STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

TRAVERSE COUNTY
WHEATON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2012

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 160 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 730 public pension funds; and

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

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

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TRAVERSE COUNTY
WHEATON, MINNESOTA

For the Year Ended December 31, 2012

Audit Practice Division
Office of the State Auditor
State of Minnesota

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TRAVERSE COUNTY
WHEATON, MINNESOTA

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WHEATON, MINNESOTA

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Introductory Section

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TRAVERSE COUNTY
WHEATON, MINNESOTA

ORGANIZATION
DECEMBER 31, 2012

			Term Expires
Elected			
Commissioners			
Board Member	Todd Johnson	District 1	January 2015
Chair	Kevin Leininger	District 2	January 2013
Board Member	Donald Appel	District 3	January 2015
Vice Chair	David Salberg	District 4	January 2013
Board Member	Jerry Deal	District 5	January 2015
Attorney	Matthew Franzese		January 2015
Auditor/Treasurer	Kit Johnson		January 2015
County Recorder	LeAnn Peyton		January 2015
Registrar of Titles	LeAnn Peyton		January 2015
County Sheriff	Brion Plautz		January 2015
Appointed			
County Coordinator	Rhonda Antrim		Indefinite
Assessor	Dianne Reinart		January 2017
County Engineer	Larry Haukos		May 2015
Coroner	Kathy Kremer, D.O.		January 2013
Examiner of Titles	Lowell Nelson		Indefinite
Social Services Director	Rhonda Antrim		Indefinite
Veterans Service Officer	Dustin Kindelberger		April 2015

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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SAINT PAUL, MN 55103-2139

REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Traverse County

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, 2012, 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, 2012, 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 26, 2013, 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 whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 26, 2013

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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TRAVERSE COUNTY
WHEATON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012
(Unaudited)

INTRODUCTION

Traverse County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2012. 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 a combination of the financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' net position is $41,275,389, of which $33,007,722 is net investment in capital assets. Of the governmental activities' net position, $2,254,358 is restricted to specific purposes/uses by the County, and $6,013,309 is unrestricted.

- Business-type activities (Traverse Care Center and Prairieview Place) have a deficit total net position of $595,271, of which there is a negative net investment in capital assets balance of $446,946.

- Traverse County's net position increased by $1,281,926 for the year ended December 31, 2012. Of the increase, $1,439,564 was in the governmental activities' net position, while the business-type activities' net position decreased by $157,638.

- The net cost of Traverse County's governmental activities for the year ended December 31, 2012, was $3,656,996. General revenues and other items totaling $5,096,560 funded the net cost.

- Traverse County's governmental funds' fund balances increased by $369,087 in 2012. This net decrease consisted of a $223,483 increase in the General Fund, a decrease of $85,221 in the Road and Bridge Special Revenue Fund, an increase of $224,994 in the Social Services Special Revenue Fund, and a $5,831 increase in the debt service fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

Traverse County's MD&A serves as an introduction to the basic financial statements. The County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) and certain budgetary comparison schedules are required to accompany the basic financial statements and, therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are interrelated.

Management's Discussion and Analysis (Required Supplementary Information)

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

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

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

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

The Statement of Net Position and the Statement of Activities report information about Traverse County as a whole and about its activities in a way that helps the reader determine whether Traverse County's financial condition has improved or declined as a result of the current year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

These two statements consider all of Traverse County's current year revenues and expenses regardless of when the County received the revenue or paid the expense. These two statements report the County's net position and changes in them. You can think of the County's net position--the difference between assets and liabilities--as one way to measure the County's financial health, or financial position. Over time, increases or decreases in the County's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the County's property tax base and the condition of the County's roads, to assess the overall health of Traverse County.

In the Statement of Net Position and the Statement of Activities, the County is divided into two kinds of activities:

- Governmental activities--Most of Traverse County's 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.

- Business-type activities--The County charges a fee to customers to cover all or most of the cost of services it provides. Traverse Care Center and Prairieview Place activities are reported here.

Fund Financial Statements

Traverse County's fund financial statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law and by bond covenants. However, the Traverse 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. The County's two kinds of funds--governmental and proprietary--use different accounting methods.

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

- Proprietary funds--When the County charges customers for the services it provides--whether to outside customers or to other units of the County--these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the County's enterprise fund statements present the same information as the business-type activities in the government-wide statements but provide more detail and additional information, such as cash flows.

Reporting the County's Fiduciary Responsibilities

Traverse County is the trustee, or fiduciary, over assets, which can be used only for the trust beneficiaries based on the trust arrangement. The County reports all of its fiduciary activities in a separate Statement of Fiduciary Net Position. These activities have been excluded from the County's other financial statements because the County cannot use these assets to finance its operations. Traverse County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE COUNTY AS A WHOLE

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	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	$ 10,387,496	$ 11,362,437	$ 3,863,413	$ 503,870	$ 14,250,909	$ 11,866,307
Capital assets	35,175,257	32,650,287	3,526,629	3,764,663	38,701,886	36,414,950
Total Assets	$ 45,562,753	$ 44,012,724	$ 7,390,042	$ 4,268,533	$ 52,952,795	$ 48,281,257
Liabilities						
Long-term liabilities	$ 3,457,837	$ 3,294,277	$ 7,510,979	$ 4,455,262	$ 10,968,816	$ 7,749,539
Other liabilities	829,527	882,622	474,334	250,904	1,303,861	1,133,526
Total Liabilities	$ 4,287,364	$ 4,176,899	$ 7,985,313	$ 4,706,166	$ 12,272,677	$ 8,883,065
Net Position						
Net investment in capital assets	$ 33,007,722	$ 30,315,711	$ (446,946)	$ (412,595)	$ 32,560,776	$ 29,903,116
Restricted	2,254,358	4,408,220	-	-	2,254,358	4,408,220
Unrestricted	6,013,309	5,111,894	(148,325)	(25,038)	5,864,984	5,086,856
Total Net Position	$ 41,275,389	$ 39,835,825	$ (595,271)	$ (437,633)	$ 40,680,118	$ 39,398,192

Traverse County's total net position as of December 31, 2012, is $40,680,118. The governmental activities' unrestricted net position totaling $6,013,309 are 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 $ (148,325).

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues						
Fees, fines, and charges	$ 1,207,540	$ 973,051	$ 92,204	$ 12,195	$ 1,299,744	$ 985,246
Operating grants and contributions	4,631,103	4,097,404	-	-	4,631,103	4,097,404
Capital grants and contributions	240,056	136,839	-	-	240,056	136,839
General revenues						
Property taxes	4,630,115	4,883,600	-	-	4,630,115	4,883,600
Other taxes	25,276	24,741	-	-	25,276	24,741
Grants, gifts, and miscellaneous	441,169	586,410	419,166	356,027	860,335	942,437
Total Revenues	$ 11,175,259	$ 10,702,045	$ 511,370	$ 368,222	$ 11,686,629	$ 11,070,267
Expenses						
General government	$ 1,687,521	$ 1,555,242	$ -	$ -	$ 1,687,521	$ 1,555,242
Public safety	1,703,435	1,589,329	-	-	1,703,435	1,589,329
Highways and streets	4,181,505	4,570,326	-	-	4,181,505	4,570,326
Sanitation	120,127	137,599	-	-	120,127	137,599
Human services	1,400,074	1,299,468	-	-	1,400,074	1,299,468
Health	70,957	95,788	-	-	70,957	95,788
Culture and recreation	64,982	59,460	-	-	64,982	59,460
Conservation of natural resources	407,487	285,602	-	-	407,487	285,602
Economic development	5,800	2,368	-	-	5,800	2,368
Interest	93,807	96,021	-	-	93,807	96,021
Prairieview Place	-	-	574,886	725,393	574,886	725,393
Traverse Care Center	-	-	94,122	98,658	94,122	98,658
Total Expenses	$ 9,735,695	$ 9,691,203	$ 669,008	$ 824,051	$ 10,404,703	$ 10,515,254
Increase (Decrease) in Net Position	$ 1,439,564	$ 1,010,842	$ (157,638)	$ (455,829)	$ 1,281,926	$ 555,013
Net Position - January 1	39,835,825	38,824,983	(437,633)	18,196	39,398,192	38,843,179
Net Position - December 31	$ 41,275,389	$ 39,835,825	$ (595,271)	$ (437,633)	$ 40,680,118	$ 39,398,192

The County's activities increased net position by 3.25 percent ($40,680,118 for 2012 compared to $39,398,192 for 2011).

Governmental Activities

The cost of all governmental activities in 2012 was $9,735,695. 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 $5,096,560, because some of the cost was paid by those who directly benefited from the programs ($1,207,540) or by other governments and organizations that subsidized certain programs with grants and contributions ($4,871,159).

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 of Services	
	2012	2011	2012	2011
Highways and streets	$ 4,181,505	$ 4,570,326	$ 286,449	$ 1,147,501
Public safety	1,703,435	1,589,329	819,888	904,428
General government	1,687,521	1,555,242	1,449,195	1,391,975
Human services	1,400,074	1,229,468	597,757	490,256
Conservation of natural resources	407,487	285,602	344,553	280,238
All others	355,673	391,236	159,154	269,511
Total	$ 9,735,695	$ 8,995,943	$ 3,656,996	$ 3,326,276

Business-Type Activities

Revenues for Traverse County's business-type activities (see Table 2) were $511,370, and expenses were $669,008.

The County's Funds

Upon completing the year, Traverse County's governmental funds' fund balance increased by $369,087. This increase was due to an increase of $223,483 in the General Fund, an increase of $224,994 in the Social Services Special Revenue Fund, an increase of $5,831 in the Debt Service Fund, and a decrease of $85,221 in the Road and Bridge Special Revenue Fund.

General Fund 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. No material revisions were made in 2012.

Actual revenues exceeded budgeted revenues in the General Fund by $803,990, primarily due to intergovernmental revenues of $415,588 over projections, charges for services $335,044 over projected totals, and special assessments of $57,137 over projections; offset by tax collections of $22,860 under the projected total.

Actual expenditures were more than budgeted expenditures in the General Fund by $305,570, primarily due to Enhanced 911 system expenditures of $297,737 over projections.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, Traverse County had $38,701,886 in a broad range of capital assets, net of accumulated depreciation. The investment in capital assets includes land, buildings, bridges, highways, machinery, furniture, and equipment (see Table 4). The investment in capital assets increased $2,286,936, or 6.28 percent, from the previous year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Land	$ 178,352	$ 176,352	$ 16,175	$ 16,175	$ 194,527	$ 192,527
Right-of-way	947,467	687,856	-	-	947,467	687,856
Construction in progress	-	43,710	-	-	-	43,710
Buildings	3,284,320	3,402,498	3,478,231	3,697,594	6,762,551	7,100,092
Land improvements	89,788	98,378	2,109	2,995	91,897	101,373
Machinery, furniture, and Equipment	1,593,566	1,572,779	30,114	47,899	1,623,680	1,620,678
Infrastructure	29,081,764	26,668,714	-	-	29,081,764	26,668,714
Totals	$ 35,175,257	$ 32,868,505	$ 3,526,629	$ 4,012,154	$ 38,701,886	$ 36,414,950

Debt

As of December 31, 2012, Traverse County had $9,557,963 in long-term obligations, compared with $6,487,407 as of December 31, 2011--an increase of 47.3 percent--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
General obligation bonds	$ 2,090,000	$ 2,190,000	$ 880,000	$ 925,000	$ 2,970,000	$ 3,115,000
Revenue bonds	-	-	6,525,000	3,265,000	6,525,000	3,265,000
Loans	-	-	62,963	107,407	62,963	107,407
Totals	$ 2,090,000	$ 2,190,000	$ 7,467,963	$ 4,297,407	$ 9,557,963	$ 6,487,407

During 2012, Traverse County issued General Obligation Nursing Home Revenue Refunding Bonds, Series 2012A, in the amount of $3,350,000,

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Traverse County's elected and appointed officials considered many factors when setting the fiscal year 2013 budget and tax levy. These factors include: decreasing state aid, increasing input costs, appropriate fund balances, an increasing burden on Traverse 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 2013 than it was in 2008.

Traverse County's Board of Commissioners settled on a final levy of $4,675,375, a 0.02 percent decrease from the 2012 levy.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of 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, 2012

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash and pooled investments	$ 6,737,243	$ 3,670,429	$ 10,407,672
Investments	66,694	35,000	101,694
Taxes receivable			
Current - net	58,376	-	58,376
Prior - net	43,883	-	43,883
Special assessments receivable			
Current - net	3,286	-	3,286
Prior - net	3,029	-	3,029
Accounts receivable - net	31,901	32,353	64,254
Due from other governments	3,356,411	-	3,356,411
Inventories	44,772	-	44,772
Noncurrent assets			
Deferred charges	41,901	125,631	167,532
Capital assets			
Non-depreciable	1,125,819	16,175	1,141,994
Depreciable - net of accumulated depreciation	34,049,438	3,510,454	37,559,892
Total Assets	**$ 45,562,753**	**$ 7,390,042**	**$ 52,952,795**

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

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Governmental Activities	Business-Type Activities	Total
Liabilities			
Current liabilities			
Accounts payable	$ 230,648	$ 1,364	$ 232,012
Salaries payable	39,651	-	39,651
Due to other governments	95,719	-	95,719
Accrued interest payable	36,084	128,526	164,610
Unearned revenue	125,664	-	125,664
Compensated absences payable - current	164,113	-	164,113
General obligation bonds payable - current	100,000	45,000	145,000
Revenue bonds payable - current	-	255,000	255,000
Leases payable - current	37,648	-	37,648
Loans payable - current	-	44,444	44,444
Noncurrent liabilities			
Compensated absences payable	101,834	-	101,834
Net OPEB liability	1,284,215	362,295	1,646,510
General obligation bonds payable	2,024,125	831,219	2,855,344
Revenue bonds payable	-	6,298,946	6,298,946
Leases payable	47,663	-	47,663
Loans payable	-	18,519	18,519
Total Liabilities	**$ 4,287,364**	**$ 7,985,313**	**$ 12,272,677**
Net Position			
Net investment in capital assets	$ 33,007,722	$ (446,946)	$ 32,560,776
Restricted for			
Public safety	48,292	-	48,292
Highways and streets	1,714,268	-	1,714,268
Sanitation	220,970	-	220,970
Debt service	121,260	-	121,260
Other purposes	149,568	-	149,568
Unrestricted	6,013,309	(148,325)	5,864,984
Total Net Position	**$ 41,275,389**	**$ (595,271)**	**$ 40,680,118**

TRAVERSE COUNTY
WHEATON, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Primary government		
Governmental activities		
General government	$ 1,687,521	$ 205,289
Public safety	1,703,435	580,250
Highways and streets	4,181,505	231,878
Sanitation	120,127	56,038
Human services	1,400,074	63,283
Health	70,957	-
Culture and recreation	64,982	9,438
Conservation of natural resources	407,487	61,364
Economic development	5,800	-
Interest	93,807	-
Total governmental activities	**$ 9,735,695**	**$ 1,207,540**
Business-type activities		
Traverse Care Center	$ 574,886	$ 92,204
Prairieview Place	94,122	-
Total business-type activities	**$ 669,008**	**$ 92,204**
Total Primary Government	**$ 10,404,703**	**$ 1,299,744**

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

Total general revenues

Change in net position

Net Position - Beginning

Net Position - Ending

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

Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Business-Type Activities	Total
$ 33,037	$ -	$ (1,449,195)	$ -	$ (1,449,195)
267,061	36,236	(819,888)	-	(819,888)
3,459,358	203,820	(286,449)	-	(286,449)
55,950	-	(8,139)	-	(8,139)
739,034	-	(597,757)	-	(597,757)
-	-	(70,957)	-	(70,957)
75,093	-	19,549	-	19,549
1,570	-	(344,553)	-	(344,553)
-	-	(5,800)	-	(5,800)
-	-	(93,807)	-	(93,807)
$ 4,631,103	**$ 240,056**	**$ (3,656,996)**	**$ -**	**$ (3,656,996)**
$ -	$ -	$ -	$ (482,682)	$ (482,682)
-	-	-	(94,122)	(94,122)
$ -	**$ -**	**$ -**	**$ (576,804)**	**$ (576,804)**
$ 4,631,103	**$ 240,056**	**$ (3,656,996)**	**$ (576,804)**	**$ (4,233,800)**
		$ 4,630,115	$ -	$ 4,630,115
		3,326	-	3,326
		226,997	-	226,997
		21,950	-	21,950
		36,287	419,166	455,453
		177,885	-	177,885
		$ 5,096,560	**$ 419,166**	**$ 5,515,726**
		$ 1,439,564	**$ (157,638)**	**$ 1,281,926**
		39,835,825	**(437,633)**	**39,398,192**
		$ 41,275,389	**$ (595,271)**	**$ 40,680,118**

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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, 2012

	General	Road and Bridge	Social Services	Debt Service	Total
Assets					
Cash and pooled investments	$ 2,985,075	$ 884,759	$ 2,581,249	$ 153,616	$ 6,604,699
Petty cash and change funds	1,400	-	100	-	1,500
Undistributed cash in agency funds	71,967	36,738	17,345	4,994	131,044
Investments	66,694	-	-	-	66,694
Taxes receivable					
Current	29,396	17,987	8,476	2,517	58,376
Prior	22,822	12,656	6,778	1,627	43,883
Special assessments receivable					
Current	3,286	-	-	-	3,286
Prior	3,029	-	-	-	3,029
Accounts receivable	2,826	28,259	816	-	31,901
Due from other funds	19,650	15	-	-	19,665
Due from other governments	199,477	3,060,394	96,540	-	3,356,411
Inventories	-	44,772	-	-	44,772
Total Assets	**$ 3,405,622**	**$ 4,085,580**	**$ 2,711,304**	**$ 162,754**	**$ 10,365,260**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 3
(Continued)

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General	Road and Bridge	Social Services	Debt Service	Total
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ 42,499	$ 147,768	$ 40,198	$ 183	$ 230,648
Salaries payable	2,157	37,494	-	-	39,651
Due to other funds	15	1,700	17,950	-	19,665
Due to other governments	79,863	912	14,944	-	95,719
Deferred revenue					
Unavailable	46,077	3,057,497	12,002	3,207	3,118,783
Unearned	-	125,664	-	-	125,664
Compensated absences	1,764	3,391	3,719	-	8,874
Total Liabilities	**$ 172,375**	**$ 3,374,426**	**$ 88,813**	**$ 3,390**	**$ 3,639,004**
Fund Balances					
Nonspendable					
Inventories	$ -	$ 44,772	$ -	$ -	$ 44,772
Restricted for					
Missing heirs	30,202	-	-	-	30,202
Recorder's equipment	61,882	-	-	-	61,882
Recorder's compliance fund	57,484	-	-	-	57,484
Enhanced 911	48,292	-	-	-	48,292
Solid waste assessment	220,970	-	-	-	220,970
Debt service	-	-	-	159,364	159,364
Highway allotments	-	32,771	-	-	32,771
Assigned to					
Capital projects	678,466	-	-	-	678,466
Highways and streets	-	633,611	-	-	633,611
Social services	-	-	2,622,491	-	2,622,491
Unassigned	2,135,951	-	-	-	2,135,951
Total Fund Balances	**$ 3,233,247**	**$ 711,154**	**$ 2,622,491**	**$ 159,364**	**$ 6,726,256**
Total Liabilities and Fund Balances	**$ 3,405,622**	**$ 4,085,580**	**$ 2,711,304**	**$ 162,754**	**$ 10,365,260**

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES DECEMBER 31, 2012

Fund balance - total governmental funds (Exhibit 3)		**$ 6,726,256**
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.		35,175,257
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		3,118,783
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	$ (2,090,000)	
Less: deferred debt issuance costs	41,901	
Add: unamortized premiums	(34,125)	
Capital leases	(85,311)	
Compensated absences	(257,073)	
Accrued interest payable	(36,084)	
Net OPEB liability	(1,284,215)	(3,744,907)
Net Position of Governmental Activities (Exhibit 1)		**$ 41,275,389**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	General	Road and Bridge	Social Services	Debt Service	Total
Revenues					
Taxes	$ 2,365,510	$ 1,420,546	$ 671,601	$ 193,181	$ 4,650,838
Special assessments	57,137	-	-	-	57,137
Licenses and permits	10,018	-	-	-	10,018
Intergovernmental	644,672	4,826,210	797,577	-	6,268,459
Charges for services	790,837	240,170	38,824	-	1,069,831
Gifts and contributions	4,000	-	-	-	4,000
Investment earnings	37,858	-	-	-	37,858
Miscellaneous	301,884	35,615	25,748	-	363,247
Total Revenues	**$ 4,211,916**	**$ 6,522,541**	**$ 1,533,750**	**$ 193,181**	**$ 12,461,388**
Expenditures					
Current					
General government	$ 1,500,810	$ -	$ -	$ -	$ 1,500,810
Public safety	1,748,016	-	-	-	1,748,016
Highways and streets	-	6,375,180	-	-	6,375,180
Sanitation	116,985	-	-	-	116,985
Human services	-	-	1,308,756	-	1,308,756
Health	70,957	-	-	-	70,957
Culture and recreation	64,034	-	-	-	64,034
Conservation of natural resources	414,744	-	-	-	414,744
Economic development	5,800	-	-	-	5,800
Intergovernmental	-	221,698	-	-	221,698
Debt service					
Principal	59,265	-	-	100,000	159,265
Interest	7,822	-	-	87,350	95,172
Total Expenditures	**$ 3,988,433**	**$ 6,596,878**	**$ 1,308,756**	**$ 187,350**	**$ 12,081,417**
Net Change in Fund Balance	**$ 223,483**	**$ (74,337)**	**$ 224,994**	**$ 5,831**	**$ 379,971**
Fund Balance - January 1	**3,009,764**	**796,375**	**2,397,497**	**153,533**	**6,357,169**
Increase (decrease) in inventories	**-**	**(10,884)**	**-**	**-**	**(10,884)**
Fund Balance - December 31	**$ 3,233,247**	**$ 711,154**	**$ 2,622,491**	**$ 159,364**	**$ 6,726,256**

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

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, 2012

Net change in fund balances - total governmental funds (Exhibit 5)		**$ 379,971**
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 revenue - December 31	$ 3,118,783	
Deferred revenue - January 1	(4,413,241)	(1,294,458)
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 disposal increase financial resources. Therefore, the change in net position differs from the change in fund balance by the net book value of the assets sold.		
Expenditures for general capital assets and infrastructure	$ 3,744,778	
Current year depreciation	(1,219,808)	2,524,970
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	$ 100,000	
Capital leases	59,265	159,265
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in accrued interest payable	$ 1,924	
Change in deferred charges	(3,011)	
Amortization of bond premiums	2,452	
Change in compensated absences	(9,014)	
Change in inventories	(10,884)	
Change in net OPEB liability	(311,651)	(330,184)
Change in Net Position of Governmental Activities (Exhibit 2)		**$ 1,439,564**

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PROPRIETARY FUNDS

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EXHIBIT 7

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Assets			
Current assets			
Cash and pooled investments	$ 29,100	$ 392,600	$ 421,700
Cash with escrow agent	-	3,248,729	3,248,729
Investments	-	35,000	35,000
Accounts receivable - net	-	32,353	32,353
Due from other funds	-	4,409	4,409
Total current assets	**$ 29,100**	**$ 3,713,091**	**$ 3,742,191**
Noncurrent assets			
Advance to other funds	$ -	$ 84,078	$ 84,078
Deferred debt issuance costs	15,682	109,949	125,631
Capital assets			
Nondepreciable	-	16,175	16,175
Depreciable - net	698,141	2,812,313	3,510,454
Total noncurrent assets	**$ 713,823**	**$ 3,022,515**	**$ 3,736,338**
Total Assets	**$ 742,923**	**$ 6,735,606**	**$ 7,478,529**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 7
(Continued)

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Liabilities			
Current liabilities			
Accounts payable	$ -	$ 1,364	$ 1,364
Due to other funds	4,409	-	4,409
Accrued interest payable	-	128,526	128,526
General obligation bonds payable - current	45,000	-	45,000
Revenue bonds payable - current	-	255,000	255,000
Loans payable - current	-	44,444	44,444
Total current liabilities	**$ 49,409**	**$ 429,334**	**$ 478,743**
Noncurrent liabilities			
Advance from other funds	$ 84,078	$ -	$ 84,078
Loans payable - long-term	-	18,519	18,519
Net OPEB liability	715	361,580	362,295
General obligation bonds payable - long-term	831,219	-	831,219
Revenue bonds payable - long-term	-	6,298,946	6,298,946
Total noncurrent liabilities	**$ 916,012**	**$ 6,679,045**	**$ 7,595,057**
Total Liabilities	**$ 965,421**	**$ 7,108,379**	**$ 8,073,800**
Net Position			
Net investment in capital assets	$ (162,396)	$ (284,550)	$ (446,946)
Unrestricted	(60,102)	(88,223)	(148,325)
Total Net Position	**$ (222,498)**	**$ (372,773)**	**$ (595,271)**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Operating Revenues			
Miscellaneous	$ -	$ 92,177	$ 92,177
Operating Expenses			
Employee benefits and payroll taxes	$ -	$ 149,601	$ 149,601
Professional services	-	4,561	4,561
Supplies	-	1,004	1,004
Insurance	-	481	481
Depreciation	46,435	191,599	238,034
Total Operating Expenses	**$ 46,435**	**$ 347,246**	**$ 393,681**
Operating Income (Loss)	**$ (46,435)**	**$ (255,069)**	**$ (301,504)**
Nonoperating Revenues (Expenses)			
Interest income	$ 26	$ 600	$ 626
Lease income	88,004	330,536	418,540
Miscellaneous revenue	-	27	27
Interest expense	(47,687)	(227,640)	(275,327)
Total Nonoperating Revenues (Expenses)	**$ 40,343**	**$ 103,523**	**$ 143,866**
Income (Loss) Before Transfers	**$ (6,092)**	**$ (151,546)**	**$ (157,638)**
Transfers in	30,000	-	30,000
Transfers out	-	(30,000)	(30,000)
Change in net position	**$ 23,908**	**$ (181,546)**	**$ (157,638)**
Net Position - January 1	**(246,406)**	**(191,227)**	**(437,633)**
Net Position - December 31	**$ (222,498)**	**$ (372,773)**	**$ (595,271)**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 9

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012
Increase (Decrease) in Cash and Cash Equivalents

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Cash Flows from Operating Activities			
Receipts from customers and users	$ -	$ 104,222	$ 104,222
Payments to suppliers and employees	(2,099)	(125,336)	(127,435)
Net cash provided by (used in) operating activities	**$ (2,099)**	**$ (21,114)**	**$ (23,213)**
Cash Flows from Noncapital Financing Activities			
Transfer in	$ 30,000	$ -	$ 30,000
Transfer out	-	(30,000)	(30,000)
Net cash provided by (used in) noncapital financing activities	**$ 30,000**	**$ (30,000)**	**$ -**
Cash Flows from Capital and Related Financing Activities			
Proceeds from bond sale	$ -	$ 3,372,339	$ 3,372,339
Principal paid on long-term debt	(45,000)	(134,444)	(179,444)
Bond issuance cost	-	(42,411)	(42,411)
Interest paid on long-term debt	(46,228)	(164,423)	(210,651)
Net cash provided by (used in) capital and related financing activities	**$ (91,228)**	**$ 3,031,061**	**$ 2,939,833**
Cash Flows from Investing Activities			
Interest received	$ 26	$ 656	$ 682
Lease revenue	92,401	293,951	386,352
Net cash provided by (used in) investing activities	**$ 92,427**	**$ 294,607**	**$ 387,034**
Net Increase (Decrease) in Cash and Cash Equivalents	**$ 29,100**	**$ 3,274,554**	**$ 3,303,654**
Cash and Cash Equivalents at January 1	**-**	**366,775**	**366,775**
Cash and Cash Equivalents at December 31	**$ 29,100**	**$ 3,641,329**	**$ 3,670,429**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 9
(Continued)

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012
Increase (Decrease) in Cash and Cash Equivalents

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating income (loss)	**$ (46,435)**	**$ (255,069)**	**$ (301,504)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	$ 46,435	$ 191,599	$ 238,034
(Increase) decrease in accounts receivable	-	11,868	11,868
Increase (decrease) in accounts payable	(2,099)	1,364	(735)
Increase (decrease) in net OPEB liability	-	29,124	29,124
Total adjustments	**$ 44,336**	**$ 233,955**	**$ 278,291**
Net Cash Provided by (Used in) Operating Activities	**$ (2,099)**	**$ (21,114)**	**$ (23,213)**

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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, 2012

Assets	
Cash and pooled investments	**$ 175,688**
Liabilities	
Due to other governments	**$ 175,688**

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

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NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

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, 2012. 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 several joint ventures described in Note 6.C. The County also participates in jointly-governed organizations and a related organization described in Note 6.D. and Note 6.E., 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 the 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 revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

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: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities 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 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.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Road and Bridge Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as 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 revenue resources from the federal, state, and other oversight agencies, as well as committed property tax revenues used for economic assistance and community social services programs.

The 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.F. 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.F. contains additional information related to this lease.

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.

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary, 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. 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.

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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. 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.

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, and Net Position or Equity

1. Cash and Cash Equivalents

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.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity (Continued)

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, 2012, 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 2012 were $54,132.

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 (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). The investment in the pool is measured at the net asset value per share provided by the pool.

3. Receivables and Payables

Activity between funds that represents 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 they are not available for appropriation and are not expendable available financial resources.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

3. Receivables and Payables (Continued)

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.

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, applicable laws and regulations limit their use.

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.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

6. Capital Assets (Continued)

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.

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

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

7. Compensated Absences

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

8. Deferred Revenue

All County funds and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity (Continued)

9. Long-Term Obligations

In the government-wide financial statements and 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 statement of net position. Bond premiums and discounts, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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 an other financing source. 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. 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 do not meet the definition of restricted or net investment in capital assets.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity (Continued)

11. 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 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 are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or 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 but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County 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.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

11. 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.

12. 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 they need 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, 2012, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

13. 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.

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The following major funds had deficit net position as of December 31, 2012:

Prairieview Place Enterprise Fund	$	222,498
Traverse Care Center Enterprise Fund		372,773

2. Stewardship, Compliance, and Accountability (Continued)

B. Excess of Expenditures Over Budget

The appropriated budget is prepared by fund, function, and department. The County's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level.

The following is a summary of individual funds that had expenditures in excess of budget for the year ended December 31, 2012.

	Expenditures	Budget	Excess
General Fund	$ 3,988,433	$ 3,682,863	$ 305,570

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliation of the County's total cash and investments is reported as follows:

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	$ 6,737,243
Investments	66,694
Business-type activities	
Cash and pooled investments	3,670,429
Investments	35,000
Statement of fiduciary net position	
Cash and pooled investments	175,688
Total Cash and Investments	$ 10,685,054

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County's deposit policy for custodial credit risk provides that the Auditor/Treasurer shall ensure that a bond, pledged collateral, or depository insurance is provided to protect all public deposits. As of December 31, 2012, the County's deposits were not exposed to custodial credit risk.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

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

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

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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.

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, 2012, the County did not have any investments subject to custodial credit risk.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy that U.S. Treasury securities, U.S. agency securities, and obligations backed by U.S. Treasury and/or U.S. agency securities may be held without limit.

The following table presents the County's deposit and investment balances at December 31, 2012, and information relating to potential investment risks:

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Over 5 Percent of Portfolio	Interest Rate Risk: Maturity Date	Carrying (Fair) Value
U.S. government agency securities					
Federal National Mortgage Note	AA+	S&P	>5%	11/16/2022	$ 100,000
U.S. Treasury Strip	N/A	N/A	>5%	08/15/2013	215,446
Investment pools/mutual funds					
Federated U.S. Government Fund	AAA	S&P	>5%		37,148
MAGIC Fund	N/A	N/A	N/A		6,559
Total investments					$ 359,153
Checking					8,541,175
Savings					670,256
Certificates of deposit					1,112,970
Change funds					1,500
Total Cash and Investments					$ 10,685,054

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

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2012, for the County's governmental activities and business-type activities, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities	Business-Type Activities
Taxes	$ 102,259	$ -
Special assessments	6,315	-
Accounts	31,901	32,353
Due from other governments	3,356,411	-
Total Receivables	$ 3,496,886	$ 32,353

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

3. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 176,352	$ 2,000	$ -	$ 178,352
Right-of-way	687,856	259,611	-	947,467
Construction in progress	43,710	-	43,710	-
Total capital assets not depreciated	$ 907,918	$ 261,611	$ 43,710	$ 1,125,819
Capital assets depreciated				
Buildings	$ 5,267,625	$ -	$ -	$ 5,267,625
Land improvements	137,585	-	-	137,585
Machinery, furniture, and equipment	4,472,162	314,566	29,396	4,757,332
Infrastructure	36,750,667	3,212,311	-	39,962,978
Total capital assets depreciated	$ 46,628,039	$ 3,526,877	$ 29,396	$ 50,125,520

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	$ 1,865,127	$ 118,178	$ -	$ 1,983,305
Land improvements	39,207	8,590	-	47,797
Machinery, furniture, and equipment	2,899,383	293,779	29,396	3,163,766
Infrastructure	10,081,953	799,261	-	10,881,214
Total accumulated depreciation	$ 14,885,670	$ 1,219,808	$ 29,396	$ 16,076,082
Total capital assets depreciated, net	$ 31,742,369	$ 2,307,069	$ -	$ 34,049,438
Governmental Activities Capital Assets, Net	$ 32,650,287	$ 2,568,680	$ 43,710	$ 35,175,257

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 16,175	$ -	$ -	$ 16,175
Capital assets depreciated				
Buildings	$ 6,398,048	$ -	$ -	$ 6,398,048
Land improvements	43,938	-	-	43,938
Machinery, furniture, and equipment	510,477	-	-	510,477
Total capital assets depreciated	$ 6,952,463	$ -	$ -	$ 6,952,463
Less: accumulated depreciation for				
Buildings	$ 2,700,454	$ 219,363	$ -	$ 2,919,817
Land improvements	40,943	886	-	41,829
Machinery, furniture, and equipment	462,578	17,785	-	480,363
Total accumulated depreciation	$ 3,203,975	$ 238,034	$ -	$ 3,442,009
Total capital assets depreciated, net	$ 3,748,488	$ (238,034)	$ -	$ 3,510,454
Business-Type Activities Capital Assets, Net	$ 3,764,663	$ (238,034)	$ -	$ 3,526,629

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Business-Type Activities (Continued)

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

Governmental Activities		
General government	$	116,644
Public safety		62,355
Highways and streets, including depreciation of infrastructure assets		1,027,173
Human services		9,262
Sanitation		3,426
Culture and recreation		948
Total Depreciation Expense - Governmental Activities	$	1,219,808

Business-Type Activities		
Traverse Care Center	$	191,599
Prairieview Place		46,435
Total Depreciation Expense - Business-Type Activities	$	238,034

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2012, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund		Amount
General Fund	Road and Bridge Special Revenue Fund	$	1,700
	Social Services Special Revenue Fund		17,950
Total Due to General Fund		$	19,650
Road and Bridge Special Revenue Fund	General Fund		15
Total Due To/From Other Funds		$	19,665

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

The outstanding balances between funds result mainly from the time lag between the dates that: (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

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.

3. Interfund Transfers

Receivable Fund	Payable Fund	Amount
Prairieview Place Enterprise Fund	Traverse Care Center Enterprise Fund	$ 30,000

C. Liabilities

1. Payables

Payables at December 31, 2012, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	$ 230,648	$ 1,364
Salaries	39,651	-
Due to other governments	95,719	-
Interest	36,084	128,526
Total Payables	$ 402,102	$ 129,890

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Deferred Revenue

Deferred revenue as of December 31, 2012, for the County is as follows:

	Deferred Unavailable	Deferred Unearned
Taxes and special assessments	$ 85,060	$ -
State-aid highway allotments	2,956,199	-
Grants	77,524	125,664
Total Deferred	$ 3,118,783	$ 125,664

3. Construction Commitments

Construction commitments for highway projects are state-funded and, therefore, not obligations of the County at December 31, 2012.

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. These capital leases consist of the following at December 31, 2012:

Leases	Maturity	Installment	Payment Amount	Original	Balance
Governmental Activities					
Social Services building	2014	Semi-Annual	$ 12,900	$ 300,000	$ 47,716
2010 phone system	2015	Monthly	1,285	69,101	37,595
Total Governmental Activities Capital Leases					$ 85,311

3. Detailed Notes on All Funds

C. Liabilities

4. Leases

Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2012, were as follows:

Year Ending December 31	Governmental Activities
2013	$ 41,223
2014	40,483
2015	8,997
Total minimum lease payments	$ 90,703
Less: amount representing interest	(5,392)
Net Present Value of Minimum Lease Payments	$ 85,311

5. Long-Term Debt

Debt Issued

On January 25, 2012, Traverse County issued General Obligation Nursing Home Revenue Refunding Bonds, Series 2012A, in the amount of $3,350,000, with interest rates of 2.0 percent to 2.8 percent, for the full advance refunding of General Obligation Nursing Home Revenue Bonds, Series 2003A. The County will continue to make principal and interest payments on the Series 2003A Bond through the call date of February 1, 2013. The net present value of the benefit is $819,923.

3. Detailed Notes on All Funds

C. Liabilities

5. Long-Term Debt (Continued)

Governmental Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
General obligation bonds					
2006 G.O. Jail Bonds	2027	$50,000 - $185,000	4.00 - 4.25	$ 2,515,000	$ 2,090,000
Add: unamortized premium					34,125
Total General Obligation Bonds, Net					$ 2,124,125

Business-Type Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
USDA Loan	2014	$44,444	-	$ 400,000	$ 62,963
2005 G.O. Governmental Housing Refunding Bonds	2026	$30,000 - $85,000	5.00	$ 1,190,000	$ 880,000
Less: unamortized discount					(3,781)
Total G.O. Bonds, Net					$ 876,219
2003 G.O. Nursing Home Revenue Bonds	2033	$75,000 - $235,000	3.25 - 5.30	$ 3,745,000	$ 3,175,000
Add: unamortized premium					7,808
Total Revenue Bonds, Net					$ 3,182,808
2012 G.O. Nursing Home Revenue Refunding Bonds	2030	$160,000 - $225,000	0.00 - 2.80	$ 3,350,000	$ 3,350,000
Add: unamortized premium					50,907
Less: unamortized discount					(29,769)
Total Revenue Refunding Bonds, Net					$ 3,371,138

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Debt Service Requirements

Debt service requirements at December 31, 2012, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds Principal	General Obligation Bonds Interest
2013	$ 100,000	$ 83,350
2014	105,000	79,250
2015	110,000	74,950
2016	115,000	70,450
2017	120,000	65,750
2018 - 2022	685,000	250,850
2023 - 2027	855,000	93,838
Total	$ 2,090,000	$ 718,438

Business-Type Activities

Year Ending	General Obligation Bonds		Revenue Bonds	
December 31	Principal	Interest	Principal	Interest
2013	$ 45,000	$ 44,000	$ 255,000	$ 262,799
2014	45,000	41,750	255,000	225,570
2015	50,000	39,500	255,000	217,983
2016	50,000	37,000	270,000	209,989
2017	55,000	34,500	280,000	201,395
2018 - 2022	320,000	128,000	1,505,000	865,337
2023 - 2027	315,000	40,250	1,795,000	586,765
2028 - 2032	-	-	1,675,000	464,344
2033	-	-	235,000	241,227
Total	$ 880,000	$ 365,000	$ 6,525,000	$ 3,275,409

Year Ending December 31	USDA Loan Principal
2013	$ 44,444
2014	18,519
Total	$ 62,963

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
G.O. jail bonds payable	$ 2,190,000	$ -	$ 100,000	$ 2,090,000	$ 100,000
Unamortized bond premium	36,577	-	2,452	34,125	-
Capital leases	144,576	-	59,265	85,311	37,648
Compensated absences	255,408	10,539	-	265,947	164,113
Net OPEB liability	972,564	311,651	-	1,284,215	-
Governmental Activities Long-Term Liabilities	$ 3,599,125	$ 322,190	$ 161,717	$ 3,759,598	$ 301,761

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable					
General obligation refunding bonds	$ 925,000	$ -	$ 45,000	$ 880,000	$ 45,000
Revenue bonds	3,265,000	3,350,000	90,000	6,525,000	255,000
Premium/discounts on bonds	4,116	22,312	1,263	25,165	-
Total bonds payable	$ 4,194,116	$ 3,372,312	$ 136,263	$ 7,430,165	$ 300,000
Loans payable	107,407	-	44,444	62,963	44,444
Net OPEB liability	333,183	29,112	-	362,295	-
Business-Type Activities Long-Term Liabilities	$ 4,634,706	$ 3,401,424	$ 180,707	$ 7,855,423	$ 344,444

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.

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 three years of credited service (five years for those first eligible for membership after June 30, 2010).

All 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. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

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 average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description (Continued)

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 year thereafter. 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 successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all Public 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 Public 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; 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.

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan (Continued)

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 are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2012:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2012, 2011, and 2010, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2012	2011	2010
General Employees Retirement Fund	$ 136,217	$ 145,483	$ 225,159
Public Employees Police and Fire Fund	38,300	38,455	36,986
Public Employees Correctional Fund	30,610	29,547	30,610

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

4. Pension Plans and Other Postemployment Benefits (Continued)

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.

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, 2012, were:

	Employee	Employer
Contribution amount	$ 4,051	$ 4,051
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.

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

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 2012, there were 108 participants in the plan, including 55 retirees.

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 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	$	769,097
Interest on net OPEB obligation		58,759
Adjustment to ARC		(79,875)
Annual OPEB cost (expense)	$	747,981
Contributions made		(407,218)
Increase in net OPEB obligation	$	340,763
Net OPEB Obligation - Beginning of Year		1,305,747
Net OPEB Obligation - End of Year	$	1,646,510

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost for December 31, 2012, was $747,981. The percentage of annual OPEB cost contributed to the plan was 54.4 percent, and the net OPEB obligation for 2012 was $1,646,510. The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010, 2011, and 2012, was as follows:

Fiscal Year-End	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2010	$ 855,660	$ 376,049	43.9%	$ 965,881
December 31, 2011	754,077	414,211	54.9	1,305,747
December 31, 2012	747,981	407,218	54.4	1,646,510

Funded Status and Funding Progress

Governmental Activities

As of January 1, 2011, the most recent actuarial valuation date, the plan had no assets to fund the plan. The actuarial accrued liability for benefits was $7,669,790, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $7,669,790. The covered payroll (annual payroll of active employees covered by the plan) was $2,541,642, and the ratio of the UAAL to the covered payroll was 301.8 percent.

Business-Type Activities

As of January 1, 2011, the most recent actuarial valuation date, the plan had no assets to fund the plan. The Care Center's actuarial accrued liability for benefits was $2,441,583. 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.

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

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.

Actuarial Methods and Assumptions

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, 2011, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Traverse County’s implicit rate of return on the General Fund. The annual health care cost trend is 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 8 years. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2012, was 26 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 or omissions; injuries to employees; or natural disasters. 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 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.

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 $460,000 per claim in 2012 and $470,000 per claim in 2013. 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.

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

The County, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The County Attorney estimates that the potential claims against the County resulting from such litigation and not covered by insurance would not materially affect the financial statements of the County.

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

B. Subsequent Event

On April 24, 2013, Traverse County issued General Obligation Governmental Housing Refunding Bonds in the amount of $785,000 with interest rates of 1.05 percent to 2.50 percent to refund in advance of maturity the January 1, 2017, through January 1, 2027, maturities of 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.

C. Joint Ventures

Stevens Traverse Grant Public Health Nursing Service

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

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

Financing is provided by state grants; appropriations from Grant, Stevens, and Traverse Counties; and charges for services. Traverse County's contribution for 2012 was $59,387, based on a cost allocation plan developed by Director, Sandy Tubbs.

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

Stevens Traverse Grant Public Health Nursing Service
621 Pacific Avenue
Morris, Minnesota 56267

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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 (following a budget approved by the four-county Board). Mid-State Community Health Services was renamed to Horizon Community Health Services when Douglas County was added as a member on January 1, 2011. The budget is now approved by the five-county Board. Stevens Traverse Grant Public Health Nursing Service receives and administers the grant money.

Complete financial information can be obtained from:

Horizon Community Health Board
211 East Minnesota Avenue, Suite 100
Glenwood, Minnesota 56334

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 (Rainbow Rider) effective December 1, 1994, and empowered under Minn. Stat. § 471.59. Effective January 13, 2000, the Board changed its name from the West Central Multi-County Joint Powers Board to Rainbow Rider Transit Board. The purpose of the Board is to provide coordinated service delivery and a funding source for public transportation. The Board consists of two members appointed by each member county from its County Board for terms of one year each. Effective January 1, 2012, Todd County became a member county.

Complete financial statements for Rainbow Rider can be obtained from its administrative office at:

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

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Minnesota River Basin Joint Powers

Traverse County entered into a joint powers agreement to promote the orderly water quality improvement and management of the Minnesota River watershed, pursuant to Minn. Stat. § 471.59. The management of the Joint Powers is vested in the Board of Directors consisting of one member and alternate from each County Board of Commissioners included in this agreement. According to the latest information available, 37 counties are members under this agreement.

Financing is provided by a contribution from each member county based on its share of the annual budget. Traverse County made no contributions to the Joint Powers in 2012.

Complete financial statements for the Joint Powers can be obtained from its administrative offices at:

Minnesota River Basin Joint Powers
Administration Building No. 14
600 East 4th Street
Chaska, Minnesota 55318

West Central Area Agency on Aging

The West Central Area Agency on Aging was established June 2, 1982, by a joint powers agreement among Becker, Clay, Douglas, Grant, Otter Tail, Pope, Stevens, Traverse, and Wilkin Counties. The agreement was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the elderly in the nine-county area. Each county may be assessed a proportional share of 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.

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.

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

West Central Area Agency on Aging (Continued)

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

Complete financial statements for the West Central Area Agency on Aging can be obtained from its administrative office at:

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

Prime West Central County-Based Purchasing Initiative

The Prime West Central County-Based Purchasing Initiative was established in December 1998 by a joint powers agreement among Traverse County and 12 other counties under the authority of Minn. Stat. § 471.59. The purpose of this agreement is to plan and administer a multi-county, county-based purchasing program for medical assistance and general assistance medical care services and other health care programs as authorized by Minn. Stat. § 256B.692.

Control of the Prime West Central County-Based Purchasing Initiative is vested in a Joint Powers Board, comprising one Commissioner from each member county. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

In the event of termination of the joint powers agreement, all property purchased or 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.

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Prime West Central County-Based Purchasing Initiative (Continued)

Financing is provided by medical assistance and general assistance medical care payments from the Minnesota Department of Human Services, initial start-up loans from the member counties, and by proportional contributions from member counties, if necessary, to cover operational costs. The County did not contribute any funds in 2012.

Complete financial information can be obtained from:

Prime West Health Systems
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 the respective County Board and one City Council member from the City appointed by the City Council, as provided in the Central Minnesota Emergency Services Board's by-laws.

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Central Minnesota Emergency Services Board (Continued)

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.

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.

Traverse County did not contribute to the Joint Powers in 2012. Complete financial information can be obtained from the Central Minnesota Emergency Services Board at:

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. §§ 471.59 and 145A.17, and a joint powers agreement, effective June 5, 2007. The Board consists of 12 members, which include an appointed Commissioner from each participating county. McLeod County is the fiscal agent. The primary purpose of the joint venture is to improve the health and life-course of low-income, first-time mothers and their children. The joint venture is financed primarily by contributions from participating counties.

Complete financial information can be obtained from:

Supporting Hands Nurse Family Partnership Board
2385 Hennepin Avenue North
Glencoe, Minnesota 55336

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

D. 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 the Board 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 shall be vested in a Board of Directors composed of a representative appointed by each member city and county.

District IV Transportation Planning

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

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

6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Traverse County Connections (Continued)

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 contribute in 2012.

Region 4 South Adult Mental Health Consortium

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

Control of the Consortium is vested in a governing board, which consists of each participating county's Director of Social Services, Family Services, or Human Services, as the case may be. 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 its respective County Board.

6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Region 4 South Adult Mental Health Consortium (Continued)

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 on 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.

E. 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 $876,219, net of discount and unamortized issuance costs.

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

F. 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 is for three years and 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 $7,000 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 is for three years and 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 $32,000 per month. Most Care Center employees became employees of LSS on December 1, 2010.

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, 2012

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Revenues				
Taxes	$ 2,388,370	$ 2,388,370	$ 2,365,510	$ (22,860)
Special assessments	-	-	57,137	57,137
Licenses and permits	7,440	7,440	10,018	2,578
Intergovernmental	229,084	229,084	644,672	415,588
Charges for services	455,793	455,793	790,837	335,044
Gifts and contributions	-	-	4,000	4,000
Fines and forfeits	1,000	1,000	-	(1,000)
Investment earnings	45,000	45,000	37,858	(7,142)
Miscellaneous	281,239	281,239	301,884	20,645
Total Revenues	**$ 3,407,926**	**$ 3,407,926**	**$ 4,211,916**	**$ 803,990**
Expenditures				
Current				
General government				
Commissioners	$ 178,721	$ 178,721	$ 211,425	$ (32,704)
Law library	7,000	7,000	4,949	2,051
County coordinator	101,816	101,816	70,481	31,335
County auditor/treasurer	207,034	207,034	213,602	(6,568)
License bureau	76,243	76,243	80,348	(4,105)
County treasurer	-	-	3,430	(3,430)
County assessor	110,769	110,769	120,825	(10,056)
Elections	25,000	25,000	25,466	(466)
Accounting and auditing	65,000	65,000	49,277	15,723
Data processing	142,334	142,334	104,017	38,317
Attorney	90,391	90,391	112,997	(22,606)
Recorder	143,356	143,356	158,275	(14,919)
Buildings and plant	173,233	173,233	179,030	(5,797)
Veterans service officer	43,741	43,741	63,194	(19,453)
Other general government	189,704	189,704	103,494	86,210
Total general government	**$ 1,554,342**	**$ 1,554,342**	**$ 1,500,810**	**$ 53,532**
Public safety				
Sheriff	$ 588,639	$ 588,639	$ 555,550	$ 33,089
Boat and water	3,000	3,000	14,556	(11,556)
Coroner	6,000	6,000	5,196	804
Enhanced 911 system	265,958	265,958	563,695	(297,737)
Jail	303,153	303,153	292,345	10,808
Probation officer	329,140	329,140	285,191	43,949
Civil defense	45,599	45,599	31,483	14,116
Total public safety	**$ 1,541,489**	**$ 1,541,489**	**$ 1,748,016**	**$ (206,527)**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	**$ 102,539**	**$ 102,539**	**$ 116,985**	**$ (14,446)**
Health				
Nursing service	$ 69,887	$ 69,887	$ 60,957	$ 8,930
Transportation	-	-	10,000	(10,000)
Total health	**$ 69,887**	**$ 69,887**	**$ 70,957**	**$ (1,070)**
Culture and recreation				
County fair	$ 10,000	$ 10,000	$ 10,000	$ -
Parks	11,191	11,191	11,591	(400)
Regional library	37,943	37,943	42,443	(4,500)
Total culture and recreation	**$ 59,134**	**$ 59,134**	**$ 64,034**	**$ (4,900)**
Conservation of natural resources				
County extension	$ 138,340	$ 138,340	$ 135,594	$ 2,746
Soil and water conservation	158,863	158,863	231,152	(72,289)
Weed control	50,489	50,489	47,998	2,491
Total conservation of natural resources	**$ 347,692**	**$ 347,692**	**$ 414,744**	**$ (67,052)**
Economic development				
Community development	**$ 7,780**	**$ 7,780**	**$ 5,800**	**$ 1,980**
Debt service				
Principal	$ -	$ -	$ 59,265	$ (59,265)
Interest	-	-	7,822	(7,822)
Total debt service	**$ -**	**$ -**	**$ 67,087**	**$ (67,087)**
Total Expenditures	**$ 3,682,863**	**$ 3,682,863**	**$ 3,988,433**	**$ (305,570)**

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Excess of Revenues Over (Under) Expenditures	**$ (274,937)**	**$ (274,937)**	**$ 223,483**	**$ 498,420**
Other Financing Sources (Uses)				
Transfers in	47,539	47,539	-	(47,539)
Net Change in Fund Balance	**$ (227,398)**	**$ (227,398)**	**$ 223,483**	**$ 450,881**
Fund Balance - January 1	**3,009,764**	**3,009,764**	**3,009,764**	**-**
Fund Balance - December 31	**$ 2,782,366**	**$ 2,782,366**	**$ 3,233,247**	**$ 450,881**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT A-2

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,443,098	$ 1,443,098	$ 1,420,546	$ (22,552)
Intergovernmental	5,863,902	5,863,902	4,826,210	(1,037,692)
Charges for services	140,000	140,000	240,170	100,170
Miscellaneous	85,000	85,000	35,615	(49,385)
Total Revenues	**$ 7,532,000**	**$ 7,532,000**	**$ 6,522,541**	**$ (1,009,459)**
Expenditures				
Current				
Highways and streets				
Administration	$ -	$ -	$ 400,224	$ (400,224)
Authorized work	-	-	1,263	(1,263)
Engineering	-	-	135,781	(135,781)
Construction	5,498,000	5,498,000	3,031,062	2,466,938
Maintenance	2,423,000	2,423,000	1,961,343	461,657
Equipment maintenance and shops	-	-	723,139	(723,139)
Material and services for resale	-	-	122,368	(122,368)
Total highways and streets	**$ 7,921,000**	**$ 7,921,000**	**$ 6,375,180**	**$ 1,545,820**
Intergovernmental				
Highways and streets	-	-	221,698	(221,698)
Capital outlay				
Highways and streets	134,000	134,000	-	134,000
Total Expenditures	**$ 8,055,000**	**$ 8,055,000**	**$ 6,596,878**	**$ 1,458,122**
Net Change in Fund Balance	**$ (523,000)**	**$ (523,000)**	**$ (74,337)**	**$ 448,663**
Fund Balance - January 1	**796,375**	**796,375**	**796,375**	**-**
Increase (decrease) in inventories	**-**	**-**	**(10,884)**	**(10,884)**
Fund Balance - December 31	**$ 273,375**	**$ 273,375**	**$ 711,154**	**$ 437,779**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT A-3

BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 668,230	$ 668,230	$ 671,601	$ 3,371
Intergovernmental	696,199	696,199	797,577	101,378
Charges for services	12,538	12,538	38,824	26,286
Miscellaneous	28,762	28,762	25,748	(3,014)
Total Revenues	**$ 1,405,729**	**$ 1,405,729**	**$ 1,533,750**	**$ 128,021**
Expenditures				
Current				
Human services				
Income maintenance	$ 639,424	$ 639,424	$ 567,588	$ 71,836
Social services	766,305	766,305	741,168	25,137
Total Expenditures	**$ 1,405,729**	**$ 1,405,729**	**$ 1,308,756**	**$ 96,973**
Net Change in Fund Balance	**$ -**	**$ -**	**$ 224,994**	**$ 224,994**
Fund Balance - January 1	**2,397,497**	**2,397,497**	**2,397,497**	**-**
Fund Balance - December 31	**$ 2,397,497**	**$ 2,397,497**	**$ 2,622,491**	**$ 224,994**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT A-4

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2012

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

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

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012

1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Budget Amendments

The County did not amend the budgets for the General Fund or any of the special revenue funds.

4. Excess of Expenditures Over Budget

The following is a summary of individual funds that had expenditures in excess of budget for the year ended December 31, 2012.

	Expenditures	Budget	Excess
General Fund	$ 3,988,433	$ 3,682,863	$ 305,570

5. Other Postemployment Benefits

Traverse County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2009. Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets to pay the accrued liability for postemployment benefits is zero. Currently, two actuarial valuations are available. As the information becomes available, future reports will provide additional trend analysis to meet the three valuation funding status requirement.

5. Other Postemployment Benefits (Continued)

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

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, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	**$ 194,618**	**$ 194,618**	**$ 193,181**	**$ (1,437)**
Expenditures				
Debt service				
Principal	$ 100,000	$ 100,000	$ 100,000	$ -
Interest	94,618	94,618	87,350	7,268
Total Expenditures	**$ 194,618**	**$ 194,618**	**$ 187,350**	**$ 7,268**
Net Change in Fund Balance	**$ -**	**$ -**	**$ 5,831**	**$ 5,831**
Fund Balance - January 1	**-**	**-**	**153,533**	**153,533**
Fund Balance - December 31	**$ -**	**$ -**	**$ 159,364**	**$ 159,364**

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AGENCY FUNDS

The School Districts Fund is used to account for the collection and payment of funds due to school districts.

The State Revenue Fund is used to account for the state's share of collections and their payment to the state.

The Taxes and Penalties Fund is used to account for the collection and payment to the various taxing districts of taxes and penalties collected.

The Towns and Cities Fund is used to account for the collection and payment of funds due to towns and cities and special taxing districts.

The Traverse County Connections Fund is used 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.

The Employee Flex Fund is used to account for the collection and payment of the employees flex benefit account.

The Communities United in Partnership Fund is used 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, 2012

	Balance January 1	Additions	Deductions	Balance December 31
SCHOOL DISTRICTS				
Assets				
Cash and pooled investments	$ 2,040	$ 3,305	$ 5,345	$ -
Liabilities				
Due to other governments	$ 2,040	$ 3,305	$ 5,345	$ -
STATE REVENUE				
Assets				
Cash and pooled investments	$ 6,477	$ 128,267	$ 106,483	$ 28,261
Liabilities				
Due to other governments	$ 6,477	$ 128,267	$ 106,483	$ 28,261
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ 69,244	$ 8,525,456	$ 8,468,333	$ 126,367
Liabilities				
Due to other governments	$ 69,244	$ 8,525,456	$ 8,468,333	$ 126,367

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, 2012

	Balance January 1	Additions	Deductions	Balance December 31
TOWNS AND CITIES				
Assets				
Cash and pooled investments	$ 8,349	$ 55,603	$ 65,503	$ (1,551)
Liabilities				
Due to other governments	$ 8,349	$ 55,603	$ 65,503	$ (1,551)
TRAVERSE COUNTY CONNECTIONS				
Assets				
Cash and pooled investments	$ 14,519	$ 19,426	$ 22,759	$ 11,186
Liabilities				
Due to other governments	$ 14,519	$ 19,426	$ 22,759	$ 11,186
EMPLOYEE FLEX				
Assets				
Cash and pooled investments	$ 4,755	$ 42,629	$ 47,622	$ (238)
Liabilities				
Due to other governments	$ 4,755	$ 42,629	$ 47,622	$ (238)

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, 2012

	Balance January 1	Additions	Deductions	Balance December 31
COMMUNITIES UNITED IN PARTNERSHIP				
Assets				
Cash and pooled investments	$ 11,663	$ -	$ -	$ 11,663
Liabilities				
Due to other governments	$ 11,663	$ -	$ -	$ 11,663
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 117,047	$ 8,774,686	$ 8,716,045	$ 175,688
Liabilities				
Due to other governments	$ 117,047	$ 8,774,686	$ 8,716,045	$ 175,688

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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, 2012

Shared Revenue		
State		
Highway users tax	$	3,964,523
County Program aid		129,132
Market value credit (MVC)		62,807
PERA rate reimbursement		16,482
Disparity reduction aid		18,576
Police aid		29,666
E-911		72,903
Total shared revenue	**$**	**4,294,089**
Reimbursement for Services		
State		
Minnesota Department of Human Services	**$**	**112,889**
Payments		
Local		
Local contributions	$	21,772
Payments in lieu of taxes		21,950
Total payments	**$**	**43,722**
Grants		
State		
Minnesota Department of		
Public Safety	$	280,069
Transportation		193,266
Natural Resources		1,570
Human Services		211,256
Veterans Affairs		3,698
Water and Soil Resources		75,093
Peace Officer Standards and Training Board		1,993
Pollution Control Agency		55,950
Total state	**$**	**828,991**
Federal		
Department of		
Agriculture	$	51,496
Commerce		19,919
Transportation		13,347
Health and Human Services		393,561
Homeland Security		510,445
Total federal	**$**	**988,768**
Total state and federal grants	**$**	**1,817,759**
Total Intergovernmental Revenue	**$**	**6,268,459**

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT D-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	**$ 51,496**
U.S. Department of Commerce		
Passed Through Minnesota Department of Public Safety		
Public Safety Interoperable Communications Grant Program	11.555	$ 7,930
Passed Through Central Minnesota Emergency Services Board		
Public Safety Interoperable Communications Grant Program	11.555	11,989
Total U.S. Department of Commerce		**$ 19,919**
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	**$ 13,347**
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	$ 1,899
Temporary Assistance for Needy Families (TANF) Cluster		
Temporary Assistance for Needy Families (TANF)	93.558	48,867
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	93.714	2,006
Child Support Enforcement	93.563	75,388
Refugee and Entrant Assistance-State Administered Programs	93.566	127
Child Care and Development Block Grant	93.575	513
Community-Based Child Abuse Prevention Grants	93.590	10,000
Foster Care Title IV-E	93.658	52,864
Social Services Block Grant	93.667	52,093
Children's Health Insurance Program	93.767	19
Medical Assistance Program	93.778	147,729
Total U.S. Department of Health and Human Services		**$ 391,505**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

EXHIBIT D-2
(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number		Expenditures
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
Boating Safety Financial Assistance	97.012	$	13,463
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		146,735
Emergency Management Performance Grants	97.042		27,440
Passed Through Central Minnesota Emergency Services Board			
Homeland Security Grant Program	97.067		17,209
Total U.S. Department of Homeland Security		**$**	**204,847**
Total Federal Awards		**$**	**681,114**

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NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

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 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, 2012. 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. Clusters

   Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Temporary Assistance for Needy Families (TANF) Cluster	$ 50,783

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	$	988,768
Grants deferred in 2011, recognized as revenue in 2012		
Medical Assistance Program (CFDA #93.778)		(2,056)
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)		(291,948)
Homeland Security Grant (CFDA #97.067)		(13,650)
Expenditures Per Schedule of Expenditures of Federal Awards	$	681,114

6. Subrecipients

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2012.

7. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.

Management and Compliance Section

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TRAVERSE COUNTY
WHEATON, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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:

Social Services Block Grant	CFDA #93.667
Medical Assistance Program	CFDA #93.778
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	CFDA #97.036

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

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

96-3 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 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 lack of certain segregation of duties, and is constantly weighing the cost effectiveness against the risk involved. We will constantly strive to find effective controls that work with the limited staff we have in place.

06-3 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. Clarified Auditing Standards AU-C Section 265 defines 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 County'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 accrual adjustments or to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: Multiple audit adjustments were recorded to correctly identify and report revenue, including federal revenue.

Governmental Activities

- Increased revenue by $3,118,783 for receivables that were deferred at the modified accrual find level but earned on the full accrual basis; and

- decreased revenue by $4,413,241 for revenues earned and recognized during 2011.

General Fund

- Reclassified public safety charge for service revenues of $380,651 from miscellaneous revenues for revenues related to probation services provided by the County.

Road and Bridge Special Revenue Fund

- Increased due from other governments asset and deferred revenue - unavailable liability by $3,033,723 for the 2012 highway user tax shared revenues ($2,956,199) and for the state and federal share of Federal Emergency Management Agency (FEMA) monies owed to the County for 2010 and 2011 flood damage expenditures ($77,524).

Prairieview Place Enterprise Fund

- Increased depreciation expense and related accumulated depreciation by $46,435 for current year depreciation on depreciable assets.

Traverse Care Center Enterprise Fund

- Increased depreciation expense and related accumulated depreciation by $191,599 for current year depreciation on depreciable assets;

- increased accrued interest payable and interest expense by $158,526 for accrued interest on general obligation debt;

- increased the liability for bonds payable by $3,350,000, unamortized premiums by $53,735, and unamortized discounts by $31,423 for recognition of the General Obligation Revenue Refunding Bond, Series 2012A, as the transactions were classified as miscellaneous nonoperating revenues;

- reclassified debt issuance costs of $42,411 from expenses to the asset deferred debt issuance costs; and

- reclassified principal payments of $90,000 from expenses to the reduction of bonds payable.

Cause: County staff did not consider controls over calculating the proper amounts of balances and transactions, did not detect a number of errors, and the County did not consider the need for controls over the recording of certain accounting transactions.

Recommendation: We recommend County staff review the trial balances and journal entries in detail to ensure they have an understanding of all audit adjustments made. We also recommend that the County modify internal controls over financial reporting to detect misstatements, including misclassifications, in the financial statements.

Client's Response:

Traverse County will continue to train staff to make sure transactions are coded and classified correctly.

08-1 Assessing and Monitoring Internal Controls

Criteria: 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. The risk assessment is intended to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

Condition: Traverse County maintains narratives to document the controls in place over its significant transaction cycles; however, there is no formal assessment process in place to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure. In addition, our audit procedures detected areas and responsibilities performed by County staff with little or no documentation of the monitoring taking place by management or other staff members. Some areas with minimal or no monitoring include:

- review of journal entries;
- review of bank deposits;
- review of capital asset additions, deletions, and balances;
- review of payroll journals to determine all calculations, including net pay, are correct; and
- review of pledge receipts to ensure securities are properly collateralized as required by Minn. Stat § 118A.03 at all times.

Context: Local governments tend to establish controls, but fail to periodically review those controls to ensure they are appropriate for all of the changes that take place over time.

Effect: The internal control environment is constantly changing with changes in staffing, information systems, processes, and services provided. Changes may have taken place that reduce or negate the effectiveness of internal controls, which may go unnoticed without a formal and timely assessment process in place.

Cause: The County has not had the staffing resources available to complete the risk assessment process.

Recommendation: We recommend that County management implement procedures to document the significant internal controls in its accounting system. We also recommend a formal plan be developed that calls for assessing and monitoring significant internal controls on a regular basis, no less than annually. The assessment of risks should be documented and procedures implemented to address those risks found. Monitoring procedures should be documented to show the results of the review, changes required, and who performed the work.

Client's Response:

Traverse County will implement and document their internal controls more effectively so that the audit team can better evaluate those controls.

11-1 Timeliness of Preparation of Financial Statements

Criteria: Management is responsible for preparing the County's financial statements in accordance with generally accepted accounting principles (GAAP) and U.S. Office of Management and Budget (OMB) Circular A-133. The financial statement preparation in accordance with GAAP and OMB Circular A-133 requires internal control over both: (1) recording, processing, and summarizing accounting data (that is, maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

Condition: The information submitted to the auditors required numerous revisions affecting both the financial statements and related notes. Certain financial information related to capital assets, necessary to materially state the government-wide financial statements, was not provided to the Office of the State Auditor until August 30, 2013.

Context: Preparation of information included in the County's financial statements is performed by the County Auditor-Treasurer's Office. That information is to be provided to the Office of the State Auditor in the time, form, and manner to finalize the audit in order to meet the County's September 30 single audit deadline.

Effect: Additional audit hours resulted from delays in completing the County's financial statements within a reasonable amount of time. Also, errors were discovered which resulted in adjustments to the financial statements.

Cause: Certain financial information necessary for the County's financial statements was not completed in the time, form, and manner indicated in the audit preparation checklist completed by County staff. The County's staff is capable of preparing the financial statements but has historically had difficulties meeting the financial statement deadline required.

Recommendation: The County Board of Commissioners and management should take responsibility for the financial statements by reviewing internal controls currently in place over the preparation of the financial statements. Procedures should be implemented to ensure that the necessary financial information be prepared in a manner that allows the auditors an adequate amount of time to complete the audit by the County's required deadline.

Client's Response:

Traverse County is somewhat at a disadvantage with our small staff as compared to other counties. We will try harder to work through turnover in staff and other issues, but it will always be an issue when such instances occur because of our limited staff size.

11-2 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, and Traverse County's credit card policy requires such documentation. Additionally, Minn. Stat. § 375.171 provides that a purchase by credit card must "comply with all statutes, rules, or county policy applicable to county purchases," and Minn. Stat. § 471.38, subd. 1, requires claims presented for payment to 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. Four 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 are not requiring 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 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. §§ 375.171 and 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:

We do require an original copy of the receipt in order to pay the credit card claim. There are instances where a receipt does not print where we go to the department supervisor to authorize the claim. For example: the lone carwash in Wheaton does not provide a receipt, and the Sheriff deputies use the carwash from time to time. We usually require approval of the supervisor or a handwritten receipt by the carwash owner. We have developed a form we will require to be signed by the employee and their supervisor in the event an original receipt is not available.

11-3 New Vendors

Criteria: The ability to set up new vendors on the accounts payable system should be limited to those individuals with a logical need for this function. In addition, periodically, a report listing active vendors should be printed and reviewed by someone independent of the accounts payable system. That person should document the review by signing off on the report.

Condition: The employee responsible for adding new vendors to the accounting system is also responsible for processing payments to vendors. Traverse County does not have any formal procedures for determining if new vendors have been added to the accounts payable system or if all new vendors added are legitimate vendors.

Context: When invoices are submitted for vendors that have not previously done business with the County, procedures should be required to verify whether vendors are legitimate. Procedures could include looking up the vendor in the phone book, on the internet, or by requiring the company to send information about its business.

Effect: Fictitious vendors could be added to the accounting system, increasing the likelihood of the County processing improper payments.

Cause: The County has not considered the need for verifying the legitimacy of all new vendors when adding them to the accounting system.

Recommendation: We recommend that the County implement procedures to ensure all new vendors added to the accounting system are reviewed for legitimacy by someone other than the individual(s) responsible for adding new vendors.

Client's Response:

Traverse County has implemented a control where someone independent of the function of adding vendors reviews and investigates all vendor additions or changes.

ITEMS ARISING THIS YEAR

12-1 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 has not documented the significant internal controls in its accounting system or created a formal plan to monitor its internal control structure and to ensure that Board approved practices are followed as intended.

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: No formal action has 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 will develop an Accounting Policies and Procedures Manual.

12-2 Network/Application Password Controls

Criteria: County management is responsible for the County's internal controls over its information systems. This requires establishing security policies and performing assessments of existing controls to determine if the internal controls established are still effective or if changes are needed to ensure County data is protected as prescribed by management.

Condition: In 2012, 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 sign-on differs from the sign-on for the IBM I Series system, so the mainframe security settings do not apply to the application. Traverse County has not reviewed the network controls or assessed risks from the change to a web-based application to ensure password controls are working as intended.

Context: The IFS application is the general ledger for Traverse County. Detailed receipt and disbursement transactions as well as budget information are maintained on the IFS application throughout the year. This information is used by management to monitor the resources available and make decisions based on the available resources. At or near year-end, certain accrual information is also recorded in the application. The information maintained within the IFS application is the key source of information used for the preparation of the County's annual financial statements.

Effect: Normal password controls in place in the IBM I Series system are not effective for the IFS application, so a review of the IFS application controls and County network controls is imperative to ensure passwords are working as intended.

Cause: Traverse County recently updated to a new web-based version of the IFS application software. County management was not aware of some of the password implications of this change.

Recommendation: We recommend Traverse County management review password controls in place that limit access to the IFS application to ensure they are appropriate to protect the County data as prescribed by management.

Client's Response:

Traverse County and the other counties in the Midstate Co-op transitioned to a new financial system at the end of 2012. We will be working out the non-expiring password issue in the future along with the other problems new systems bring with the help of our vendor. In the meantime, we recommend changing passwords every six months.

12-3 Budgeting

Criteria: The County Board should approve a formal budget policy. All budget transfers or amendments that require Board approval under the written policy should be approved by the Board. Approval should be documented in a manner that allows the original Board-approved budget to be reconciled to the final amended budget used for reporting purposes. The minutes should include the amounts of any transfers or budget changes in addition to the explanation for the change. All Board-approved budgets and budget amendments should be input in the general ledger system.

Condition: The County Board adopts a summarized budget at the fund level on an annual basis. The Board has not developed and adopted a formal budget policy for management's administration of the County budget. In addition, the Board-approved budgets for the road and bridge special revenue fund, the debt service fund, and the Traverse Care Center enterprise fund were not entered into the County's general ledger system in 2012.

Context: Written policies serve as a reference and training tool for new personnel and ensure that procedures remain in place despite personnel turnover. To be an effective financial management tool, a budget should be monitored to determine that departments are not overspending their budgets.

Effect: The approved budget is the legal spending authority of the County. There is no formal process for monitoring the budget, which could result in over expenditure of budgets. Lack of a procedure to update the general ledger with budget information including budget modifications can result in noncompliance with the authorized spending budget for a fiscal period.

Cause: The County is operating under an informal past budgeting practice. The County Board has not determined the procedures to be used for monitoring the budget and has not addressed this in a budget policy.

Recommendation: We recommend the Board establish a written budget policy that indicates the following:

- the level of budgetary control at which Board approval is required for any budget transfers or amendments;
- any exceptions to the general policy which would not require Board approval; and
- the budgetary basis on which the budget is adopted.

A standard budget change form could be adopted as part of the budget policy. This form would standardize the process of obtaining a budget amendment and would ensure that all budget changes and amounts are included in the accounts affected by the change. We further recommend the County input the Board-approved budget for all funds in the general ledger system. The budget should be amended for any significant changes in revenue sources or spending patterns that occur during the year.

Client's Response:

Traverse County will look at adopting a budget policy that addresses these issues.

PREVIOUSLY REPORTED ITEM RESOLVED

Capital Assets (10-2)

During the previous audit, we noted the County's capital asset policies did not address procedures for ensuring capital assets are properly recorded. In addition, we identified several errors and omissions which required significant audit adjustments to materially state capital assets.

Resolution

No similar instances were noted during the current audit of capital assets. However; for items related to capital assets, see also findings 06-3, 08-1, and 12-1.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

10-1 Identification of Federal Awards

Programs: U.S. Department of Health and Human Services' Social Services Block Grant (CFDA No 93.667), U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), and U.S. Department of Homeland Security's Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA No. 97.036)

Pass-Through Agencies: Minnesota Department of Human Services and Minnesota Department of Public Safety

Criteria: OMB Circular A-133, Subpart C, § .300, indicates auditee responsibilities include the identification of all federal awards received and expended and the federal programs under which they were received, including identifying programs funded by the American Recovery and Reinvestment Act (ARRA).

Condition: Traverse County does not prepare a SEFA, nor does it adequately identify federal programs by amount received and expended, federal grantor agency, pass-through agency, and Catalog of Federal Domestic Assistance (CFDA) title and number as required under OMB Circular A-133. In addition, Traverse County is not properly identifying federal revenues in the general ledger system. Many of the federal revenues received were improperly classified as state revenues or reimbursements in the general ledger accounts.

Questioned Costs: None.

Context: In 2012, the County expended $681,114 in federal awards.

Effect: The inability to identify and accurately record federal financial assistance in the County's accounting records in order to prevent misstatements in the Schedule of Expenditures of Federal Awards (SEFA) increases the likelihood that the SEFA would not be fairly stated. This condition results in a deficiency in internal control over financial statement and SEFA preparation and the reporting of federal financial assistance in accordance with OMB Circular A-133.

Cause: The County does not have procedures in place to ensure that federal award programs are adequately identified, accounted for, and reported on the SEFA and in the financial statements.

Recommendation: We recommend that County management develop a process, including written procedures that will allow staff to adequately identify federal revenues and accumulate the information needed to prepare the SEFA. Specific measures could include having departments informing accounting/finance when they have received a grant award, holding in suspense accounts until properly identified as to nature and source any intergovernmental revenue receipts, properly classifying the receipts into appropriate federal revenue accounts in the general ledger system, and comparison of the prior year SEFA to the current year. For each federal award identified, the County should determine the correct program CFDA title and number, award number and year, federal grantor agency, pass-through agency, amount received and expended, and whether ARRA funding is involved. The federal CFDA website is available to assist in this process. Where a determination is unclear, the pass-through or federal agency should be contacted to verify the federal program in accordance with the requirements of Circular A-133. Those responsible for compiling the SEFA should understand the components of the SEFA and properly gather the correct information and maintain supporting documentation. The County should also reconcile the SEFA amounts to the general ledger and financial statements.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Kit Johnson

Corrective Action Planned:

Traverse County will develop a process to prepare the SEFA.

Anticipated Completion Date:

July 2014

11-6 Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Approval of Disbursements

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778)

Pass-Through Agency: Minnesota Department of Human Services

Criteria: OMB Circular A-133, § .300(b), indicates auditee responsibilities include maintaining internal controls over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have material effect on each of its federal programs.

Condition: Based on our testing of internal control over disbursements, for three of six Social Services disbursements tested, there was no evidence to indicate they were reviewed and approved by a supervisor or the Director.

Questioned Costs: None.

Context: The approval of disbursements by a supervisor or the Director is an important function, ensuring that amounts charged to federal programs are accurate and proper.

Effect: As a result of this condition, the Social Services Department lacks proper internal controls over the disbursements process, increasing the risk of fraudulent disbursements and incorrect charges to federal programs.

Cause: The County did not have a policy in place requiring written evidence of review and approval of each invoice.

Recommendation: We recommend that internal controls be implemented to ensure all disbursements are reviewed and that the review is documented by a Social Services supervisor or the Director.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Rhonda Antrim

Corrective Action Planned:

Traverse County will implement/document a review of all disbursements by the Social Services Director.

Anticipated Completion Date:

September 2013

PREVIOUSLY REPORTED ITEMS RESOLVED

Eligibility Testing (11-4)

The state maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. While periodic supervisory case reviews are performed to provide reasonable assurance of compliance with grant requirements for eligibility, not all documentation was available to support participant eligibility. In other circumstances, information was input into MAXIS incorrectly. In our sample of 40 cases tested, we noted 7 deficiencies related to verification of asset requirements, documentation of U.S. citizenship, and verification of income.

Resolution

The County implemented additional review procedures to provide assurance that all necessary documentation to support an eligibility determination is obtained. In our sample of 40 cases tested, we noted 1 deficiency.

Reporting (11-5)

The County receives Medical Assistance Program funding for reimbursement of direct costs related to the access transportation program. Reimbursements are based on monthly requests submitted to the Minnesota Department of Human Services (DHS). In the previous audit, one of the three requests for reimbursement tested included expenditures that did not agree with the County's general ledger.

Resolution

The County implemented procedures over reporting for Medical Assistance access transportation that include preparing and maintaining detail of reports from the general ledger and reconciling funds requested to reimbursements received from DHS.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

12-4 Publication of Board Minutes

Criteria: County Board minutes are required by Minn. Stat. § 375.12 to be published within 30 days of the meeting.

Condition: We reviewed the affidavits of publication related to the publishing of a summary of the County Board minutes for 2012 and found that some of the summaries were not published in the County's official newspaper within the 30-day requirement.

Context: The meeting minutes from the April 3, April 9, and April 17 County Board meetings were not published until July 17, 2012.

Effect: Noncompliance with Minn. Stat. § 375.12.

Cause: The County Board minutes are not presented to the County Board for review and approval in time to meet the publication within the 30-day requirement.

Recommendation: We recommend the County publish its summaries of the County Board minutes in compliance with Minn. Stat. § 375.12.

Client's Response:

This issue has been resolved when the new Clerk of the Board took over at the end of 2012.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

97-5 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, 2012, 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, 2012, the Prairieview Place Enterprise Fund had deficit net position of $222,498, which is an increase in net position from the $246,406 deficit reported in the prior year. As of December 31, 2012, the Traverse Care Center Enterprise Fund had deficit net position of $372,773, which is a decrease from the $191,227 reported in the prior year.

Effect: A fund with a deficit net position balance is, in effect, borrowing from County funds with positive net position.

Cause: The net position deficit in the County's Prairieview Place Enterprise Fund increased by $23,908 in 2012; nonoperating income of $88,030 and transfers in of $30,000 was offset by operating expenses of $46,435 and interest expense on debt of $47,687. The County's Traverse Care Center Enterprise Fund's net position decreased by $181,546 in 2012; operating income of $92,177 and nonoperating income of $331,163 was offset by operating expenses of $347,246, nonoperating expenses of $227,640, and transfers out of $30,000.

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

Client's Response:

Traverse County has considered all options and is currently leasing these facilities and would like to eventually sell the facilities.

ITEM ARISING THIS YEAR

12-5 Hold-Back Period for Payroll

Criteria: A positive payroll system generally requires the use of a hold-back period to allow for processing time and provides additional assurance that employees are paid only for those hours that have been worked.

Condition: Payroll is processed bi-monthly for regular full-time employees. There is no lag time from the time worked to the time paid. Employees are paid on the 15th and on the last day of the month and receive 1/24th of their annual salary. Time sheets record the activity from the 1st of the month to the 15th, and from the 16th to the last working day of the month. As a result, payroll is processed without record of hours worked.

Context: In a positive payroll system, employees are paid for the hours worked in a completed pay-period and report on time sheets that have been signed by the employee and approved by the supervisor.

Effect: Time sheets are not signed by the employee and approved by the supervisor until after payroll has been processed and payment to employees has been made. Incorrect payment could be made to employees.

Cause: The County is reluctant to implement a hold-back period due to the implications it may have on employees related to the timing of paychecks.

Recommendation: We recommend the County implement a positive payroll system where wages are not paid until payroll information for a completed pay period has been received and reviewed. A hold-back period should be established to allow for processing. The hold-back period can be implemented gradually; for example, employees may be paid for one day less a pay period until a traditional two-week hold-back period is in place.

Client's Response:

Traverse County is aware of the need for a holdback period.

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

Independent Auditor's Report

Board of County Commissioners
Traverse County

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, 2012, 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 26, 2013.

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 preceding paragraph 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 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 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 06-3 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 the attention of those charged with governance. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-3, 08-1, 11-1, 11-2, 11-3, 12-1, 12-2, and 12-3 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: 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 the 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*, except as described in the Schedule of Findings and Questioned Costs as item 12-4. 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 are management practices comments. We believe these recommendations to be of benefit to the County, and they are reported for that purpose.

Traverse County's responses to the internal control, legal compliance, and management practice findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subject 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 26, 2013

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

Independent Auditor's Report

Board of County Commissioners
Traverse County

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, 2012. 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, 2012.

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 our 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 certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 10-1 and 11-6, that we consider to be significant deficiencies.

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

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 26, 2013