	<u>\$ 81,542</u>	<u>\$ (21,582)</u>
<b>Conservation of natural resources</b>				
County extension	\$ 147,689	\$ 147,689	\$ 126,840	\$ 20,849
Soil and water conservation	195,499	195,499	207,015	(11,516)
Weed control	50,681	50,681	48,677	2,004
<b>Total conservation of natural resources</b>	<u>\$ 393,869</u>	<u>\$ 393,869</u>	<u>\$ 382,532</u>	<u>\$ 11,337</u>
<b>Economic development</b>				
Community development	\$ 8,530	\$ 8,530	\$ 7,535	\$ 995
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 37,053	\$ (37,053)
Interest	-	-	1,328	(1,328)
<b>Total debt service</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,381</u>	<u>\$ (38,381)</u>
<b>Total Expenditures</b>	<u>\$ 3,937,233</u>	<u>\$ 3,937,233</u>	<u>\$ 3,976,849</u>	<u>\$ (39,616)</u>
<b>Net Change in Fund Balance</b>	\$ -	\$ -	\$ 176,329	\$ 176,329
<b>Fund Balance - January 1</b>	<u>3,396,589</u>	<u>3,396,589</u>	<u>3,396,589</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u>\$ 3,396,589</u>	<u>\$ 3,396,589</u>	<u>\$ 3,572,918</u>	<u>\$ 176,329</u>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

*EXHIBIT A-2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,489,000	\$ 1,489,000	\$ 1,383,307	\$ (105,693)
Intergovernmental	2,905,000	2,905,000	2,908,234	3,234
Charges for services	140,000	140,000	328,658	188,658
Miscellaneous	160,000	160,000	43,988	(116,012)
<b>Total Revenues</b>	<b>\$ 4,694,000</b>	<b>\$ 4,694,000</b>	<b>\$ 4,664,187</b>	<b>\$ (29,813)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ -	\$ -	\$ 370,939	\$ (370,939)
Authorized work	25,000	25,000	120	24,880
Engineering	-	-	146,271	(146,271)
Construction	2,090,000	2,154,527	882,511	1,272,016
Maintenance	2,675,420	2,675,420	1,822,031	853,389
Equipment maintenance and shops	243,000	546,149	633,714	(87,565)
Material and services for resale	-	-	42,442	(42,442)
<b>Total highways and streets</b>	<b>\$ 5,033,420</b>	<b>\$ 5,401,096</b>	<b>\$ 3,898,028</b>	<b>\$ 1,503,068</b>
<b>Intergovernmental</b>				
Highways and streets	-	-	237,265	(237,265)
<b>Total Expenditures</b>	<b>\$ 5,033,420</b>	<b>\$ 5,401,096</b>	<b>\$ 4,135,293</b>	<b>\$ 1,265,803</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (339,420)</b>	<b>\$ (707,096)</b>	<b>\$ 528,894</b>	<b>\$ 1,235,990</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	303,149	303,149	-
<b>Net Change in Fund Balance</b>	<b>\$ (339,420)</b>	<b>\$ (403,947)</b>	<b>\$ 832,043</b>	<b>\$ 1,235,990</b>
<b>Fund Balance - January 1, as restated (Note 1.D.15.)</b>	<b>(124,878)</b>	<b>(124,878)</b>	<b>(124,878)</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>397</b>	<b>397</b>
<b>Fund Balance - December 31</b>	<b>\$ (464,298)</b>	<b>\$ (528,825)</b>	<b>\$ 707,562</b>	<b>\$ 1,236,387</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

*EXHIBIT A-3*

**BUDGETARY COMPARISON SCHEDULE  
SOCIAL SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 316,977	\$ 316,977	\$ 304,048	\$ (12,929)
Intergovernmental	772,164	772,164	979,398	207,234
Charges for services	25,550	25,550	20,415	(5,135)
Miscellaneous	48,646	48,646	151,650	103,004
<b>Total Revenues</b>	<b>\$ 1,163,337</b>	<b>\$ 1,163,337</b>	<b>\$ 1,455,511</b>	<b>\$ 292,174</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 698,771	\$ 698,771	\$ 731,890	\$ (33,119)
Social services	777,959	777,959	952,429	(174,470)
<b>Total Expenditures</b>	<b>\$ 1,476,730</b>	<b>\$ 1,476,730</b>	<b>\$ 1,684,319</b>	<b>\$ (207,589)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (313,393)</b>	<b>\$ (313,393)</b>	<b>\$ (228,808)</b>	<b>\$ 84,585</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	(303,149)	(303,149)	-
<b>Net Change in Fund Balance</b>	<b>\$ (313,393)</b>	<b>\$ (616,542)</b>	<b>\$ (531,957)</b>	<b>\$ 84,585</b>
<b>Fund Balance - January 1</b>	<b>2,660,236</b>	<b>2,660,236</b>	<b>2,660,236</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,346,843</b>	<b>\$ 2,043,694</b>	<b>\$ 2,128,279</b>	<b>\$ 84,585</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT A-4**

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2014**

Governmental Activities

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (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	0.0%	\$ 2,117,166	379.9%
January 1, 2011	-	7,669,790	7,669,790	0.0	2,541,642	301.8
January 1, 2014	-	6,487,794	6,487,794	0.0	2,892,233	291.3

Business-Type Activities

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (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	0.0%	\$ 1,278,309	239.0%
January 1, 2011	-	2,441,583	2,441,583	0.0	-	N/A
January 1, 2014	-	1,937,688	1,937,688	0.0	-	N/A

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2014

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund and all special revenue funds. The expenditure budget is approved at the fund level.

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

2. Budget Basis of Accounting

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

3. Budget Amendments

Expenditure budgets were amended in the following fund:

	Original Budget	Increase (Decrease)	Final Budget
Road and Bridge Special Revenue Fund	\$ 5,033,420	\$ 367,676	\$ 5,401,096

The budget amendments were made to reflect increased expenditures for the purchase of two motor graders and for the purchase of E-911 street and avenue signs.

4. Excess of Expenditures Over Budget

The following individual major funds had expenditures in excess of final budget for the year ended December 31, 2014:

	Expenditures	Final Budget	Excess
General Fund	\$ 3,976,849	\$ 3,937,233	\$ 39,616
Social Services Special Revenue Fund	1,684,319	1,476,730	207,589

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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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. Three actuarial valuations are available, which provides sufficient trend analysis to meet the three valuation funding status requirement.

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

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

2011

Plan Provisions

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

2014

Plan Provisions

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

Actuarial Assumptions

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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

Actuarial Assumptions (Continued)

- The mortality table was updated from RP 2000 rates (with Blue Collar adjustment for Police and Fire Personnel) to the RP 2000 Combined Healthy Table projected to 2014 with Scale BB (with Blue Collar adjustment for Police and Fire Personnel).
- The discount rate was changed from 4.50 to 4.00 percent.
- Claim costs were developed by age adjusting the premium information from Traverse County. As of January 1, 2011, actual claims and enrollment experience was used.

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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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	<u>\$ 196,508</u>	<u>\$ 196,508</u>	<u>\$ 188,327</u>	<u>\$ (8,181)</u>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 110,000	\$ 110,000	\$ 105,000	\$ 5,000
Interest	86,508	86,508	79,250	7,258
Administrative charges	-	-	450	(450)
<b>Total Expenditures</b>	<u>\$ 196,508</u>	<u>\$ 196,508</u>	<u>\$ 184,700</u>	<u>\$ 11,808</u>
<b>Net Change in Fund Balance</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,627</u>	<u>\$ 3,627</u>
<b>Fund Balance - January 1</b>	<u>169,672</u>	<u>169,672</u>	<u>169,672</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u>\$ 169,672</u>	<u>\$ 169,672</u>	<u>\$ 173,299</u>	<u>\$ 3,627</u>

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**AGENCY FUNDS**

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

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

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

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

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

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

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

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

*EXHIBIT C-1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>SCHOOL DISTRICTS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 1,024,743	\$ 1,024,743	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 1,024,743	\$ 1,024,743	\$ -
 <b><u>STATE REVENUE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 12,334	\$ 534,543	\$ 528,054	\$ 18,823
<b><u>Liabilities</u></b>				
Due to other governments	\$ 12,334	\$ 534,543	\$ 528,054	\$ 18,823
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 54,083	\$ 8,542,335	\$ 8,525,217	\$ 71,201
<b><u>Liabilities</u></b>				
Due to other governments	\$ 54,083	\$ 8,542,335	\$ 8,525,217	\$ 71,201

**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, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>TOWNS AND CITIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ (1,551)	\$ 2,477,385	\$ 2,474,454	\$ 1,380
<b><u>Liabilities</u></b>				
Due to other governments	\$ (1,551)	\$ 2,477,385	\$ 2,474,454	\$ 1,380
 <b><u>TRAVERSE COUNTY CONNECTIONS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 13,343	\$ 15,327	\$ 5,546	\$ 23,124
<b><u>Liabilities</u></b>				
Due to other governments	\$ 13,343	\$ 15,327	\$ 5,546	\$ 23,124
 <b><u>EMPLOYEE FLEX</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 3,867	\$ 38,843	\$ 36,710	\$ 6,000
<b><u>Liabilities</u></b>				
Due to other governments	\$ 3,867	\$ 38,843	\$ 36,710	\$ 6,000

**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, 2014**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>COMMUNITIES UNITED IN PARTNERSHIP</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 11,663	\$ -	\$ -	\$ 11,663
<b><u>Liabilities</u></b>				
Due to other governments	\$ 11,663	\$ -	\$ -	\$ 11,663
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 93,739	\$ 12,633,176	\$ 12,594,724	\$ 132,191
<b><u>Liabilities</u></b>				
Due to other governments	\$ 93,739	\$ 12,633,176	\$ 12,594,724	\$ 132,191

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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, 2014**

**Appropriations and Shared Revenue**

<b>State</b>	
Highway users tax	\$ 2,109,325
Market value credit	66,194
PERA rate reimbursement	17,900
Disparity reduction aid	18,576
Police aid	35,242
County program aid	139,634
Enhanced 911	72,903
Select Committee on Recycling and the Environment (SCORE)	63,803
	<hr/>
<b>Total appropriations and shared revenue</b>	<b>\$ 2,523,577</b>

**Reimbursement for Services**

<b>State</b>	
Minnesota Department of Human Services	\$ 109,611
	<hr/>

**Payments**

<b>Local</b>	
Local contributions	\$ 79,338
Payments in lieu of taxes	24,320
	<hr/>
<b>Total payments</b>	<b>\$ 103,658</b>

**Grants**

<b>State</b>	
Minnesota Department of Revenue	\$ 3,529
Corrections	11,730
Transportation	289,090
Natural Resources	1,625
Human Services	269,261
Veterans Affairs	7,500
Water and Soil Resources Board	88,553
	<hr/>
<b>Total state</b>	<b>\$ 671,288</b>

**Federal**

Department of Agriculture	\$ 101,028
Education	34,483
Transportation	441,735
Health and Human Services	392,165
Homeland Security	35,767
	<hr/>
<b>Total federal</b>	<b>\$ 1,005,178</b>

<b>Total state and federal grants</b>	<b>\$ 1,676,466</b>
	<hr/>

<b>Total Intergovernmental Revenue</b>	<b>\$ 4,413,312</b>
	<hr/> <hr/>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT D-2**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<b>\$ 101,028</b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	<b>\$ 411,315</b>
<b>U.S. Department of Education</b>		
Passed Through Minnesota Department of Education Twenty-First Century Community Learning Centers	84.287	<b>\$ 34,483</b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	\$ 1,991
Temporary Assistance for Needy Families	93.558	69,002
Child Support Enforcement	93.563	17,420
Refugee and Entrant Assistance - State Administered Programs	93.566	511
Child Care and Development Block Grant	93.575	788
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1,312
Foster Care - Title IV-E	93.658	29,394
Social Services Block Grant	93.667	45,813
Chafee Foster Care Independence Program	93.674	1,000
Children's Health Insurance Program	93.767	54
Medical Assistance Program	93.778	218,609
Block Grants for Community Mental Health Services	93.958	6,271
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 392,165</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety		
Hazard Mitigation Grant	97.039	\$ 919
Emergency Management Performance Grants	97.042	34,848
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 35,767</b>
<b>Total Federal Awards</b>		<b>\$ 974,758</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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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, 2014. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 1,005,178
Unavailable revenue in 2013, recognized as revenue in 2014	
Highway Planning and Construction (CFDA #20.205)	<u>(30,420)</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 974,758</u>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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5. Subrecipients

Of the expenditures presented in the schedule, Traverse County provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
84.287	Twenty-First Century Community Learning Centers	\$ 34,483



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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: **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? **Yes**

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

Highway Planning and Construction	CFDA #20.205
Medical Assistance Program	CFDA #93.778

The threshold for distinguishing between Types A and B programs was \$300,000.

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

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

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1996-003

##### Segregation of Duties

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

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

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

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

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

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

##### Client's Response:

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



## Finding 2006-003

### Audit Adjustments

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

**Condition:** During our audit, we identified material adjustments that resulted in significant changes to the County's financial statements.

**Context:** The inability to make all necessary accrual adjustments or to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. Some of the adjustments required additional time by the auditors to determine the correct balances.

**Effect:** The following audit adjustments were necessary:

#### Governmental Activities

- increased revenue (primarily for property taxes, construction, and disaster assistance) by \$2,686,190 for receivables that were deferred on the modified accrual fund level statements but earned on the full accrual basis; and
- decreased, thereby eliminated, deferred inflows of resources--unavailable revenue by \$1,791,694 as the related revenues (primarily for property taxes, construction, disaster assistance, and highway planning and construction) were recognized as part of prior year net position.

#### Prairieview Place Enterprise Fund

- reclassified principal payments of \$45,000 from expenses to the reduction of bonds payable.

#### Traverse Care Center Enterprise Fund

- reclassified principal payments of \$160,000 from expenses to the reduction of bonds payable.

## Taxes and Penalties Agency Fund

- decreased cash and increased deductions by \$91,707 for undistributed cash recognized in the governmental funds.

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

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

**Recommendation:** We recommend County staff review the trial balances and journal entries in detail and establish internal controls necessary to determine that all adjusting entries are made to ensure the County's financial statements are reported in accordance with generally accepted accounting principles.

### Client's Response:

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

## Finding 2011-002

### Itemized Receipts for Credit Card Purchases

**Criteria:** Sound internal controls should provide a system to ensure that all credit card purchases are supported by itemized receipts. Additionally, Traverse County's credit card policy requires such documentation, and Minn. Stat. § 471.38, subd. 1, requires claims presented for payment must be in writing and itemized. Monthly statements received from a credit card company lack sufficient detail to comply with these requirements.

**Condition:** During control testing, we reviewed five credit card claims paid by Traverse County. Two of the credit card claims tested did not have an itemized vendor receipt to support all charges on the monthly billing.

**Context:** Documentation of claims paid is a fundamental requirement of a sound accounting system; it is the primary evidence used to support and explain the nature of the County's cash outlays and expenditures recorded in the general ledger.

**Effect:** Billings received from a credit card company lack sufficient detail to permit the County Board to review and approve expenditures incurred by using credit cards. In order to pay these bills, the County must have itemized invoices or receipts to support items charged.

**Cause:** Internal controls do not require Traverse County staff to provide itemized vendor invoices or receipts for all credit card purchases. Departmental personnel reviewing and authorizing payment of the credit card claims either did not request from staff the supporting documentation that was missing or did not follow up to ensure the necessary documentation was received and was valid before payment of the credit card billing.

**Recommendation:** We recommend Traverse County adhere to Minn. Stat. § 471.38, subd. 1, and to the County's credit card policy. Departmental personnel reviewing the claim should ensure that credit card claims are accompanied with itemized vendor invoices or receipts that support all charges.

Client's Response:

*Traverse County management will make sure it follows the law and policy requiring an itemized invoice or receipt. Traverse County will be looking to amend County policy in the case of fuel purchases where the Wright Express credit card statement provides all of the information required. Unfortunately, receipt printers do not always function correctly on fuel pumps, and purchases are often made by law enforcement after hours.*

Finding 2012-001

Accounting Policies and Procedures Manual

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

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

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

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

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

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

Client's Response:

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

#### PREVIOUSLY REPORTED ITEMS RESOLVED

##### **Assessing and Monitoring Internal Controls (2008-001)**

Our audit procedures detected areas and responsibilities performed by County staff with little or no monitoring by management or other staff members. Some areas with minimal or no monitoring included review of journal entries, review of cash and investment balances and reconciliations, review of capital asset balances, and ensuring securities were properly collateralized at all times as required by Minn. Stat § 118A.03.

##### **Resolution**

We noted significant improvement in the areas of reviewing cash and investment balances and reconciliations, reviewing capital asset balances, and ensuring securities were properly collateralized as required by Minn. Stat § 118A.03. We expect the County to continue to make improvements over reviewing journal entries.

##### **Timeliness of Preparation of Financial Statements (2011-001)**

In the prior audit, financial information was provided to the Office of the State Auditor more than two months later than scheduled. The information submitted to the auditors required numerous revisions affecting both the financial statements and related notes.

##### **Resolution**

For the 2014 audit, Traverse County significantly improved its financial reporting preparation process. Financial information was provided to the auditors in the time, form, and manner necessary to finalize the audit and meet the September 30, 2015, single audit deadline.

### **Network/Application Password Controls (2012-002)**

Traverse County updated to a new version of the Integrated Financial System (IFS) application software. This application was written as a web-based application and may be run on a server or a mainframe system. For an employee of Traverse County to access the new IFS application, the user must be signed on to the County network and have a current sign-on for the IFS application. The network sign-on differs from the sign-on for the IBM I Series system, so the mainframe security settings do not apply to the application. When Traverse County updated to the new version of the IFS application software, the County did not review the network controls or assess risks from the change to a web-based application to ensure password controls were working as intended.

### **Resolution**

In 2014, the County Board approved and adopted a Network Password Policy, which appropriately restricts access to the IFS application.

## **III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

### ITEM ARISING THIS YEAR

Finding 2014-001

### Procurement, Suspension, and Debarment

**Program:** U.S. Department of Transportation's Highway Planning and Construction (CFDA No. 20.205)

**Pass-Through Agency:** Minnesota Department of Transportation

**Criteria:** Federal Regulation 45 C.F.R. § 92.35 prohibits any state or agency from purchasing goods and services with federal money from vendors who have been suspended or debarred by the federal government.

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

**Questioned Costs:** None.

**Context:** The contractor hired by the County to work on the federally funded project may have been suspended or debarred, yet payments were made to the contractor. Typically, the County's policy is to have suspension and debarment language included in federally funded contracts.

**Effect:** Compliance requirements for Procurement, Suspension, and Debarment were not met.

**Cause:** The omission of the proper suspension and debarment language in the contract was due to oversight. County personnel did not maintain documentation of the verification performed to check for suspension and debarment.

**Recommendation:** We recommend the County review the policies and procedures in place to include suspension and debarment language in contracts and to maintain documentation of verifications performed to check for suspension and debarment. Procedures to ensure compliance with the requirements over suspension and debarment should be completed prior to awarding contracts to vendors on federally funded projects, and documentation should exist to support the monitoring of and compliance with this requirement.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Larry Haukos, County Highway Engineer*

Corrective Action Planned:

*Traverse County will make sure to include the proper language in federal contracts and follow up with verification/documentation of actions performed to check for suspension and debarment.*

Anticipated Completion Date:

*September 16, 2015 – All future contracts*

PREVIOUSLY REPORTED ITEM RESOLVED

**Identification of Federal Awards (2010-001)**

The County did not adequately identify amounts received and expended for various federal awards on the Schedule of Expenditures of Federal Awards (SEFA).

**Resolution**

In 2014, Traverse County developed a process to prepare a SEFA and adequately identified amounts received and expended in the County's general ledger accounting system.

#### IV. OTHER FINDINGS AND RECOMMENDATIONS

##### A. MINNESOTA LEGAL COMPLIANCE

###### PREVIOUSLY REPORTED ITEM RESOLVED

###### **Contract Bidding Process (2013-001)**

Pursuant to Minn. Stat. §§ 471.345, subd. 3, and 375.21, contracts estimated to exceed \$100,000 must be made using sealed bids solicited by public notice by advertising for bids in a qualified legal newspaper of the County or through the alternative dissemination of bids and requests provided by Minn. Stat. § 331A.03. In 2013, the County entered into a contract for an E-911 New Generation phone system above the bid threshold, and could not provide documentation demonstrating sealed bids had been obtained. In addition, no advertisement for bids was published in a qualified legal newspaper.

###### **Resolution**

During our testing of contract compliance, we noted no instances where the County did not receive sealed bids as required, and no instances where the County did not publish notification in a qualified newspaper of the County.

##### B. MANAGEMENT PRACTICES

###### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 1997-005

###### Prairieview Place and Traverse Care Center Deficit Net Position

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

**Condition:** As of December 31, 2014, the assets in the County's Prairieview Place Enterprise Fund and Traverse Care Center Enterprise Fund did not exceed liabilities, resulting in deficit net position.

**Context:** As of December 31, 2014, the Prairieview Place Enterprise Fund had deficit net position of \$299,364, which is a decrease in net position from the \$283,627 deficit reported in the prior year. As of December 31, 2014, the Traverse Care Center Enterprise Fund had deficit net position of \$601,807, which is a decrease from the deficit balance of \$512,510 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 \$15,737 in 2014; nonoperating revenue of \$97,833 was offset by operating expenses of \$50,354 and interest expense on debt of \$63,216. The County's Traverse Care Center Enterprise Fund's net position decreased by \$89,297 in 2014; operating revenue of \$16,774, nonoperating revenue of \$251,949, and capital contributions of \$40,000 was offset by operating expenses of \$331,262 and nonoperating expenses of \$66,758.

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

Client's Response:

*Traverse County management is aware of the financial condition of Prairieview Place and the Traverse Care Center. Traverse County hopes the relationship with the current tenant leasing and running the facility will ultimately result in a sale that will resolve this issue.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Holdback Period for Payroll (2012-005)**

A positive payroll system generally requires the use of a holdback period to allow for processing time and provides additional assurance that employees are paid only for those hours that have been worked. In Traverse County, time sheets were not signed by the employee or approved by the supervisor until after payroll had been processed and payment to employees had already been made.

**Resolution**

On August 18, 2015, the County Board approved a plan proposed by the unions and bargaining group of Traverse County to implement a positive payroll system beginning on November 20, 2015.

C. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.



GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the County's government-wide statement of financial position. The County's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in Traverse County's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

### **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, 2014, 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 25, 2015.

#### **Internal Control Over Financial Reporting**

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

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2006-003 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 1996-003, 2011-002, and 2012-001 to be significant deficiencies.

### **Compliance and Other Matters**

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

### **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, 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 has no tax increment financing.

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 Political Subdivisions*. 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**

Also included in the Schedule of Findings and Questioned Costs is a management practices comment and an other item for consideration. We believe the recommendation and information to be of benefit to the County, and they are reported for that purpose.

## **Traverse County's Response to Findings**

Traverse County's responses to the internal control and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* 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

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 25, 2015

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

## 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) *Circular A-133 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, 2014. 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 the requirements of laws, regulations, contracts, and grants applicable to each of 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001. Our opinion on each major federal program is not modified with respect to this matter.

Traverse County's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Traverse County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **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 OMB Circular A-133, 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001, that we consider to be a significant deficiency.

Traverse County's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Traverse County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 25, 2015

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR