STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

TRAVERSE COUNTY
WHEATON, MINNESOTA

YEAR ENDED DECEMBER 31, 2011

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

Year Ended December 31, 2011

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, 2011

			Term Expires
Elected			
Commissioners			
Board Member	Todd Johnson	District 1	January 2015
Board Member	Kevin Leininger	District 2	January 2013
Board Member	Donny Appel	District 3	January 2015
Vice Chair	David Salberg	District 4	January 2013
Chair	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

REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Traverse County

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 as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Traverse County's management. 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 and for the year ended December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.D.11. to the financial statements, during the year ended December 31, 2011, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Traverse County's basic financial statements as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, 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. This 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2012, 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, 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* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 6, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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TRAVERSE COUNTY
WHEATON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011
(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, 2011. 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 assets are $39,835,825, of which $30,315,711 is invested in capital assets, net of related debt. Of the governmental activities' net assets, $4,408,220 is restricted to specific purposes/uses by the County, and $5,111,894 is unrestricted.

- Business-type activities (Traverse Care Center and Prairieview Place) have deficit total net assets of $437,633, of which there is a negative balance of $412,595 invested in capital assets, net of related debt.

- Traverse County's net assets increased by $555,013 for the year ended December 31, 2011. Of the increase, $1,010,842 was in the governmental activities' net assets, while the business-type activities' net assets decreased by $455,829.

- The net cost of Traverse County's governmental activities for the year ended December 31, 2011, was $4,483,909. General revenues and other items totaling $5,494,751 funded the net cost.

- Traverse County's governmental funds' fund balances decreased by $317,146 in 2011. This net decrease consisted of a $354,933 increase in the General Fund, a decrease of $998,306 in the Road and Bridge Special Revenue Fund, an increase of $323,576 in the Social Services Special Revenue Fund, and a $2,651 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 Assets 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 Assets and the Statement of Activities

The Statement of Net Assets 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 assets and changes in them. You can think of the County's net assets--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 assets 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 Assets 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 Assets 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 Assets 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 Assets. 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 assets (Table 1) and changes in net assets (Table 2) of the County's governmental and business-type activities.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Assets						
Current and other assets	$ 11,362,437	$ 9,715,326	$ 503,870	$ 900,731	$ 11,866,307	$ 10,616,057
Capital assets	32,650,287	32,868,505	3,764,663	4,012,154	36,414,950	36,880,659
Total Assets	$ 44,012,724	$ 42,583,831	$ 4,268,533	$ 4,912,885	$ 48,281,257	$ 47,496,716
Liabilities						
Long-term liabilities	$ 3,294,277	$ 3,111,119	$ 4,455,262	$ 4,617,713	$ 7,749,539	$ 7,728,832
Other liabilities	882,622	647,729	250,904	276,976	1,133,526	924,705
Total Liabilities	$ 4,176,899	$ 3,758,848	$ 4,706,166	$ 4,894,689	$ 8,883,065	$ 8,653,537
Net Assets						
Invested in capital assets, net of debt	$ 30,315,711	$ 30,396,859	$ (412,595)	$ (440,867)	$ 29,903,116	$ 29,955,992
Restricted	4,408,220	2,745,984	-	72,791	4,408,220	2,818,775
Unrestricted	5,111,894	5,682,140	(25,038)	386,272	5,086,856	6,068,412
Total Net Assets	$ 39,835,825	$ 38,824,983	$ (437,633)	$ 18,196	$ 39,398,192	$ 38,843,179

Traverse County's total net assets as of December 31, 2011, total $39,398,192. The governmental activities' unrestricted net assets totaling $5,111,894 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 asset balance of $(25,038).

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues						
Fees, fines, and charges	$ 973,051	$ 903,101	$ 12,195	$ 3,415,562	$ 985,246	$ 4,318,663
Operating grants and contributions	4,097,404	4,505,194	-	1,713	4,097,404	4,506,907
Capital grants and contributions	136,839	261,372	-	-	136,839	261,372
General revenues						
Property taxes	4,883,600	4,951,149	-	-	4,883,600	4,951,149
Other taxes	24,741	23,333	-	-	24,741	23,333
Grants, gifts, and miscellaneous	586,410	566,191	356,027	9,281	942,437	575,472
Total Revenues	$ 10,702,045	$ 11,210,340	$ 368,222	$ 3,426,556	$ 11,070,267	$ 14,636,896
Expenses						
General government	$ 1,555,242	$ 1,596,926	$ -	$ -	$ 1,555,242	$ 1,596,926
Public safety	1,589,329	1,633,198	-	-	1,589,329	1,633,198
Highways and streets	4,570,326	3,645,703	-	-	4,570,326	3,645,703
Sanitation	137,599	132,400	-	-	137,599	132,400
Human services	1,299,468	1,339,366	-	-	1,299,468	1,339,366
Health	95,788	103,231	-	-	95,788	103,231
Culture and recreation	59,460	57,619	-	-	59,460	57,619
Conservation of natural resources	285,602	384,791	-	-	285,602	384,791
Economic development	2,368	2,872	-	-	2,368	2,872
Interest	96,021	99,837	-	-	96,021	99,837
Prairieview Place	-	-	725,393	260,029	725,393	260,029
Traverse Care Center	-	-	98,658	3,570,535	98,658	3,570,535
Total Expenses	$ 9,691,203	$ 8,995,943	$ 824,051	$ 3,830,564	$ 10,515,254	$ 12,826,507
Increase (Decrease) in Net Assets	$ 1,010,842	$ 2,214,397	$ (455,829)	$ (404,008)	$ 555,013	$ 1,810,389
Net Assets - January 1	38,824,983	36,610,586	18,196	422,204	38,843,179	37,032,790
Net Assets - December 31	$ 39,835,825	$ 38,824,983	$ (437,633)	$ 18,196	$ 39,398,192	$ 38,843,179

The County's activities increased net assets by 1.43 percent ($39,398,192 for 2011 compared to $38,843,179 for 2010).

Governmental Activities

The cost of all governmental activities in 2011 was $9,691,203. However, as shown in the Statement of Activities, the amount that taxpayers ultimately financed for these activities through County taxes and other general revenues was only $4,483,909, because some of the cost was paid by those who directly benefited from the programs ($973,051) or by other governments and organizations that subsidized certain programs with grants and contributions ($4,234,243).

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	
	2011	2010	2011	2010
Highways and streets	$ 4,570,326	$ 3,645,703	$ 1,147,501	$ 115,833
Public safety	1,589,329	1,633,198	904,428	703,467
General government	1,555,242	1,596,926	1,391,975	1,414,468
Human services	1,229,468	1,339,366	490,256	507,531
Conservation of natural resources	285,602	384,791	280,238	375,559
All others	391,236	395,959	269,511	209,418
Total	$ 9,621,203	$ 8,995,943	$ 4,483,909	$ 3,326,276

Business-Type Activities

Revenues for Traverse County's business-type activities (see Table 2) were $368,222, and expenses were $824,051.

The County's Funds

Upon completing the year, Traverse County's governmental funds' fund balance decreased by $317,146. This decrease was due to a decrease of $998,306 in the Road and Bridge Special Revenue Fund, an increase of $323,576 in the Social Services Special Revenue Fund, an increase of $354,933 in the General Fund, and an increase of $2,651 in the debt service 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 2011.

Actual revenues exceeded budgeted revenues in the General Fund by $344,431, primarily due to intergovernmental revenues of $255,630 over projections, special assessments of $54,776 over projections, investment earnings of $11,724 over projections, and miscellaneous revenues of $185,930 over projected amounts, offset by tax collections of $18,372 under the projected total, and charges for services $144,239 under projected totals.

Actual expenditures were less than budgeted expenditures in the General Fund by $70,731, primarily due to general governmental expenditures of $135,634 under projections, conservation of natural resources expenditures of $52,301 under projections, offset by public safety expenditures of $45,089 over projections, debt service charges of $51,109 over projected amounts, and sanitation expenditures $18,199 over projected amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, Traverse County had $36,414,950 in a broad range of capital assets, net of depreciation. The investment in capital assets includes land, buildings, bridges, highways, machinery, furniture, and equipment (see Table 4). This amount represents a net decrease of $465,709, or 1.26 percent less than last year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Land	$ 176,352	$ 176,352	$ 16,175	$ 16,175	$ 192,527	$ 192,527
Right-of-way	687,856	478,548	-	-	687,856	478,548
Construction in progress	43,710	10,000	-	-	43,710	10,000
Buildings	3,402,498	3,481,251	3,697,594	3,922,447	7,100,092	7,403,698
Land improvements	98,378	106,968	2,995	3,918	101,373	110,886
Machinery, furniture, and equipment	1,572,779	1,211,657	47,899	69,614	1,620,678	1,281,271
Infrastructure	26,668,714	27,403,729	-	-	26,668,714	27,403,729
Totals	$ 32,650,287	$ 32,868,505	$ 3,764,663	$ 4,012,154	$ 36,414,950	$ 36,880,659

Debt

As of December 31, 2011, Traverse County had $6,487,407 in long-term obligations, compared with $6,751,851 as of December 31, 2010--a decrease of 3.9 percent--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
General obligation bonds	$ 2,190,000	$ 2,285,000	$ 925,000	$ 965,000	$ 3,115,000	$ 3,250,000
Revenue bonds	-	-	3,265,000	3,350,000	3,265,000	3,350,000
Loans	-	-	107,407	151,851	107,407	151,851
Totals	$ 2,190,000	$ 2,285,000	$ 4,297,407	$ 4,466,851	$ 6,487,407	$ 6,751,851

No new debt was issued in 2011.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Traverse County's elected and appointed officials considered many factors when setting the fiscal year 2012 budget, tax levy, and fees that will be charged for the business-type activities. 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's Board of Commissioners settled on a final levy of $4,676,296, a 7.15 percent decrease from the 2011 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 ASSETS
DECEMBER 31, 2011

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash and pooled investments	$ 6,531,956	$ 366,775	$ 6,898,731
Investments	66,694	35,000	101,694
Taxes receivable			
Current - net	83,932	-	83,932
Prior - net	30,226	-	30,226
Special assessments receivable			
Current - net	3,634	-	3,634
Prior - net	3,570	-	3,570
Accounts receivable - net	18,864	12,045	30,909
Accrued interest receivable	1,571	56	1,627
Due from other governments	4,521,422	-	4,521,422
Inventories	55,656	-	55,656
Noncurrent assets			
Deferred charges	44,912	89,994	134,906
Capital assets			
Non-depreciable	907,918	16,175	924,093
Depreciable - net of accumulated depreciation	31,742,369	3,748,488	35,490,857
Total Assets	**$ 44,012,724**	**$ 4,268,533**	**$ 48,281,257**

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Governmental Activities	Business-Type Activities	Total
Liabilities			
Current liabilities			
Accounts payable	$ 212,919	$ -	$ 212,919
Salaries payable	37,811	-	37,811
Contracts payable	92,449	-	92,449
Due to other governments	51,729	2,099	53,828
Accrued interest payable	38,008	69,361	107,369
Unearned revenue	144,858	-	144,858
Compensated absences payable - current	145,583	-	145,583
General obligation bonds payable - current	100,000	45,000	145,000
Revenue bonds payable - current	-	90,000	90,000
Leases payable - current	59,265	-	59,265
Loans payable - current	-	44,444	44,444
Noncurrent liabilities			
Compensated absences payable	109,825	-	109,825
Net OPEB liability	972,564	333,183	1,305,747
General obligation bonds payable	2,126,577	875,936	3,002,513
Revenue bonds payable	-	3,183,180	3,183,180
Leases payable	85,311	-	85,311
Loans payable	-	62,963	62,963
Total Liabilities	**$ 4,176,899**	**$ 4,706,166**	**$ 8,883,065**
Net Assets			
Invested in capital assets - net of related debt	$ 30,315,711	$ (412,595)	$ 29,903,116
Restricted for			
Public safety	157,664	-	157,664
Highways and streets	3,768,134	-	3,768,134
Sanitation	225,091	-	225,091
Debt service	119,938	-	119,938
Other purposes	137,393	-	137,393
Unrestricted	5,111,894	(25,038)	5,086,856
Total Net Assets	**$ 39,835,825**	**$ (437,633)**	**$ 39,398,192**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Primary government		
Governmental activities		
General government	$ 1,555,242	$ 145,855
Public safety	1,589,329	425,022
Highways and streets	4,570,326	269,411
Sanitation	137,599	50,384
Human services	1,299,468	68,025
Health	95,788	-
Culture and recreation	59,460	10,391
Conservation of natural resources	285,602	3,963
Economic development	2,368	-
Interest	96,021	-
Total governmental activities	**$ 9,691,203**	**$ 973,051**
Business-type activities		
Traverse Care Center	$ 725,393	$ 12,195
Prairieview Place	98,658	-
Total business-type activities	**$ 824,051**	**$ 12,195**
Total Primary Government	**$ 10,515,254**	**$ 985,246**

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 assets

Net Assets - Beginning

Net Assets - Ending

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

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
Operating Grants and Contributions	**Capital Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total**
$ 17,412	$ -	$ (1,391,975)	$ -	$ (1,391,975)
137,032	122,847	(904,428)	-	(904,428)
3,139,422	13,992	(1,147,501)	-	(1,147,501)
55,950	-	(31,265)	-	(31,265)
741,187	-	(490,256)	-	(490,256)
5,000	-	(90,788)	-	(90,788)
-	-	(49,069)	-	(49,069)
1,401	-	(280,238)	-	(280,238)
-	-	(2,368)	-	(2,368)
-	-	(96,021)	-	(96,021)
$ 4,097,404	**$ 136,839**	**$ (4,483,909)**	**$ -**	**$ (4,483,909)**
$ -	$ -	$ -	$ (713,198)	$ (713,198)
-	-	-	(98,658)	(98,658)
$ -	**$ -**	**$ -**	**$ (811,856)**	**$ (811,856)**
$ 4,097,404	**$ 136,839**	**$ (4,483,909)**	**$ (811,856)**	**$ (5,295,765)**
		$ 4,883,600	$ -	$ 4,883,600
		2,678	-	2,678
		267,292	-	267,292
		22,063	-	22,063
		55,419	356,027	411,446
		263,699	-	263,699
		$ 5,494,751	**$ 356,027**	**$ 5,850,778**
		$ 1,010,842	**$ (455,829)**	**$ 555,013**
		38,824,983	**18,196**	**38,843,179**
		$ 39,835,825	**$ (437,633)**	**$ 39,398,192**

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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, 2011

	General	Road and Bridge	Social Services	Debt Service	Total
Assets					
Cash and pooled investments	$ 2,890,574	$ 1,050,110	$ 2,384,831	$ 150,993	$ 6,476,508
Petty cash and change funds	1,400	-	100	-	1,500
Undistributed cash in agency funds	30,704	13,941	7,426	1,877	53,948
Investments	66,694	-	-	-	66,694
Taxes receivable					
Current	43,702	24,107	12,822	3,301	83,932
Prior	15,715	8,774	4,761	976	30,226
Special assessments receivable					
Current	3,634	-	-	-	3,634
Prior	3,570	-	-	-	3,570
Accounts receivable	7,501	11,363	-	-	18,864
Accrued interest receivable	1,571	-	-	-	1,571
Due from other funds	36,335	-	-	-	36,335
Due from other governments	144,245	4,234,446	142,731	-	4,521,422
Inventories	-	55,656	-	-	55,656
Total Assets	**$ 3,245,645**	**$ 5,398,397**	**$ 2,552,671**	**$ 157,147**	**$ 11,353,860**

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, 2011

	General	Road and Bridge	Social Services	Debt Service	Total
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ 37,677	$ 121,434	$ 53,808	$ -	$ 212,919
Salaries payable	3,149	34,662	-	-	37,811
Contracts payable	-	92,449	-	-	92,449
Due to other funds	-	1,393	34,942	-	36,335
Due to other governments	35,388	2,425	13,916	-	51,729
Deferred revenue					
Unavailable	157,497	4,200,911	51,219	3,614	4,413,241
Unearned	-	144,858	-	-	144,858
Compensated absences	2,170	3,890	1,289	-	7,349
Total Liabilities	**$ 235,881**	**$ 4,602,022**	**$ 155,174**	**$ 3,614**	**$ 4,996,691**
Fund Balances					
Nonspendable					
Inventories	$ -	$ 55,656	$ -	$ -	$ 55,656
Restricted for					
Missing heirs	30,165	-	-	-	30,165
Recorder's equipment	54,314	-	-	-	54,314
Recorder's compliance fund	45,813	-	-	-	45,813
Enhanced 911	157,664	-	-	-	157,664
Unspent grant monies	7,101	-	-	-	7,101
Solid waste assessment	225,091	-	-	-	225,091
Debt service	-	-	-	153,533	153,533
Assigned to					
Capital projects	615,684	-	-	-	615,684
Highways and streets	-	740,719	-	-	740,719
Social services	-	-	2,397,497	-	2,397,497
Unassigned	1,873,932	-	-	-	1,873,932
Total Fund Balances	**$ 3,009,764**	**$ 796,375**	**$ 2,397,497**	**$ 153,533**	**$ 6,357,169**
Total Liabilities and Fund Balances	**$ 3,245,645**	**$ 5,398,397**	**$ 2,552,671**	**$ 157,147**	**$ 11,353,860**

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES DECEMBER 31, 2011

Fund balance - total governmental funds (Exhibit 3)		**$ 6,357,169**
Amounts reported for governmental activities in the statement of net assets 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.		32,650,287
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		4,413,241
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	$ (2,190,000)	
Less: deferred debt issuance costs	44,912	
Add: unamortized premiums	(36,577)	
Capital leases	(144,576)	
Compensated absences	(248,059)	
Accrued interest payable	(38,008)	
Net OPEB liability	(972,564)	(3,584,872)
Net Assets of Governmental Activities (Exhibit 1)		**$ 39,835,825**

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	General	Road and Bridge	Social Services	Debt Service	Total
Revenues					
Taxes	$ 2,565,686	$ 1,384,867	$ 738,282	$ 188,901	$ 4,877,736
Special assessments	54,776	-	-	-	54,776
Licenses and permits	7,422	-	-	-	7,422
Intergovernmental	487,434	1,572,437	766,885	-	2,826,756
Charges for services	450,533	268,057	28,347	-	746,937
Investment earnings	56,724	-	-	-	56,724
Miscellaneous	323,357	38,855	38,418	-	400,630
Total Revenues	**$ 3,945,932**	**$ 3,264,216**	**$ 1,571,932**	**$ 188,901**	**$ 8,970,981**
Expenditures					
Current					
General government	$ 1,438,059	$ -	$ -	$ -	$ 1,438,059
Public safety	1,526,966	-	-	-	1,526,966
Highways and streets	-	4,051,688	-	-	4,051,688
Sanitation	133,428	-	-	-	133,428
Human services	-	-	1,248,356	-	1,248,356
Health	95,788	-	-	-	95,788
Culture and recreation	58,512	-	-	-	58,512
Conservation of natural resources	284,769	-	-	-	284,769
Economic development	2,368	-	-	-	2,368
Intergovernmental	-	210,834	-	-	210,834
Debt service					
Principal	42,070	-	-	95,000	137,070
Interest	8,381	-	-	91,250	99,631
Administrative charges	658	-	-	-	658
Total Expenditures	**$ 3,590,999**	**$ 4,262,522**	**$ 1,248,356**	**$ 186,250**	**$ 9,288,127**
Net Change in Fund Balance	**$ 354,933**	**$ (998,306)**	**$ 323,576**	**$ 2,651**	**$ (317,146)**
Fund Balance - January 1, as restated (Note 2.C.)	**2,654,831**	**1,793,787**	**2,073,921**	**150,882**	**6,673,421**
Increase (decrease) in inventories	**-**	**894**	**-**	**-**	**894**
Fund Balance - December 31	**$ 3,009,764**	**$ 796,375**	**$ 2,397,497**	**$ 153,533**	**$ 6,357,169**

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, 2011

Net change in fund balances - total governmental funds (Exhibit 5)		**$ (317,146)**
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	$ 4,413,241	
Deferred revenue - January 1	(2,673,938)	1,739,303
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 assets differs from the change in fund balance by the net book value of the assets sold.		
Expenditures for general capital assets and infrastructure	$ 1,056,851	
Net book value of assets disposed of	(108,721)	
Current year depreciation	(1,166,348)	(218,218)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Principal repayments		
General obligation bonds	$ 95,000	
Capital leases	42,070	137,070
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	$ 1,815	
Change in deferred charges	(3,012)	
Amortization of bond premiums	2,453	
Change in compensated absences	(9,533)	
Change in inventories	894	
Change in net OPEB liability	(322,784)	(330,167)
Change in Net Assets of Governmental Activities (Exhibit 2)		**$ 1,010,842**

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

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PROPRIETARY FUNDS

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TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 7

STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Assets			
Current assets			
Cash and pooled investments	$ -	$ 366,775	$ 366,775
Investments	-	35,000	35,000
Accounts receivable - net	-	12,045	12,045
Due from other funds	-	56	56
Total current assets	**$ -**	**$ 413,876**	**$ 413,876**
Noncurrent assets			
Advance to other funds	$ -	$ 84,078	$ 84,078
Deferred debt issuance costs	16,858	73,136	89,994
Capital assets			
Nondepreciable	-	16,175	16,175
Depreciable - net	744,576	3,003,912	3,748,488
Total noncurrent assets	**$ 761,434**	**$ 3,177,301**	**$ 3,938,735**
Total Assets	**$ 761,434**	**$ 3,591,177**	**$ 4,352,611**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 7
(Continued)

STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	**Traverse Care Center**	**Totals**
Liabilities			
Current liabilities			
Due to other funds	$ 2,099	$ -	$ 2,099
Accrued interest payable	-	69,361	69,361
General obligation bonds payable - current	45,000	-	45,000
Revenue bonds payable - current	-	90,000	90,000
Loans payable - current	-	44,444	44,444
Total current liabilities	**$ 47,099**	**$ 203,805**	**$ 250,904**
Noncurrent liabilities			
Advance from other funds	$ 84,078	$ -	$ 84,078
Loans payable - long-term	-	62,963	62,963
Net OPEB liability	727	332,456	333,183
General obligation bonds payable - long-term	875,936	-	875,936
Revenue bonds payable - long-term	-	3,183,180	3,183,180
Total noncurrent liabilities	**$ 960,741**	**$ 3,578,599**	**$ 4,539,340**
Total Liabilities	**$ 1,007,840**	**$ 3,782,404**	**$ 4,790,244**
Net Assets			
Invested in capital assets - net of related debt	$ (159,502)	$ (253,093)	$ (412,595)
Unrestricted	(86,904)	61,866	(25,038)
Total Net Assets	**$ (246,406)**	**$ (191,227)**	**$ (437,633)**

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 ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Operating Revenues			
Miscellaneous	**$ -**	**$ 12,195**	**$ 12,195**
Operating Expenses			
Personal services	$ -	$ 5,200	$ 5,200
Employee benefits and payroll taxes	-	140,821	140,821
Professional services	-	14,827	14,827
Contracted services	2,087	-	2,087
Administration and fiscal services	-	16,448	16,448
Supplies	-	243	243
Telephone	-	144	144
Insurance	361	267	628
Staff training	-	492	492
Postage	-	171	171
Miscellaneous	44	-	44
Depreciation	46,435	201,056	247,491
Total Operating Expenses	**$ 48,927**	**$ 379,669**	**$ 428,596**
Operating Income (Loss)	**$ (48,927)**	**$ (367,474)**	**$ (416,401)**
Nonoperating Revenues (Expenses)			
Interest income	$ 107	$ 906	$ 1,013
Lease income	56,976	298,038	355,014
Interest expense	(49,731)	(169,901)	(219,632)
Equity in loss of patient care	-	(40,616)	(40,616)
Loss on sale of accounts receivable	-	(135,207)	(135,207)
Total Nonoperating Revenues (Expenses)	**$ 7,352**	**$ (46,780)**	**$ (39,428)**
Income (Loss) Before Transfers	**$ (41,575)**	**$ (414,254)**	**$ (455,829)**
Net Assets - January 1	**(204,831)**	**223,027**	**18,196**
Net Assets - December 31	**$ (246,406)**	**$ (191,227)**	**$ (437,633)**

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, 2011
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	$ -	$ 84,706	$ 84,706
Payments to suppliers and employees	(6,157)	(181,447)	(187,604)
Deductions in rent deposits	(9,297)	-	(9,297)
Net cash provided by (used in) operating activities	**$ (15,454)**	**$ (96,741)**	**$ (112,195)**
Cash Flows from Capital and Related Financing Activities			
Principal paid on long-term debt	$ (40,000)	$ (129,444)	$ (169,444)
Interest paid on long-term debt	(48,272)	(168,233)	(216,505)
Net cash provided by (used in) capital and related financing activities	**$ (88,272)**	**$ (297,677)**	**$ (385,949)**
Cash Flows from Investing Activities			
Interest received	$ 107	$ 1,079	$ 1,186
Advances from other funds	27,117	-	27,117
Advances to other funds	-	(27,117)	(27,117)
Lease revenue	56,976	298,038	355,014
Net cash provided by (used in) investing activities	**$ 84,200**	**$ 272,000**	**$ 356,200**
Net Increase (Decrease) in Cash and Cash Equivalents	**$ (19,526)**	**$ (122,418)**	**$ (141,944)**
Cash and Cash Equivalents at January 1	**19,526**	**489,193**	**508,719**
Cash and Cash Equivalents at December 31	**$ -**	**$ 366,775**	**$ 366,775**

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, 2011
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)	**$ (48,927)**	**$ (367,474)**	**$ (416,401)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	$ 46,435	$ 201,056	$ 247,491
Loss on sale of accounts receivable	-	(135,207)	(135,207)
(Increase) decrease in accounts receivable	-	208,903	208,903
Increase (decrease) in accounts payable	(5,769)	(14,923)	(20,692)
Increase (decrease) in due to other funds	(175)		(175)
Increase (decrease) in due to other governments	2,099		2,099
Increase (decrease) in third-party payor settlements payable	-	(6,190)	(6,190)
Increase (decrease) in rent deposits payable	(9,105)		(9,105)
Increase (decrease) in net OPEB liability	(12)	17,094	17,082
Total adjustments	**$ 33,473**	**$ 270,733**	**$ 304,206**
Net Cash Provided by (Used in) Operating Activities	**$ (15,454)**	**$ (96,741)**	**$ (112,195)**

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FIDUCIARY FUNDS

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TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2011

		Agency
Assets		
Cash and pooled investments	$	117,047
Liabilities		
Due to other governments	$	117,047

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

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2011. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so. 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 assets 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

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements

      1. Government-Wide Statements (Continued)

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.

In the government-wide statement of net assets, 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 assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. 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. All remaining governmental funds are aggregated and reported as nonmajor funds.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Road and Bridge Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as committed 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 financial 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.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

The government-wide, 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.

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets 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.

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, 2011, 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 2011 were $65,144.

Traverse County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, 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

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (the current portion of interfund loans) or "advances to/from other funds" (the noncurrent portion of interfund loans).

1. Summary of Significant Accounting Policies

   D. Assets, Liabilities, and Net Assets or Equity

      3. Receivables and Payables (Continued)

         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 a nonspendable fund balance account in applicable governmental funds to indicate they are not available for appropriation and are not in spendable form.

         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 assets 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.

1. Summary of Significant Accounting Policies

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

6. Capital Assets

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

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

Property, plant, and equipment of the County, as well as its component units, 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 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.

1. Summary of Significant Accounting Policies

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

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.

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 assets. 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 Assets

Net assets in the government-wide and proprietary fund financial statements are classified in the following categories:

Invested in capital assets, net of related debt - the amount of net assets representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

10. Classification of Net Assets (Continued)

Restricted net assets - the amount of net assets 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 assets - the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

11. Classification of Fund Balances

In 2011, the County implemented the requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement requires retroactive restatement of fund balance for the reclassifications made to conform to this statement. Total fund balance did not change. Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

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

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

Committed - the committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or 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 (ordinance or resolution) it employed to previously commit those amounts.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

11. Classification of Fund Balances (Continued)

Assigned - amounts in the assigned fund balance classification 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 Board who has been delegated that authority by Board resolution.

Unassigned - unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, 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 no less than five months of operating expenditures. The fund balance policy was adopted by the County Board on December 20, 2011. At December 31, 2011, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

1. Summary of Significant Accounting Policies

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

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 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.

14. Reclassifications

Several account balances were reclassified as of and for the year ended December 31, 2010, as previously reported due to implementation of GASB 54. These reclassifications were required for comparability to the financial statements as of and for the year ended December 31, 2011. Although comparative statements for 2010 are not presented here, these reclassifications must be considered when comparing the financial statements of this report with those of prior reports.

E. Potential Impact of New Accounting Standards on Current Period Financial Statements

The GASB has approved GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Application of GASB Statement 63 may restate portions of these financial statements.

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The following major funds had deficit net assets as of December 31, 2011:

Prairieview Place Enterprise Fund	$	246,406
Traverse Care Center Enterprise Fund		191,227

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.

For the year ended December 31, 2011, there were no funds that had expenditures in excess of budget.

C. Reclassification/Restatement

The Building Special Revenue Fund was reclassified to the General Fund. As a result, the January 1, 2011, fund balances of the General Fund and the Building Special Revenue Fund have been restated. The reclassification/restatement is as follows:

	General Fund	Building Special Revenue Fund
Fund Balance - January 1, as previously reported	$ 2,047,146	$ 607,685
Reclassification		
Building Special Revenue Fund	607,685	(607,685)
Fund Balance - January 1, as restated	$ 2,654,831	$ -

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 assets		
Governmental activities		
Cash and pooled investments	$	6,531,956
Investments		66,694
Business-type activities		
Cash and pooled investments		366,775
Investments		35,000
Statement of fiduciary net assets		
Cash and pooled investments		117,047
Total Cash and Investments	$	7,117,472

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.

3. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments

         a. Deposits (Continued)

         Custodial Credit Risk

         Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County's 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, 2011, the County's deposits were not exposed to custodial credit risk.

         b. Investments

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

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

         (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

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

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 does not have a policy on 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, 2011, and information relating to potential investment risks:

	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying
Investment Type	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	(Fair) Value
U.S. government agency securities					
Federal National Mortgage Note	AAA	Moody's	<5%	11/16/2021	$ 100,000
Federal National Mortgage Note	AAA	Moody's	<5%	12/28/2021	100,000
Total Federal National Mortgage Notes					$ 200,000
Federal Home Loan Mortgage Note	AAA	Moody's	<5%	12/01/2021	$ 201,185
U.S. Treasury Strip	N/A	N/A	<5%	08/15/2013	$ 216,080
Investment pools/mutual funds					
Federated U.S. Government Fund	AAA	S&P	<5%		$ 36,607
MAGIC Fund	N/A	N/A	N/A		6,556
Total investment pools/mutual funds					$ 43,163
Total investments					$ 660,428
Checking					5,150,146
Savings					514,993
Certificates of deposit					790,405
Change funds					1,500
Total Cash and Investments					$ 7,117,472

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, 2011, 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	$ 114,158	$ -
Special assessments	7,204	-
Accounts	18,864	12,045
Interest	1,571	56
Due from other governments	4,521,422	-
Total Receivables	$ 4,663,219	$ 12,101

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

3. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 176,352	$ -	$ -	$ 176,352
Right-of-way	478,548	209,308	-	687,856
Construction in progress	10,000	33,710	-	43,710
Total capital assets not depreciated	$ 664,900	$ 243,018	$ -	$ 907,918
Capital assets depreciated				
Buildings	$ 5,231,233	$ 36,392	$ -	$ 5,267,625
Land improvements	137,585	-	-	137,585
Machinery, furniture, and equipment	4,659,839	777,441	965,118	4,472,162
Infrastructure	36,750,667	-	-	36,750,667
Total capital assets depreciated	$ 46,779,324	$ 813,833	$ 965,118	$ 46,628,039

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	$ 1,749,982	$ 115,145	$ -	$ 1,865,127
Land improvements	30,617	8,590	-	39,207
Machinery, furniture, and equipment	3,448,182	307,598	856,397	2,899,383
Infrastructure	9,346,938	735,015	-	10,081,953
Total accumulated depreciation	$ 14,575,719	$ 1,166,348	$ 856,397	$ 14,885,670
Total capital assets depreciated, net	$ 32,203,605	$ (352,515)	$ 108,721	$ 31,742,369
Governmental Activities Capital Assets, Net	$ 32,868,505	$ (109,497)	$ 108,721	$ 32,650,287

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	$ 2,475,601	$ 224,853	$ -	$ 2,700,454
Land improvements	40,020	923	-	40,943
Machinery, furniture, and equipment	440,863	21,715	-	462,578
Total accumulated depreciation	$ 2,956,484	$ 247,491	$ -	$ 3,203,975
Total capital assets depreciated, net	$ 3,995,979	$ (247,491)	$ -	$ 3,748,488
Business-Type Activities Capital Assets, Net	$ 4,012,154	$ (247,491)	$ -	$ 3,764,663

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	$	112,478
Public safety		58,187
Highways and streets, including depreciation of infrastructure assets		982,767
Social services		8,542
Sanitation		948
Culture and recreation		3,426
Total Depreciation Expense - Governmental Activities	$	1,166,348

Business-Type Activities		
Traverse Care Center	$	201,056
Prairieview Place		46,435
Total Depreciation Expense - Business-Type Activities	$	247,491

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2011, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund		Amount
General Fund	Road and Bridge Special Revenue Fund	$	1,393
	Social Services Special Revenue Fund		34,942
Total Due To/From Other Funds		$	36,335

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

There were no interfund transfers at December 31, 2011.

C. Liabilities

1. Payables

Payables at December 31, 2011, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	$ 212,919	$ -
Salaries	37,811	-
Contracts	92,449	-
Due to other governments	51,729	2,099
Interest	38,008	69,361
Total Payables	$ 432,916	$ 71,460

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Deferred Revenue

Deferred revenue as of December 31, 2011, for the County is as follows:

	Deferred Unavailable	Deferred Unearned
Taxes and special assessments	$ 103,556	$ -
State-aid highway allotments	3,660,697	-
Charges for services	101,572	-
Grants	525,379	144,858
Interest	1,571	-
Other	20,466	-
Total Deferred	$ 4,413,241	$ 144,858

3. Construction Commitments

The government has active construction projects as of December 31, 2011. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Highways and streets	$ 679,954	$ 1,103,666

3. Detailed Notes on All Funds

C. Liabilities (Continued)

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, 2011:

Leases	Maturity	Installment	Payment Amount	Original	Balance
Governmental Activities					
Social Services building	2014	Semi-Annual	$ 12,900	$ 300,000	$ 70,070
2009 Dodge Charger	2012	Annual	9,229	33,227	8,585
2010 Crown Victoria	2012	Annual	8,317	23,199	14,882
2010 phone system	2015	Monthly	1,285	69,101	51,039
Total Governmental Activities Capital Leases					$ 144,576

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2011, were as follows:

Year Ending December 31	Governmental Activities
2012	$ 67,086
2013	41,223
2014	40,483
2015	8,997
Total minimum lease payments	$ 157,789
Less: amount representing interest	(13,213)
Net Present Value of Minimum Lease Payments	$ 144,576

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Long-Term Debt

Governmental Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
General obligation bonds					
2006 G.O. Jail Bonds	2027	$50,000 - $185,000	4.00 - 4.25	$ 2,515,000	$ 2,190,000
Add: unamortized premium					36,577
Total General Obligation Bonds, Net					$ 2,226,577

Business-Type Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
USDA Loan	2014	$44,444	-	$ 400,000	$ 107,407
2005 G.O. Governmental Housing Refunding Bonds	2026	$30,000 - $85,000	5.00	$ 1,190,000	$ 925,000
Less: unamortized discount					(4,064)
Total G.O. Bonds, Net					$ 920,936
2003 G.O. Nursing Home Revenue Bonds	2033	$75,000 - $235,000	3.25 - 5.30	$ 3,745,000	$ 3,265,000
Add: unamortized premium					8,180
Total Revenue Bonds, Net					$ 3,273,180

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Debt Service Requirements

Debt service requirements at December 31, 2011, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds Principal	General Obligation Bonds Interest
2012	$ 100,000	$ 87,350
2013	100,000	83,350
2014	105,000	79,250
2015	110,000	74,950
2016	115,000	70,450
2017 - 2021	655,000	277,650
2022 - 2026	820,000	128,857
2027	185,000	3,931
Total	$ 2,190,000	$ 805,788

Business-Type Activities

Year Ending December 31	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2012	$ 45,000	$ 46,250	$ 90,000	$ 164,423
2013	45,000	44,000	95,000	160,260
2014	45,000	41,750	95,000	155,985
2015	50,000	39,500	100,000	151,548
2016	50,000	37,000	105,000	146,754
2017 - 2021	305,000	143,250	600,000	648,735
2022 - 2026	385,000	59,500	755,000	477,514
2027 - 2031	-	-	965,000	254,028
2032 - 2033	-	-	460,000	24,644
Total	$ 925,000	$ 411,250	$ 3,265,000	$ 2,183,891

Year Ending December 31	USDA Loan Principal
2012	$ 44,444
2013	44,444
2014	18,519
Total	$ 107,407

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, 2011, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
G.O. jail bonds payable	$ 2,285,000	$ -	$ 95,000	$ 2,190,000	$ 100,000
Unamortized bond premium	39,030	-	2,453	36,577	-
Capital leases	186,646	-	42,070	144,576	59,265
Compensated absences	247,755	7,653	-	255,408	145,583
Net OPEB liability	649,780	322,784	-	972,564	-
Governmental Activities Long-Term Liabilities	$ 3,408,211	$ 330,437	$ 139,523	$ 3,599,125	$ 304,848

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable					
General obligation refunding bonds	$ 965,000	$ -	$ 40,000	$ 925,000	$ 45,000
Revenue bonds	3,350,000	-	85,000	3,265,000	90,000
Premium/discounts on bonds	4,205	-	89	4,116	-
Total bonds payable	$ 4,319,205	$ -	$ 125,089	$ 4,194,116	$ 135,000
Loans payable	151,851	-	44,444	107,407	44,444
Net OPEB liability	316,101	17,082	-	333,183	-
Business-Type Activities Long-Term Liabilities	$ 4,787,157	$ 17,082	$ 169,533	$ 4,634,706	$ 179,444

4. Pension Plans

A. Defined Benefit Plans

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

A. Defined Benefit Plans

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at www.mnpera.org; 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

A. Defined Benefit Plans (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. Traverse 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 2011:

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, 2011, 2010, and 2009, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2011	2010	2009
General Employees Retirement Fund	$ 145,483	$ 225,159	$ 221,056
Public Employees Police and Fire Fund	38,455	36,986	33,821
Public Employees Correctional Fund	29,547	30,610	29,641

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

4. Pension Plans (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 5.0 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, 2011, were:

	Employee	Employer
Contribution amount	$ 3,895	$ 3,895
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

4. Pension Plans (Continued)

C. Other Postemployment Benefits (OPEB)

Plan Description

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

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Traverse County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2011, there were 111 participants in the plan, including 47 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	43,465
Adjustment to ARC	(58,485)
Annual OPEB cost (expense)	$ 754,077
Contributions made	(414,211)
Increase in net OPEB obligation	$ 339,866
Net OPEB Obligation - Beginning of Year	965,881
Net OPEB Obligation - End of Year	$ 1,305,747

4. Pension Plans

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost for December 31, 2011, was $754,077. The percentage of annual OPEB cost contributed to the plan was 54.9 percent, and the net OPEB obligation for 2011 was $1,305,747. The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009, 2010, and 2011, was as follows:

Fiscal Year-End	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2009	$ 862,981	$ 357,049	41.4%	$ 505,932
December 31, 2010	855,660	376,049	43.9	965,881
December 31, 2011	754,077	414,211	54.9	1,305,747

Funded Status and Funding Progress

Governmental Activities

As of January 1, 2011, the most recent actuarial valuation date, the plan had no funding. 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 funding. The Care Center's UAAL was $2,441,583. The annual payroll for active employees covered by the plan in the actuarial valuation was $0, 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

   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, 2011, was 27 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. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other 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 $450,000 per claim in 2011. 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. Claims and Litigation

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 March 7, 2012, the County issued $3,350,000 in General Obligation Refunding Bonds, Series 2012A, for the full advance refunding of General Obligation Nursing Home Revenue Bonds, Series 2003A. The present value benefit of this refunding is $819,823.

   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 2011 was $73,787, 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

   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 grant pursuant to Minn. Stat. § 471.59 (following a budget approved by the four-county Board). Stevens Traverse Grant Public Health Nursing Service receives and administers the grant money.

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Mid-State Community Health Services

Effective January 1, 2011, Mid-State Community Health Services became Horizon Community Health Board and included Douglas County as an additional member.

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, 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, 2011, Grant County became a member county. 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 2011.

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.

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 2011.

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Prime West Central County-Based Purchasing Initiative (Continued)

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.

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.

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Central Minnesota Emergency Services Board (Continued)

The Central Minnesota Emergency Services Board has no long-term debt. Financing is provided by the appropriations from member parties and by state and federal grants.

Traverse County contributed $842 to the Joint Powers in 2011. Complete financial information can be obtained from the Central Minnesota Emergency Services Board at:

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.

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

6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Traverse County Connections (Continued)

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 contributed $8,000 in 2011.

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.

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.

6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Region 4 South Adult Mental Health Consortium (Continued)

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 $920,936, net of discount and unamortized issuance costs.

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.

6. Summary of Significant Contingencies and Other Items

F. Lease of Property (Continued)

On December 1, 2010, Traverse County entered into a lease with LSS of Traverse, LLC (LSS), whereby LSS is renting the property of the 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 $25,000 per month. Most Care Center employees became employees of LSS on December 1, 2010.

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REQUIRED SUPPLEMENTARY INFORMATION

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TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT A-1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 2,584,058	$ 2,584,058	$ 2,565,686	$ (18,372)
Special assessments	-	-	54,776	54,776
Licenses and permits	8,440	8,440	7,422	(1,018)
Intergovernmental	231,804	231,804	487,434	255,630
Charges for services	594,772	594,772	450,533	(144,239)
Investment earnings	45,000	45,000	56,724	11,724
Miscellaneous	137,427	137,427	323,357	185,930
Total Revenues	**$ 3,601,501**	**$ 3,601,501**	**$ 3,945,932**	**$ 344,431**
Expenditures				
Current				
General government				
Commissioners	$ 189,116	$ 189,116	$ 187,461	$ 1,655
Law library	8,000	8,000	6,218	1,782
County coordinator	101,164	101,164	101,784	(620)
County auditor/treasurer	202,593	202,593	217,021	(14,428)
License bureau	74,125	74,125	80,750	(6,625)
County treasurer	-	-	1,416	(1,416)
County assessor	109,450	109,450	120,101	(10,651)
Elections	-	-	4,585	(4,585)
Accounting and auditing	60,000	60,000	72,854	(12,854)
Data processing	141,953	141,953	112,215	29,738
Attorney	89,944	89,944	84,003	5,941
Recorder	143,956	143,956	153,353	(9,397)
Buildings and plant	173,273	173,273	161,927	11,346
Veterans service officer	59,046	59,046	63,120	(4,074)
Other general government	221,073	221,073	71,251	149,822
Total general government	**$ 1,573,693**	**$ 1,573,693**	**$ 1,438,059**	**$ 135,634**
Public safety				
Sheriff	$ 580,864	$ 580,864	$ 669,922	$ (89,058)
Boat and water	3,000	3,000	883	2,117
Coroner	4,000	4,000	6,621	(2,621)
Enhanced 911 system	245,759	245,759	260,589	(14,830)
Jail	275,854	275,854	287,836	(11,982)
Probation officer	328,515	328,515	257,766	70,749
Civil defense	43,885	43,885	43,349	536
Total public safety	**$ 1,481,877**	**$ 1,481,877**	**$ 1,526,966**	**$ (45,089)**

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

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	**$ 115,229**	**$ 115,229**	**$ 133,428**	**$ (18,199)**
Health				
Nursing service	$ 89,638	$ 89,638	$ 82,215	$ 7,423
Transportation	-	-	13,573	(13,573)
Total health	**$ 89,638**	**$ 89,638**	**$ 95,788**	**$ (6,150)**
Culture and recreation				
County fair	$ 10,000	$ 10,000	$ 10,000	$ -
Parks	8,500	8,500	9,619	(1,119)
Regional library	37,943	37,943	38,893	(950)
Total culture and recreation	**$ 56,443**	**$ 56,443**	**$ 58,512**	**$ (2,069)**
Conservation of natural resources				
County extension	$ 138,245	$ 138,245	$ 134,082	$ 4,163
Soil and water conservation	68,796	68,796	103,951	(35,155)
Weed control	130,029	130,029	46,736	83,293
Total conservation of natural resources	**$ 337,070**	**$ 337,070**	**$ 284,769**	**$ 52,301**
Economic development				
Community development	**$ 7,780**	**$ 7,780**	**$ 2,368**	**$ 5,412**
Debt service				
Principal	$ -	$ -	$ 42,070	$ (42,070)
Interest	-	-	8,381	(8,381)
Administrative charges	-	-	658	(658)
Total debt service	**$ -**	**$ -**	**$ 51,109**	**$ (51,109)**
Total Expenditures	**$ 3,661,730**	**$ 3,661,730**	**$ 3,590,999**	**$ 70,731**

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Excess of Revenues Over (Under) Expenditures	**$ (60,229)**	**$ (60,229)**	**$ 354,933**	**$ 415,162**
Other Financing Sources (Uses)				
Transfers in	60,229	60,229	-	(60,229)
Net Change in Fund Balance	**$ -**	**$ -**	**$ 354,933**	**$ 354,933**
Fund Balance - January 1, as restated (Note 2.C.)	**2,654,831**	**2,654,831**	**2,654,831**	**-**
Fund Balance - December 31	**$ 2,654,831**	**$ 2,654,831**	**$ 3,009,764**	**$ 354,933**

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, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,446,380	$ 1,446,380	$ 1,384,867	$ (61,513)
Intergovernmental	4,666,120	4,666,120	1,572,437	(3,093,683)
Charges for services	140,000	140,000	268,057	128,057
Miscellaneous	85,000	85,000	38,855	(46,145)
Total Revenues	**$ 6,337,500**	**$ 6,337,500**	**$ 3,264,216**	**$ (3,073,284)**
Expenditures				
Current				
Highways and streets				
Administration	$ -	$ -	$ 367,714	$ (367,714)
Authorized work	-	-	4,531	(4,531)
Engineering	-	-	144,270	(144,270)
Construction	3,803,500	3,803,500	360,614	3,442,886
Maintenance	2,423,000	2,423,000	2,294,618	128,382
Equipment maintenance and shops	-	-	770,539	(770,539)
Material and services for resale	-	-	109,402	(109,402)
Total highways and streets	**$ 6,226,500**	**$ 6,226,500**	**$ 4,051,688**	**$ 2,174,812**
Intergovernmental				
Highways and streets	-	-	210,834	(210,834)
Capital outlay				
Highways and streets	240,000	240,000	-	240,000
Total Expenditures	**$ 6,466,500**	**$ 6,466,500**	**$ 4,262,522**	**$ 2,203,978**
Net Change in Fund Balance	**$ (129,000)**	**$ (129,000)**	**$ (998,306)**	**$ (869,306)**
Fund Balance - January 1	**1,793,787**	**1,793,787**	**1,793,787**	**-**
Increase (decrease) in inventories	**-**	**-**	**894**	**894**
Fund Balance - December 31	**$ 1,664,787**	**$ 1,664,787**	**$ 796,375**	**$ (868,412)**

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, 2011

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 783,912	$ 783,912	$ 738,282	$ (45,630)
Intergovernmental	742,003	742,003	766,885	24,882
Charges for services	52,900	52,900	28,347	(24,553)
Miscellaneous	41,563	41,563	38,418	(3,145)
Total Revenues	**$ 1,620,378**	**$ 1,620,378**	**$ 1,571,932**	**$ (48,446)**
Expenditures				
Current				
Human services				
Income maintenance	$ 580,862	$ 580,862	$ 528,415	$ 52,447
Social services	1,039,516	1,038,448	719,941	318,507
Total Expenditures	**$ 1,620,378**	**$ 1,619,310**	**$ 1,248,356**	**$ 370,954**
Net Change in Fund Balance	**$ -**	**$ 1,068**	**$ 323,576**	**$ 322,508**
Fund Balance - January 1	**2,073,921**	**2,073,921**	**2,073,921**	**-**
Fund Balance - December 31	**$ 2,073,921**	**$ 2,074,989**	**$ 2,397,497**	**$ 322,508**

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, 2011

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%
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.

TRAVERSE COUNTY
WHEATON, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011

1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Budget Amendments

Expenditure budgets were amended in the following fund:

	Original Budget	Increase (Decrease)	Final Budget
Social Services Special Revenue Fund	$ 1,620,378	$ (1,068)	$ 1,619,310

The budget amendments fall into two categories: new information changing original budget estimates and less than anticipated costs.

4. Excess of Expenditures Over Budget

At December 31, 2011, there were no expenditures in excess of budget in the governmental funds.

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 no irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets is zero. Currently, only two actuarial valuations are available. Future reports will provide additional trend analysis to meet the three-year valuation funding status requirement as the information becomes available.

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, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	**$ 198,818**	**$ 198,818**	**$ 188,901**	**$ (9,917)**
Expenditures				
Debt service				
Principal	$ 95,000	$ 95,000	$ 95,000	$ -
Interest	103,818	103,818	91,250	12,568
Total Expenditures	**$ 198,818**	**$ 198,818**	**$ 186,250**	**$ 12,568**
Net Change in Fund Balance	**$ -**	**$ -**	**$ 2,651**	**$ 2,651**
Fund Balance - January 1	**150,882**	**218,142**	**150,882**	**(67,260)**
Fund Balance - December 31	**$ 150,882**	**$ 218,142**	**$ 153,533**	**$ (64,609)**

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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, 2011

	Balance January 1	Additions	Deductions	Balance December 31
SCHOOL DISTRICTS				
Assets				
Cash and pooled investments	$ -	$ 813,717	$ 811,677	$ 2,040
Liabilities				
Due to other governments	$ -	$ 813,717	$ 811,677	$ 2,040
STATE REVENUE				
Assets				
Cash and pooled investments	$ 22,850	$ 514,394	$ 530,767	$ 6,477
Liabilities				
Due to other governments	$ 22,850	$ 514,394	$ 530,767	$ 6,477
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ 100,761	$ 8,349,417	$ 8,380,934	$ 69,244
Liabilities				
Due to other governments	$ 100,761	$ 8,349,417	$ 8,380,934	$ 69,244

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, 2011

	Balance January 1	Additions	Deductions	Balance December 31
TOWNS AND CITIES				
Assets				
Cash and pooled investments	**$ 72**	**$ 2,188,774**	**$ 2,180,497**	**$ 8,349**
Liabilities				
Due to other governments	**$ 72**	**$ 2,188,774**	**$ 2,180,497**	**$ 8,349**
TRAVERSE COUNTY CONNECTIONS				
Assets				
Cash and pooled investments	$ 19,798	$ 21,653	$ 26,932	$ 14,519
Due from other governments	3,677	-	3,677	-
Total Assets	**$ 23,475**	**$ 21,653**	**$ 30,609**	**$ 14,519**
Liabilities				
Due to other governments	**$ 23,475**	**$ 21,653**	**$ 30,609**	**$ 14,519**
EMPLOYEE FLEX				
Assets				
Cash and pooled investments	**$ -**	**$ 47,879**	**$ 43,124**	**$ 4,755**
Liabilities				
Due to other governments	**$ -**	**$ 47,879**	**$ 43,124**	**$ 4,755**

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, 2011

	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	$ 155,144	$ 11,935,834	$ 11,973,931	$ 117,047
Due from other governments	3,677	-	3,677	-
Total Assets	**$ 158,821**	**$ 11,935,834**	**$ 11,977,608**	**$ 117,047**
Liabilities				
Due to other governments	**$ 158,821**	**$ 11,935,834**	**$ 11,977,608**	**$ 117,047**

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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, 2011

Shared Revenue		
State		
Highway users tax	$	1,084,795
County Program aid		123,975
Market value credit (MVC)		104,262
PERA rate reimbursement		16,482
Disparity reduction aid		18,576
Police aid		36,728
Wetland reimbursement credit		3,997
E-911		74,350
Total shared revenue	**$**	**1,463,165**
Reimbursement for Services		
State		
Minnesota Department of Human Services	**$**	**89,641**
Payments		
Local		
Local contributions	$	24,700
Payments in lieu of taxes		22,063
Total payments	**$**	**46,763**
Grants		
State		
Minnesota Department of		
Public Safety	$	90,791
Natural Resources		1,401
Human Services		239,766
Pollution Control Agency		55,950
Total state	**$**	**387,908**
Federal		
Department of		
Agriculture	$	56,497
Commerce		36,512
Transportation		13,992
Health and Human Services		341,427
Homeland Security		390,851
Total federal	**$**	**839,279**
Total state and federal grants	**$**	**1,227,187**
Total Intergovernmental Revenue	**$**	**2,826,756**

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT D-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

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	**$**	**56,497**
U.S. Department of Commerce			
Passed Through Minnesota Department of Public Safety			
Public Safety Interoperable Communications Grant Program	11.555	$	5,207
Passed Through Central Minnesota Emergency Services Board			
Public Safety Interoperable Communications Grant Program	11.555		31,305
Total U.S. Department of Commerce		**$**	**36,512**
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction	20.205	**$**	**13,992**
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	$	1,050
Temporary Assistance for Needy Families (TANF) Cluster			
Temporary Assistance for Needy Families (TANF)	93.558		42,276
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	93.714		1,677
Child Support Enforcement	93.563		69,022
Child Care Cluster			
Child Care and Development Block Grant	93.575		290
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		355
Stephanie Tubbs Jones Child Welfare Services Program	93.645		2,299
Foster Care Title IV-E Cluster			
Foster Care Title IV-E	93.658		37,563
Foster Care Title IV-E - ARRA	93.658		1,556
Social Services Block Grant	93.667		52,155
Children's Health Insurance Program	93.767		38
Medical Assistance Program	93.778		134,832
Block Grants for Community Mental Health Services	93.958		228
Total U.S. Department of Health and Human Services		**$**	**343,341**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT D-2
(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

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			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	$	357,436
Emergency Management Performance Grants	97.042		4,937
Passed Through Central Minnesota Emergency Services Board			
Emergency Management Performance Grants	97.042		2,860
Homeland Security Grant Program	97.067		50,907
Passed Through West Central Minnesota Emergency Services Board			
Homeland Security Grant Program	97.067		35,428
Total U.S. Department of Homeland Security		**$**	**451,568**
Total Federal Awards		**$**	**901,910**

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

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NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Traverse County. The County's reporting entity is defined in Note 1 to the 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, 2011. 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 assets, 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	$ 43,953
Child Care Cluster	645
Foster Care Title IV-E Cluster	39,119

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	$	839,279
Grants received more than 60 days after year-end, deferred in 2011		
Medical Assistance Program (CFDA #93.778)		2,056
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)		291,948
Homeland Security Grant Program (CFDA #97.067)		13,650
Grants deferred in 2010, recognized as revenue in 2011		
Child Care Mandatory and Matching Grants of the Child Care and Development (CFDA #93.596)		(142)
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)		(244,881)
Expenditures Per Schedule of Expenditures of Federal Awards	$	901,910

6. Passed Through to Subrecipients

During 2011, the County did not pass any federal money to subrecipients.

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, 2011

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unqualified**

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: **Unqualified**

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:

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 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 does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

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 is aware that our small staff sizes do not allow for ideal segregation of duties. Management is also aware that we need to be constantly monitoring our transaction cycles and implementing controls and oversight procedures to the extent reasonable.

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. Statement on Auditing Standards 115 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. The County provides some of the modified accrual information necessary to adjust the cash basis financial statements to the modified accrual basis.

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: Audit adjustments were necessary to record additional receivables found during the audit, related deferred revenue, and to make reclassification entries as necessary. Audit adjustments were also necessary to adjust modified accrual financial statements to the accrual basis for the government-wide financial statements.

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 that County staff review the trial balances and journal entries in detail to ensure they have an understanding of all audit adjustments made so that, in future periods, this information can be prepared by the County.

Client's Response:

Traverse County will continue to make progress in understanding and preparing all audit adjustments.

08-1 Monitoring Internal Controls

Criteria: Management is responsible for the County's internal control over financial reporting. This responsibility requires monitoring internal controls by performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The 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.

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: There is a lack of resources dedicated to establish a formal monitoring process over established internal controls.

Recommendation: A formal plan should be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

Management will make sure Traverse County is constantly monitoring our transaction cycles and implementing controls and oversight procedures to the extent reasonable.

10-2 Capital Assets

Criteria: The County is required by generally accepted accounting standards to account for and depreciate its capital assets over their estimated useful lives. The costs of capital assets are expensed annually as depreciation expense while the asset is in service. As many factors affect the useful life of an asset, periodic reassessment of estimated useful lives may be appropriate. Any change in useful life should be applied prospectively.

Condition: Capital asset policies have been established by the County and identify a $5,000 capital asset threshold; however, these policies do not address procedures for ensuring capital assets are properly recorded. During our review of the 2011 capital assets, we identified the following:

- The capital asset system was not updated for a 2010 audit adjustment to reduce infrastructure in the amount of $2,560,284.

- An asset addition from 2010 had been deleted from the capital asset system ($20,472).

- In 2011, the County did not record an asset disposal in the capital asset system for a motor grader with a purchase price $219,873 and accumulated depreciation of $170,137 that was traded for a new asset.

- The incorrect net book values of two motor grader trade-ins were used in the calculation of the new 2011 asset additions, overstating the two assets by $58,599 and $61,854.

- Permanent right-of-way of $209,308 purchased in 2011 was not capitalized as an addition.

Context: The County maintains its capital asset records using the Computer Professionals Unlimited, Inc. (CPUI) Capital Assets program. Capital asset additions and deletions are entered to this system, and depreciation is calculated by the system.

Effect: Audit adjustments were necessary to state capital assets. The audit adjustments are noted in finding 06-3.

Cause: In general, capital asset additions are determined by reviewing capital expenditure accounts at year-end. There is no formal procedure in place to identify disposals. The lack of formal procedures for communicating changes in capital assets and procedures for review of the capital asset records has resulted in errors within the capital asset system that were not detected timely.

Recommendation: We recommend that the County adopt formal procedures for identifying and communicating any necessary changes in capital assets, require an inventory of capital assets at least annually, and establish review procedures to ensure the accuracy of the capital asset system.

<u>Client's Response</u>:

Traverse County will establish review procedures to ensure the accuracy of the capital asset system.

ITEMS ARISING THIS YEAR

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. In addition, the auditors were required to complete the financial statement process, including converting the modified accrual to full accrual in order to complete the government-wide financial statements.

Context: Preparation of information included in the County's financial statements is performed by the County Auditor-Treasurer's Office. In order to meet the County's September 30 single audit deadline, information needs to be provided to the auditors in a timely fashion.

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: Tasks and information necessary for the County's financial statements were not completed in the time, form, and manner required by the County's audit. 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 will implement procedures to make sure the necessary financial information is available in a timely manner.

11-2 <u>Itemized Receipts for Credit Card Purchases</u>

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 must be in writing and itemized. Monthly statements received from a credit card company lack sufficient detail to comply with these requirements.

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

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

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

Cause: Internal controls 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.

<u>Client's Response</u>:

Traverse County will ensure that all credit card purchases will need an itemized receipt, or we will look at amending our policy to allow for an exception when a receipt is lost or not available – if other evidence is available to validate the purchase.

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 will implement a procedure in which all new vendors are approved by a person or group outside of the person adding the vendors.

PREVIOUSLY REPORTED ITEM RESOLVED

Preparation of Financial Statements (06-2)

The County needed to broaden its participation in the preparation of its financial statements and not rely so extensively on its external auditors for financial reporting.

Resolution

The County provides a general ledger, accruals, a GASB 34 Audit List, and other supporting schedules necessary for preparing fund level and government-wide financial statements. The County has improved its understanding of underlying accounting data used in the preparation of the financial statements.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

10-1 Identification of Federal Awards

Programs: Medical Assistance Program (CFDA No. 93.778), Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA No. 97.036)

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).

Questioned Costs: None.

Context: In 2011, the County expended $901,910 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.

<u>Corrective Action Plan</u>:

<u>Name of Contact Person Responsible for Corrective Action</u>:

Kit Johnson, County Auditor-Treasurer

<u>Corrective Action Planned</u>:

Traverse County will develop a process where the people involved in acquiring these grants will better communicate the information needed to the staff involved with the financial reporting of these transactions to make sure the revenues and expenditures are more accurately coded to the correct classifications.

<u>Anticipated Completion Date</u>:

March 2013

<u>ITEMS ARISING THIS YEAR</u>

11-4 <u>Eligibility Testing</u>

Program: Medical Assistance (CFDA No. 93.778)

Criteria: OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides 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 a material effect on each of its federal programs.

Condition: 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. The following instances were noted in our sample of 40 cases tested:

- Four cases did not have verification of asset requirements. In all four instances, amounts reported for an individual's checking and savings balances were not accurately updated in MAXIS to equal amounts shown with the statements provided with the application.

- Two individuals who were receiving benefits did not have a birth certificate copy on record to document their U.S. citizenship.

- One case did not have verification of income. The amounts reported for the individual's income were not accurately updated in MAXIS to amounts shown on the time sheets provided with the application.

Questioned Costs: Not applicable. The County administers the program, but benefits to participants in this program are paid by the State of Minnesota.

Context: The State of Minnesota contracts with the County to perform the "intake function," (meeting with the social services client to determine income and categorical eligibility) while the state maintains the computer systems supporting the eligibility determination process and actually pays the benefits to participants.

Effect: The improper input of information into MAXIS and lack of follow-up of issues increases the risk that a client will receive benefits when they are not eligible.

Cause: Program personnel entering case documentation did not ensure all required documents were obtained and/or retained.

Recommendation: We recommend that the County implement review procedures to provide reasonable assurance that all necessary documentation to support an eligibility determination is obtained. In addition, consideration should be given to providing additional training to program personnel.

<u>Corrective Action Plan</u>:

<u>Name of Contact Person Responsible for Corrective Action</u>:

Marg Schmitz, Financial Assistance Supervisor

<u>Corrective Action Planned</u>:

The County will continue to conduct case reviews and ongoing training will be provided and discussed during weekly financial worker staff meetings.

<u>Anticipated Completion Date</u>:

Immediate

11-5 Reporting

Program: Medical Assistance Program (CFDA No. 93.778)

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: 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).

One of the three requests for reimbursement tested included expenditures that did not agree with the County's general ledger.

Questioned Costs: None

Context: The amount of federal reimbursements received by the County through DHS for the Medical Assistance Program access transportation program is based on the reporting done through the monthly requests submitted to DHS.

Effect: Reporting errors result in incorrect reimbursement of federal funding for qualifying expenditures.

Cause: There is a lack of monitoring and review of monthly reimbursement requests related to the Medical Assistance Program access transportation program.

Recommendation: We recommend the County establish and implement policies and procedures to ensure that detailed reviews of monthly requests for reimbursements are performed prior to submission of the reports.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Marg Schmitz, Financial Assistance Supervisor

Corrective Action Planned:

All billing agents will attach copies of Medical Assistance vouchers to monthly bill sheet to certify accurate amount is billed.

Anticipated Completion Date:

November 2012 billing cycle, and will continue on a monthly basis.

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

Program: Medical Assistance Program (CFDA No. 93.778)

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, on 4 of 21 Social Services disbursements tested, there was not 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:

Marg Schmitz, Financial Assistance Supervisor

Corrective Action Planned:

The Director will approve supervisor batch bills and a supervisor will approve case aide batch bills.

Anticipated Completion Date:

Immediate

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Remittance of Mortgage Registry Tax and Deed Tax (10-3)

In 2010, the County under-remitted to the State for Mortgage Registry and Deed Tax, resulting in noncompliance with the payment schedule provided in Minn. Stat. §§ 287.12 and 287.29.

Resolution

In 2011, the County remitted the appropriate amount to the State for Mortgage Registry and Deed Tax as provided in Minn. Stat. §§ 287.12 and 287.29.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

97-5 Prairieview Place and Traverse Care Center Deficit Net Assets

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

Condition: As of December 31, 2011, the assets in the County's Prairieview Place Enterprise Fund and Traverse Care Center Enterprise Fund did not exceed liabilities, resulting in deficit net asset amounts.

Context: As of December 31, 2011, the Prairieview Place Enterprise Fund had deficit net assets of $246,406, which is a decrease in net assets from the $204,831 deficit reported in the prior year. As of December 31, 2011, the Traverse Care Center Enterprise Fund had deficit net assets of $191,227, which is a decrease from the positive balance of $223,027 reported in the prior year.

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

Cause: The net asset deficit in the County's Prairieview Place Enterprise Fund increased by $41,575 in 2011; nonoperating income of $57,083 was offset by operating expenses of $48,927 and interest expense on debt of $49,731. The County's Traverse Care Center Enterprise Fund's net asset balance decreased by $414,254 in 2011; operating income of $12,195 and nonoperating income of $298,944 was offset by operating expenses of $379,669 and nonoperating expenses of $345,724.

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

Client's Response:

The Traverse County Board is aware of the issue, and is actively trying to lease or sell the facility. Traverse County will continue to monitor the situation and look to resolve the issue.

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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*

Board of County Commissioners
Traverse County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Traverse County as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 6, 2012. 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.

Internal Control Over Financial Reporting

Management of Traverse County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Traverse County's internal control over financial reporting as a basis for designing our auditing procedures 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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 06-3 and 10-2 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-3, 08-1, and 11-1 through 11-3 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Traverse County's financial statements are free of 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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* 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 study included all of the listed categories, except that we did not test for compliance in tax increment financing because Traverse County does not have any tax increment financing districts.

The results of our tests indicate that for the items tested, Traverse County complied with the material terms and conditions of applicable legal provisions.

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

Traverse County's written responses to the internal control and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within Traverse County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

December 6, 2012

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Independent Auditor's Report

Board of County Commissioners
Traverse County

Compliance

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 its major federal programs for the year ended December 31, 2011. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, Traverse County complied, in all material respects, with the 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, 2011.

However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and is described in the accompanying Schedule of Findings and Questioned Costs as item 11-4.

Internal Control Over Compliance

Management of Traverse County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 10-1 and 11-4 through 11-6. 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 attention by those charged with governance.

Traverse County's corrective action plans to the federal award findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plans and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management and others within the County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

December 6, 2012